

Press Release

Sanghamithra Rural Financial Services

February 28, 2020



Rating Reaffirmed, Assigned and Withdrawn

Total Bank Facilities Rated	Rs. 160.00 crore
Long Term Rating	ACUITE BBB/ Stable (Reaffirmed; Assigned; Withdrawn)

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB** (read as ACUITE triple B) to the Rs. 115.00 crore bank facilities of Sanghamithra Rural Financial Services (SRFS). The outlook is '**Stable**'.

Acuité has assigned the long term rating of '**ACUITE BBB (read as ACUITE triple B)** to the Rs. 45.00 crore bank facilities of Sanghamithra Rural Financial Services (SRFS). The outlook is '**Stable**'.

Further, Acuité has withdrawn the long term rating of '**ACUITE BBB (read as ACUITE triple B)** to the Rs. 52.00 crore bank facilities of Sanghamithra Rural Financial Services (SRFS).

About SRFS:

Bangalore based, Sanghamithra Rural Financial Services (SRFS) is a 'Section 8' (under The Companies Act, 2013) not for Profit Company promoted by Mysore Rehabilitation and development agency (MYRADA). The company is engaged in extending credit through self-help groups (SHGs) model since 2000, and through joint liability group (JLG) model since January 2018. Sanghamithra is led by Mr. Aloysius. P. Fernandez (founder and chairman) who has over three decades of experience in financial services sector. The company has presence in four states namely Karnataka, Tamil Nadu, Maharashtra and Madhya Pradesh and operates through a network of 117 branches, with 1,56,036 active members as on September 30, 2019.

Analytical Approach

Acuité has considered standalone business and financial risk profile of SRFS to arrive at the rating.

Key Rating Drivers

Strengths

- Long track record and strong presence in the SHG segment of the microfinance sector**

SRFS is a not for profit company promoted by MYRADA, a leading non-government organization (NGO) in Karnataka. The company was established in 1995 to promote rural development and started extending credit to SHGs since 2000 through the SHG bank Linkage program introduced by RBI. In the initial years, the company primarily extended credit to SHGs promoted by MYRADA and has gradually partnered with 85 NGOs and 75 community managed resource centres (CMRCs).

SRFS's board comprises of 9 members led by Mr. Aloysius. P. Fernandez (founder and chairperson), who has over three decades of experience in the sector and has held managerial position in MYRADA, NABARD Financial services and Corporation Bank. The board of directors comprises of other members with vast experience in social and financial services sectors and includes representation from MYRADA. Mr. R. D. Gadiyappanavar, CEO, has more than three decades of banking experience and is supported by an experienced team heading various departments.

SRFS benefits from MYRADA's established presence in the sphere of social development which enables association with international organizations and mobilisation of grants. The company has received grants from Micro Credit for Mothers, Netherlands, M/s Water Org. (a US based organization) for WASH Program,

Canadian International Development Agency, Sir Dorabji Tata Trust, Hope International Development agency amongst others.

Acuité believes that SRFS will continue to be a key player in the microfinance sector primarily operating through the SHG model backed by its strong promoter background and the experienced management team.

- **Healthy margins; sound asset quality:**

SRFS primarily focuses on lending to SHGs which are formed and trained by the partnered NGOs and CMRCs. The company has built strong relationships with these partners and undertakes detailed evaluation of the NGOs and CMRCs before partnering with them. A detailed annual review of the performance of the NGOs and CMRCs is also done by the company. This enables the company to regularly assess the quality and performance of the NGOs and CMRCs and the SHGs associated with them. The incentive paid to the NGOs is partly linked to the recovery which also supports the company's asset quality.

SRFS also undertakes detailed due diligence of the SHGs members. The initial loan amount is linked to the savings of the group and the repayment track record of the existing loans by the members. The subsequent loan amount is linked to the earlier loan cycles and the repayment track record therein. A detailed assessment of the borrowers is undertaken including a visit to the borrowers to assess their eligibility. Most of the loan portfolio is towards income generating activities and a small proportion of the portfolio is towards housing and sanitation loans.

The company reported gross NPA of 1.4 percent as on September 30, 2019 as against 2.4 percent as on March 31, 2019 and 2.7 percent as on March 31, 2018. The company had been impacted during the post demonetisation period which resulted in increase in NPAs. Nevertheless, the incremental asset quality remains adequate and is supported by the company's focus on portfolio monitoring and recovery from NPAs. The company has demonstrated healthy collection efficiency with a track record of over 98.5 percent collection for the six months ended September 30, 2019 primarily due to pre-payments by the borrowers.

SRFS's has healthy operating parameters, marked by Net Interest Margin (NIM) which stood at 11.0 percent as on September 30, 2019 (annualized) and at 9.7 percent as on March 31, 2019. Return on Average Assets (RoAA) stood at 4.6 percent as on September 30, 2019 (annualized) as compared to 4.1 percent as on March 31, 2019 and 4.4 percent as on March 31, 2018. Operating Expense for the company reduced to 4.86 percent as on March 31, 2019 as against 5.04 percent as on March 31, 2018.

Acuité believes that SRFS will maintain a healthy asset quality level on the back of its stringent credit assessment and monitoring process in the near to medium term.

Weaknesses

- **High dependence on external funding**

SRFS is a not for profit company, engaged in microfinance activities. The company's resource profile is supported by its net worth and external borrowings from banks and financial institutions. Net worth mainly comprises funds/grants received from various organisation and accumulated profits, its net worth stood at Rs. 51.8 crore as on March 31, 2019 as against Rs. 46.3 crore as on March 31, 2018, growth in the net worth is mainly on account of healthy plough back of profits.

Since SRFS is a Section 8 company and a not for profit organisation, it limits the scope of attracting substantial equity infusion, leading to dependency on grants and external funding to augment growth in its loan portfolio. The recent challenging operating environment coupled with a cautious and selective approach adopted by banks has limited the ability of players like SRFS to access funds. SRFS's loan book saw de-growth in HY1FY2020 to Rs. 178.7 crore from Rs. 192.3 crore as on March 31, 2019. SRFS has also not explored co-lending and business correspondent model which would help in growing Assets under Management and also augment its profitability.

Acuité believes that SRFS ability to access low cost funding to scale up its operations while maintaining profitability and its asset quality will remain a key monitorable.

- **Susceptibility of risks inherent in the microfinance sector:**

SRFS primarily extends unsecured loans to economically challenged borrowers who have limited ability to absorb income shocks. Since the microfinance sector operates in a segment dealing with the lower economic strata of the society, the regulatory environment is stringent. This renders the MFIs like SRFS to regulatory risks. Besides the regulatory risks, the inherent nature of the business renders the portfolios vulnerable to event risks such as natural calamities in the area of operations. SRFS's operations are concentrated in Karnataka which accounts for 64.1 percent of its total portfolio as on September 30, 2019. Generally, the risk profile of a microfinance company with a geographically diversified portfolio is more resilient compared to that of an entity with a geographically concentrated portfolio.

Acuité believes that the high geographical concentration in the portfolio coupled with regulatory and event risks will continue to weigh on its credit profile over the near to medium term.

Rating Sensitivity

- Diversification in geographical profile while maintaining asset quality
- Sustainable and healthy growth in profitability metrics
- Significant deterioration in asset quality

Material Covenants

The lenders have stipulated asset quality and capital adequacy indicators. Acuité observes that the company has adhered to such stipulated conditions based on their position as on September 30, 2019.

Liquidity: Adequate

SRFS has adequately matched asset liability profile with positive cumulative mismatches in all maturity buckets, based on ALM as on September 30, 2019. The company's liquidity profile is supported by Working capital limits availed from various public sector banks, the average working capital utilization over the past six months ending September 30, 2019 stood at ~87%.

Outlook: Stable

Acuité believes that SRFS will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to maintain asset quality and profitability. The outlook may be revised to 'Positive' in case of significant growth in loan portfolio while maintaining asset quality, profitability, and capitalization. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality and profitability metrics.

About the Rated Entity - Key Financials

Particulars	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	202.5	188.9
Total Income*	Rs. Cr.	18.2	16.5
PAT	Rs. Cr.	8.1	7.5
Networth	Rs. Cr.	51.8	46.3
Return on Average Assets (RoAA)	(%)	4.1	4.4
Return on Net Worth (RoNW)	(%)	16.5	17.0
Total Debt/Tangible Net Worth (Gearing)	Times	2.8	3.0
Gross NPA's	(%)	2.4	2.7
Net NPA's	(%)	1.2	0.8

* Total income equals to Net interest income plus other income

** Provision for NPAs are appropriated from the reported PAT and not accounted for while arriving at the PAT

^Based on reported PAT

#Being a section 8 Company, provisioning norms for NBFC-MFIs are not applicable. The company reports loss assets as net NPAs

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of the Instruments/Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Dec-2018	Cash Credit	Long term	22.00	ACUITE BBB /Stable (Assigned)
	Cash Credit	Long term	15.00	ACUITE BBB /Stable (Assigned)
	Cash Credit	Long term	20.00	ACUITE BBB /Stable (Assigned)
	Cash Credit	Long term	25.00	ACUITE BBB /Stable (Assigned)
	Term Loan	Long term	6.00	ACUITE BBB /Stable (Assigned)
	Term Loan	Long term	6.50	ACUITE BBB /Stable (Assigned)
	Term Loan	Long term	5.00	ACUITE BBB /Stable (Assigned)
	Cash Credit	Long term	5.00	ACUITE BBB /Stable (Assigned)
	Cash Credit	Long term	10.00	ACUITE BBB /Stable (Assigned)
	Term Loan	Long term	5.00	ACUITE BBB /Stable (Assigned)
	Cash Credit	Long term	10.00	ACUITE BBB /Stable (Assigned)
	Term Loan	Long term	10.00	ACUITE BBB /Stable (Assigned)
	Term Loan	Long term	10.00	ACUITE BBB /Stable (Assigned)
	Subordinate debt	Long term	5.00	ACUITE BBB /Stable (Assigned)
	Proposed Long Term Bank Facility	Long term	1.50	ACUITE BBB /Stable (Assigned)
	Term Loan	Long term	4.00	ACUITE BBB /Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/ Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB/ Stable (Reaffirmed)
Subordinate debt	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB/ Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	20.00 (revised from Rs. 10.00 crore)	ACUITE BBB/ Stable (Reaffirmed)
Term Loan	28-Jan-19	Not Applicable	28-Apr-22	10.00	ACUITE BBB/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB (Withdrawn)
Term Loan	26-Dec-17	Not Applicable	25-Dec-21	6.50	ACUITE BBB/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB (Withdrawn)
Term Loan	27-Sep-17	Not Applicable	26-Sep-20	10.00	ACUITE BBB/ Stable (Assigned)
Term Loan	20-Dec-18	Not Applicable	20-Dec-21	10.00	ACUITE BBB/ Stable (Assigned)
Term Loan	31-Dec-19	Not Applicable	31-Mar-23	20.00	ACUITE BBB/ Stable (Assigned)
Term Loan	22-Nov-18	Not Applicable	30-Nov-22	5.00	ACUITE BBB/ Stable (Assigned)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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