

Press Release

Sanghamithra Rural Financial Services

January 21, 2021

Rating Reaffirmed, Assigned and Withdrawn



Total Bank Facilities Rated	Rs. 200.00 crore
Long Term Rating	ACUITE BBB/ Stable (Reaffirmed; Assigned; Withdrawn)

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB (read as ACUITE triple B)**' on the Rs. 160.00 crore bank facilities of Sanghamithra Rural Financial Services (SRFS). The outlook is '**Stable**'.

Acuite has assigned the long term rating of '**ACUITE BBB (read as ACUITE triple B)**' on the Rs. 40.00 crore bank facilities of Sanghamithra Rural Financial Services (SRFS). The outlook is '**Stable**'.

Further, Acuite has withdrawn the long term rating of '**ACUITE BBB (read as ACUITE triple B)**' on the Rs. 3.50 crore bank facilities of Sanghamithra Rural Financial Services (SRFS).

The rating continues to reflect SRFS's established presence in its areas of operations, experienced management and support by other NGOs and CMPCs. Acuite believes that the company is well positioned to benefit the rural development in operating areas. SRFS has a healthy capital structure with Capital Adequacy Ratio (CAR) of ~ 31.68 percent as on September 30, 2020 and has demonstrated the ability to attract funding from banks and financial institutions at a competitive rate of interest, which ensures the future growth. The asset quality of SRFS is healthy at 98.51% as on H1FY2021. The rating also factors in the significant traction shown in disbursements and collections which were subdued in Q1FY21 as a result of the outbreak of pandemic. Accordingly, the disbursements levels are growing up every month and inching close to the pre COVID levels. The rating is constrained by the relatively moderate scale and geographically concentrated portfolio around 67 percent of the loan portfolio concentrated in Karnataka). This exposes SRFS to the vulnerability of geo-political risks and intense completion. The rating is also constrained by inherent risks associated with lending in this segment.

About SRFS:

Bangalore based, Sanghamithra Rural Financial Services (SRFS) is a 'Section 8' (under The Companies Act, 2013) non-profit organisation. It is promoted by Mysore Rehabilitation and development agency (MYRADA). The company extends micro credit through self-help groups (SHGs) model since 2000, and through joint liability group (JLG) model since January 2018. SRFS is led by Mr. Aloysius. P. Fernandez. The company has presence in four states namely Karnataka, Tamil Nadu, Maharashtra and Madhya Pradesh and operates through a network of 123 branches, with 1,44,770 active members as on September 30, 2020.

Analytical Approach

Acuite 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 microfinance sector**

The MFI is operating since 1995. SRFS is a not for profit company promoted by MYRADA in Karnataka. SRFS majorly lends in rural areas through SHG. SRFS has partnered with 85 NGOs and 75 community managed resource centres (CMRCs) for rural development. 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 various 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 regional player in the microfinance sector primarily operating through the SHG model backed by its strong promoter background and the experienced management team.

- **Healthy asset quality**

The company reported gross NPA of 0.76 percent as on March 31, 2020 as against 2.36 percent as on March 31, 2019. Further, it is stood at 0.66 percent as on Sep 30, 2020. The asset quality improved on account of company's focus on portfolio monitoring and recovery from NPAs. The company has built strong relationships with lending partners such as NGOs and CMRCs. 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 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. A detailed assessment of the borrowers is undertaken including a visit to the borrowers to assess their eligibility. The subsequent loan amount is linked to the earlier loan cycles and the repayment track record therein.

The company had demonstrated healthy collection efficiency with a track record of over 98 percent collection during pre-covid months. The collection efficiency has taken a hit due to the pandemic Covid-19 and the same stood around 38 percent for the past 8 months ended in November, 2020; however, Acuité expects the recovery in collection would improve in near to medium term. Similarly, the AUM has increased to Rs.192.45 crore as on September 30, 2020 from Rs. 180.72 crore as on March 31, 2020.

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

- **Increased reliance on external borrowings**

The company's resource profile is supported by its net worth and external borrowings mostly from banks and only one financial institutions. Net worth mainly comprises funds/grants received from various organisation and accumulated profits, the net worth stood at Rs. 56.82 crore as on March 31, 2020 as against Rs. 51.80 crore as on March 31, 2019, growth in the net worth is mainly on account of healthy plough back of profits.

Since SRFS is a Section 8 company and a non-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. However, SRFS's loan book experienced growth in HY1FY2021 to Rs. 192.45 crore from Rs. 180.72 crore as on March 31, 2020, and received funding from few lenders in H1FY2021.

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 67 percent of its total portfolio as on March 31, 2020. 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.

Acuite 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

None

Liquidity: Adequate

The Company has an adequate liquidity position as on Sep 30, 2020 with unencumbered cash and bank balance of Rs. 12.51 Cr and undrawn cash credit limits of almost Rs. 31.16 Cr. The cashflows are supported by collections which are ~Rs. 16 to 17 Cr. per month; this had dropped to Rs. 4.65 Cr in April-2020 due to moratorium availed by borrowers, it has now improved to the same level of pre-covid of Rs. 16.78 Cr in November, 2020.

Outlook: Stable

Acuite 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	FY2020 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	200.10	202.48
Total Income*	Rs. Cr.	19.63	18.19
PAT	Rs. Cr.	7.20	8.10
Networth	Rs. Cr.	56.82	51.80
Return on Average Assets (RoAA)	(%)	3.58	4.14
Return on Net Worth (RoNW)	(%)	13.25	16.51
Total Debt/Tangible Net Worth (Gearing)	Times	2.43	2.80
Gross NPA's	(%)	0.76	2.36
Net NPA's	(%)	0.00	1.19

* 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

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of the Instruments/Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Feb-2020	Cash Credit	Long term	22.00	ACUITE BBB (Withdrawn)
	Cash Credit	Long term	15.00	ACUITE BBB /Stable (Reaffirmed)
	Cash Credit	Long term	20.00	ACUITE BBB /Stable (Reaffirmed)
	Secured Overdraft	Long term	25.00	ACUITE BBB /Stable (Reaffirmed)
	Term Loan	Long term	3.50	ACUITE BBB /Stable (Reaffirmed)
	Secured Overdraft	Long term	20.00	ACUITE BBB /Stable (Reaffirmed)
	Term Loan	Long term	10.00	ACUITE BBB /Stable (Reaffirmed)
	Term Loan	Long term	5.00	ACUITE BBB (Withdrawn)
	Term Loan	Long term	4.00	ACUITE BBB (Withdrawn)
	Term Loan	Long term	6.00	ACUITE BBB (Withdrawn)
	Term Loan	Long term	6.50	ACUITE BBB /Stable (Reaffirmed)
	Cash Credit	Long term	5.00	ACUITE BBB /Stable (Reaffirmed)
	Term Loan	Long term	5.00	ACUITE BBB (Withdrawn)
	Cash Credit	Long term	10.00	ACUITE BBB /Stable (Reaffirmed)
	Term Loan	Long term	10.00	ACUITE BBB (Withdrawn)
	Term Loan	Long term	10.00	ACUITE BBB /Stable (Assigned)
	Term Loan	Long term	10.00	ACUITE BBB /Stable (Assigned)
	Term Loan	Long term	20.00	ACUITE BBB /Stable (Assigned)
	Term Loan	Long term	5.00	ACUITE BBB /Stable (Assigned)

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	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 (Withdrawn)
Overdraft	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/ Stable (Reaffirmed)
Term Loan	28-Jan-19	Not Applicable	28-Apr-22	10.00	ACUITE BBB/ Stable (Reaffirmed)
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)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/ Stable (Reaffirmed)
Term Loan	27-Sep-17	Not Applicable	26-Sep-20	10.00	ACUITE BBB/ Stable (Reaffirmed)
Term Loan	20-Dec-18	Not Applicable	20-Dec-21	10.00	ACUITE BBB/ Stable (Reaffirmed)
Term Loan	31-Dec-19	Not Applicable	31-Mar-23	20.00	ACUITE BBB/ Stable (Reaffirmed)
Term Loan	22-Nov-18	Not Applicable	30-Nov-22	5.00	ACUITE BBB/ Stable (Reaffirmed)
Term Loan	02-Jun-20	Not Applicable	10-Apr-21	20.00	ACUITE BBB/ Stable (Assigned)
Term Loan	29-Jan-20	Not Applicable	29-Jun-22	10.00	ACUITE BBB/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB/ Stable (Assigned)

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About Acuité Ratings & Research:

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