

Press Release

Sanghamithra Rural Financial Services

April 20, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	200.00	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	50.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	250.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 200.00 Cr. 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. 50.00 Cr. bank facilities of Sanghamithra Rural Financial Services (SRFS). The outlook is '**Stable**'.

The rating continues to reflect SRFS's established presence in its areas of operations, experienced management and support by other NGOs and Community Managed Resources Centres (CMPCs). SRFS has been maintaining robust asset quality, NNPA numbers stood at Nil for both FY2020 and FY2021 respectively. Acuite believes that the company is well positioned to benefit the rural development in operating areas. Under the Reserve Bank of India's revised rules for micro-lenders with over Rs 100 crore in assets under management (AUM) will have to get an NBFC-MFI license. SRFS is submitting application to RBI for Certification of Registration (CoR) as NBFC-MFI-ND shortly. Acuite believes the NBFC-MFI license will help to expand and facilitate getting bank loans more easily for the company however SRFS will have to align their business policies with the revised definition of microfinance loans.

SRFS has a healthy capital structure with Capital Adequacy Ratio (CAR) of ~ 37.57 percent as on December 31, 2021 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 company's loan portfolio growth has been modest ~ 7.5 percent from Rs 180.72 Cr. as on FY2020 to Rs 194.35 Cr as on FY2021. The rating is however constrained by the relatively moderate scale and geographically concentrated portfolio around 68 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 the micro- finance segment.

About the company

Incorporated in 1995, Bangalore based, Sanghamithra Rural Financial Services (SRFS) is a

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'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 104 branches, with 96,733 active members as on December 31, 2021.

Analytical Approach

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

Key Rating Drivers

Strength

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 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 95 percent collection for the past 6 months ended on March 2022.

SRFS has been maintaining robust asset quality, NNPA numbers stood at Nil for both FY2020 and FY2021 respectively, aided by on-time portfolio which stand above 98 percent for the following years. The disbursement levels have remained steady, majorly due to the disruption induced by the covid second wave.

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.

Weakness

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 68 percent of its total portfolio as on December 31, 2021. 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.

Increased reliance on external borrowings

The company's resource profile is supported by its net worth and borrowings mostly from banks and only one financial institution. Net worth mainly comprises funds/grants received from various organisation and accumulated profits, the net worth stood at Rs. 68.44 Cr. as on December 31, 2021 as against Rs. 64.67 Cr. as on March 31, 2021 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 bank borrowings 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.

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.

Rating Sensitivity

- Diversification in geographical profile while maintaining asset quality
- Sustainable and healthy growth in profitability metrics
- Significant deterioration in asset quality
- Adherence to new MFI guidelines

Material Covenants

SRFS is subjected to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others. As per confirmation received from client, the company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.

Liquidity Position: Adequate

The Company has an adequate liquidity position as on December 2021 with cash and bank balance of Rs. 78.84 Cr. The company's near-term liquidity position is well managed based on ALM Statement as on December 31, 2021, with positive mismatches in individual buckets. The future liquidity position will hinge upon the company's ability to raise resources while continuing to achieve optimal portfolio collections.

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.

Key Financials - Standalone / Originator

Particulars	Unit	FY2021 (Actual)	FY2020 (Actual)
Total Assets	Rs. Cr.	211.63	200.1
Total Income*	Rs. Cr.	21.8	19.63
PAT	Rs. Cr.	10.4	7.2
Networth	Rs. Cr.	64.67	56.82
Return on Average Assets (RoAA)	(%)	5.05	3.58
Return on Net Worth (RoNW)	(%)	17.12	13.25
Total Debt/Tangible Net Worth (Gearing)	Times	2.25	2.43
Gross NPA's	(%)	1.13	0.76
Net NPA's	(%)	0	0

*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):

None

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Secured Overdraft	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)

21 Jan 2021	Term Loan	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	3.50	ACUITE BBB (Withdrawn)
	Proposed Bank Facility	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	20.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	6.50	ACUITE BBB Stable (Reaffirmed)
	Secured Overdraft	Long Term	25.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	3.50	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
28 Feb 2020	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BBB (Withdrawn)
	Secured Overdraft	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	3.50	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB (Withdrawn)
	Cash Credit	Long Term	22.00	ACUITE BBB (Withdrawn)
	Term Loan	Long Term	4.00	ACUITE BBB (Withdrawn)
		Long		
	Term Loan	Term	5.00	ACUITE BBB (Withdrawn)
	Term Loan	Long Term	6.50	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	6.00	ACUITE BBB (Withdrawn)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Secured Overdraft	Long Term	25.00	ACUITE BBB Stable (Reaffirmed)

	Term Loan	Long Term	20.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	5.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Assigned)
10 Dec 2018	Term Loan	Long Term	5.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	10.00	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	5.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	6.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	6.50	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	22.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Proposed Bank Facility	Long Term	1.50	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	4.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	5.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB Stable Reaffirmed
Canara Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB Stable Reaffirmed
Indian Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB Stable Reaffirmed
Indian Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB Stable Reaffirmed
Canara Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	0.01	ACUITE BBB Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	7.36	ACUITE BBB Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	9.63	ACUITE BBB Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	15.00	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	25.00	ACUITE BBB Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	4.00	ACUITE BBB Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	6.00	ACUITE BBB Stable Reaffirmed

Bank of Maharashtra	Not Applicable	Term Loan	Not available	Not available	Not available	30.00	ACUITE BBB Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	8.00	ACUITE BBB Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	10.00	ACUITE BBB Stable Assigned
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	10.00	ACUITE BBB Stable Assigned
Nabsamruddhi Finance Limited	Not Applicable	Term Loan	Not available	Not available	Not available	10.00	ACUITE BBB Stable Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	20.00	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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