

Press Release

Sanghamithra Rural Financial Services

January 02, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	250.00	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	300.00	-	-
Total Withdrawn Quantum (Rs.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. 250.00 Cr. bank facilities of Sanghamithra Rural Financial Services (SRFS). The outlook continues to be '**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**'.

Rationale for the rating

The rating continues to reflect SRFS's established presence in its areas of operations, experienced management support by other NGOs and Community Managed Resources Centres (CMPCs) and adequate capitalization level. SRFS's Capital Adequacy Ratio (CAR) stood at 32.72 percent as on September 30, 2022 which reduced from 34.81 percent as on March 31, 2022, the decrease is mainly on account of increase in AUM. The company has reported an AUM of Rs 217.05 Cr. as on September 30, 2022 and Rs 194.55 Cr. as on March 31, 2022. The rating also factors company's healthy asset quality marked by on time portfolio of 96.06 percent with a GNPA of 2.82 percent as on September 30, 2022 and ability of the company to raise resources from a diverse lender base.

The rating is however constrained by the relatively moderate scale of operations and geographically concentrated portfolio. The company's portfolio is mainly concentrated in Karnataka (around 72.31 percent). This exposes SRFS to the vulnerability of geo-political risks and intense competition. The rating is further constrained by inherent risks associated with lending in the micro-finance segment. The company has applied for NBFC-MFI license under revised rules for micro-lenders with over Rs 100 Cr. under AUM. Acuite believes the NBFC-MFI license will help to expand and facilitate getting bank loans more easily for the company.

Going forward, the ability to leverage on experience of management, maintain comfortable capitalization levels and profitably scale up its operations while maintaining its asset quality will be a key rating monitorable.

About the company

Incorporated in 1995, 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 three states namely Karnataka, Tamil Nadu and Maharashtra and operates through a network of 111 branches, with 101072 members as on September 30,2022.

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 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. Sunil Jadil, CEO, has more than three decades of banking experience and is supported by an experienced team heading various departments.

The company reported an AUM of Rs 217.05 Crs as on September 30,2022 (Rs 194.55 Cr. as on March 31,2022 and Rs 194.35 Cr. as on March 31,2021). The company's profitability during FY2021-22 has reduced due to steady disbursements induced by covid second wave and change in its interest computation methods. However, the company's performance has improved during September-2022 owing to increased disbursements levels. The company reported PAT of Rs 4.60 Cr. during H1FY2022 (Provisionals) (Rs 5.53 Cr. during FY 2021-22 and Rs 10.40 cr. during FY2020-21). The company has reported a ROAA of 3.29 percent during H1FY2022 (Provisionals) (2.19 percent during March 2022 and 5.05 percent during March 2021.) Net Interest Margin of 11.45 percent during H1FY2022 (Provisionals) (8.75 percent during March 2022 and 11.44 percent during March 2021).

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; Adequate capitalisation levels:

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 rating also factors company's healthy asset quality marked by on time portfolio of 96.06 percent with a GNPA of 2.82 percent as on September 30,2022 supported with an average collection efficiency of 98.72 percent for the past 7 months ended on October 31, 2022. SRFS's Capital Adequacy Ratio (CAR) stood at 32.72 percent as on September 30,2022 which reduced from 34.81 percent as on March 31, 2022, the improvement is mainly on account of increase in AUM. The company has reported an AUM of Rs 217.05 Cr. as on September 30,2022 and Rs 194.55 Cr. as on March 31, 2022.

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 72.31 percent of its total portfolio as on September 30, 2022. 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 financial institutions. The company's networth stood at Rs. 71.02 Cr. as on September 30, 2022 (Provisionals) (Rs. 67.69 Cr. as on March 31, 2022, and Rs 64.67 Cr. as on March 31, 2021). The 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. However, the company has showcased its ability to raise low-cost funds from a diverse lender base. The company's total debt stood at Rs 189.78 Cr. as on September 30, 2022 (Provisionals) (Rs 219.67 Cr. as on March 31, 2022 and Rs 145.47 Cr. as on March 31, 2021). The company's gearing stood at 2.67 as on September 30, 2022 (Provisionals) (3.25 as on March 31, 2022 and 2.25 as on March 31, 2021). The company's average cost of borrowing is at ~10 percent and is banking with 7 Banks & 2 Financial Institutions.

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
- Movement in Profitability metrics
- Movement 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.

Liquidity Position

Adequate

The Company has an adequate liquidity position as on March 31, 2022 with cash and bank balance of Rs. 95.91 Cr. The company's near-term liquidity position is well managed based on ALM Statement as March 31, 2022, 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.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY2022 (Actual)	FY2021 (Actual)
Total Assets	Rs Cr	291.98	211.63
Total Income*	Rs Cr	17.08	21.80
PAT	Rs Cr	5.53	10.40
Networth	Rs Cr	67.69	64.67
Return on Average Assets (RoAA)	(%)	2.19	5.05
Return on Net worth (RoNW)	(%)	8.35	17.12
Total Debt/Tangible Networth	Times	3.25	2.25
Gross NPA	(%)	3.33%	1.13%
Net NPA	(%)	1.09%	0.00%

*Total income equals to Net interest income plus other income

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

None

Any other information

None

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Apr 2022	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Secured Overdraft	Long Term	15.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	20.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	8.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	7.36	ACUITE BBB Stable (Reaffirmed)
	Secured Overdraft	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.01	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Secured Overdraft	Long Term	25.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	30.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Secured Overdraft	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	6.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	4.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	25.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	9.63	ACUITE BBB Stable (Reaffirmed)
	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)
	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)
		Long		ACUITE BBB Stable

21 Jan 2021	Term Loan	Term	20.00	(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)
	Term Loan	Long 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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.55	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.20	ACUITE BBB Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	79.91	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	30.20	ACUITE BBB Stable Assigned
Canara Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE BBB Stable Reaffirmed
Indian Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE BBB Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.91	ACUITE BBB Stable Reaffirmed
Nabsamruddhi Finance Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.00	ACUITE BBB Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	9.83	ACUITE BBB Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.50	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	25.00	ACUITE BBB Stable Reaffirmed
Union Bank of	Not	Term	Not	Not	Not			ACUITE BBB

India	Applicable	Loan	available	available	available	Simple	8.50	Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.67	ACUITE BBB Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.32	ACUITE BBB Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.71	ACUITE BBB Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	20.10	ACUITE BBB Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	16.60	ACUITE BBB Stable Assigned

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