

Press Release

Sarala Development & Microfinance Private Limited

November 29, 2019



Rating Assigned

Total Bank Facilities Rated	Rs. 250.00 Crore
Long Term Rating	ACUITE BBB/ Outlook:Stable (Assigned)

*Refer annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs. 250.00 Cr. bank facilities of Sarala Development & Microfinance Private Limited (Sarala). The outlook is '**Stable**'.

About Sarala:

Kolkata based Sarala (erstwhile Unnati Trading and Fincon Pvt. Limited – incorporated in 1992) is an RBI registered non-systemically important NBFC-MFI. The company is engaged in extending microfinance loans to woman borrowers organized in Joint Liability Groups since 2014.

Sarala is co-promoted by Dr. Arabinda Kumar Sinha (Chairman) and Mr. Pranab Rakshit (Managing Director). Dr. Sinha forayed in the microfinance space in 2006 through Sarala Women's Welfare Society (SWWS) which is a not for profit entity, constituted under Section 25 of the Indian Companies Act 1956, (now Section 8 of the Indian Companies Act 2013). Later in 2010, SWWS acquired Unnati Trading and Fincon Private Limited, changed its name to Sarala and Sarala was registered as an NBFC-MFI with RBI in 2014. SWWS operations were transferred to Sarala with an objective to transform the microfinance operations under a recognized and regulated NBFC-MFI. Presently the day to day operations of the company are managed by Mr. Pranab Rakshit who has over a decade of experience in financial services.

Sarala operates through a network of 80 branches as on September 30, 2019 spread across West Bengal, Bihar, Assam, Sikkim and Jharkhand.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established presence in microfinance lending:**

Sarala, a Kolkata based NBFC-MFI is promoted by Dr. Arabinda Kumar Sinha (Chairman) and Mr. Pranab Rakshit (Managing Director). Sarala benefits from the experience of its promoters in microfinance specifically in West Bengal since 2006 through SWWS. SWWS commenced its microfinance operations in West Bengal and on transfer of its microfinance activities to Sarala, the operations were diversified to other states. Sarala's 94.5 percent holding is with SWWS, 4.40 percent

is with Sarala healthcare Private Limited and the remaining 1.1 percent is held by friends of the promoters as on September 30, 2019.

Sarala's board comprises 7 members led by Dr. Arabinda Kumar Sinha (Chairman). The members of the board have over two decades of experience in banking and financial services. The day to day operations of the company are managed by Mr. Pranab Rakshit (Managing Director). He was on the Board of SA-DHAN for four years, one of the Self-Regulatory Organizations for Microfinance Institution in the country and currently the Vice President of AMFI-WB, an Association of Microfinance Institutions of West Bengal.

Sarala began its lending operations as a NBFC MFI in 2014. The company is engaged in extending micro credit to women entrepreneurs in the rural areas of eastern and north eastern part of the India under Joint Liability group (JLG) model. The company has moderately diversified its geographical presence beyond West Bengal. As on September 30, 2019, West Bengal and Bihar comprised 64 percent and 26 percent of the Asset under Management (AUM) and the balance across Assam, Jharkhand and Sikkim. (76 percent and 17 percent as on March 31, 2018 respectively).

The established track record of promoter in microfinance lending has supported Sarala's growth strategy. The company's AUM has grown to Rs.220.12 Cr. as on September 30, 2019 from Rs. 163.79 Cr. as on March 31, 2017. Around 82.8 percent of the AUM consists of on book exposure and 17.2 percent comprises of off book exposure as on September 30, 2019. The company is engaged in a business correspondent relationship with IDBI Bank Limited. The Company operates through a network of 80 branches as on September 30, 2019.

Acuité believes that Sarala's business profile will continue to benefit from the established presence in microfinance lending along with strong managerial support.

- **Expected growth in AUM while maintaining moderate levels of asset quality and profitability:**

Sarala's AUM has grown from Rs. 164 Cr. as on March 31, 2017 to Rs. 220 Cr. as on September 30, 2019. The company primarily extends unsecured loans to economically challenged borrowers primarily in West Bengal and Bihar through the JLG model. The company suffered a setback in FY2018 due certain economic events which impacted its borrowers more specifically in one district of Howrah. These events had an impact on its asset quality and growth trajectory of the company in FY2018. Sarala has demonstrated consistent growth in disbursement during FY2019 and in H12020. The AUM as on September 30, 2019 of Rs. 220 Cr. is marginally below the AUM levels of Rs. 245 Cr. as on March 31, 2019. However considering the past trends in disbursement wherein the disbursements pick up in the second half, Acuité believes that the company will be able to maintain a steady growth in AUM for FY2020.

The company has demonstrated a volatile trend in its asset quality indicators wherein the gross NPA had spiked to 2.7 percent as on March 31, 2018 from 1.8 percent as on March 31, 2017. The gross NPAs as on March 31, 2019 stood at 0.8 percent. The company had written off of Rs. 4.04 Cr. in FY2019 and Rs. 5.10 Cr. in FY2018 vis. a. vis. Rs. 0.13 Cr. in FY2017. The company's gross NPA stood at 1.08 percent as on September 30, 2019. Acuité expects that the company is likely to face some moderation in asset quality levels by March 2020 due to recent instances of natural calamities in Assam. Sarala's ability to maintain prudent lending policies and healthy asset quality while it scales up its operations will be a key rating monitorable.

The company's earning profile has improved in FY2019 and in H12020. The company reported Return on Average Assets (ROAA) of 3.18 percent for FY2019 as against 0.37 percent in FY2018 on account of significance reduction in credit cost. The company's Net Interest Margins (NIMs) have marginally declined to 8.2 percent for FY2019 as against 8.9 percent for FY2018; this is primarily as the company had reduced its lending rates in FY2019. On annualized basis, the company's ROAA for H12020 was 4.4 percent which is expected to moderate in the second half due to likely credit costs.

Acuité expects the company to scale up its operations in a sustained manner while maintaining profitability and asset quality metrics at moderately healthy levels.

Weakness

• Leveraged Capital structure; lower headroom to raise further debt

Sarala is engaged in microfinance lending with loan tenure ranging from 12 to 24 months. The Company is in expansion stage wherein the management plans to grow its AUM by increasing its presence in the existing geographies. The company's AUM stood at Rs.220.11 Cr. as on September 30, 2019 as against Rs.163.79 Cr. as on March 31, 2017. The growth in AUM is primarily supported by plough back of profits and borrowings.

The company's capitalization is underpinned by the limitation on fund raising ability of the company's majority stake holder SWWS which is a Section 8 company. The company's networth stood at Rs. 35.9 Cr. as on March 31, 2019 as against Rs. 29.7 Cr. as on March 31, 2018. The Company's Capital Adequacy ratio stood at 27.94 percent as on September 30, 2019 of which Tier I capital contributed 22.37 percent and Tier II capital contributed 5.57 percent. The Tier II capital is by way of subordinate debt from IDFC First bank Limited. The Company's gearing stood at 5.2 times as on March 31, 2019 as against 4.2 times as on March 31, 2018. The company's gearing has improved to 4.02 times as on September 30, 2019, on account of healthy plough back of profits. The company plans to maintain a peak gearing of 5.5 times over the medium term.

The debt comprises Term loans from Banks/FIs, cash credit facility and subordinated debt. Most of the term debt is for a tenure ranging from two to three years. The leveraged capital structure may impact future leveraging initiative of Sarala. Acuité observes that generally MFIs opt for shorter tenured borrowings which is consistent with their asset portfolio i.e. Microfinance loans upto 2 years. The premise behind this funding philosophy is that the company will be able to raise fresh short to medium term debt from time to time. Consequent to the recent NBFC crises banks and FIs have become more selective in lending to NBFCs. Hence, already leveraged NBFC/MFIs such as Sarala could face challenges in raising fresh debt to support their on book growth.

Against the above backdrop, Acuité believes that Sarala's ability to raise adequate equity capital in a timely manner to support the business growth will be key rating sensitivity.

Rating Sensitivities

- Movement in gearing levels
- ROAA falling below 3 percent
- Gross NPA crossing 1.5 percent
- Increase in district concentration of the portfolio

Material Covenants

The lenders have stipulated asset quality and leverage indicators. Acuité observes that in respect of the leverage indicators stipulated by one of the lenders the company is close to the threshold limits based on position as on September 30, 2019.

Liquidity Position:

Sarala's overall liquidity profile remains adequate, given that its loans comprise relatively shorter-tenure microfinance loans compared to the tenure of borrowed funds. The company's near term liquidity position is well managed based on ALM Statement as on September 30, 2019, with positive mismatches in individual buckets for upto one year. However, the company's ability to continue to maintain the pace of disbursements will depend on its ability to raise long term resources in the form of equity or long tenure loans.

Acuité believes that Sarala's ability to maintain the tradeoff between liquidity and growth (disbursements) will be linked to fresh equity infusion and also its ability to raise long term debt.

Outlook: Stable

Acuité believes that Sarala will maintain a 'Stable' outlook over the near to medium owing to its established track record and managerial base. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability, asset quality and leverage indicators. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in asset quality, profitability or in case of challenges faced in raising fresh capital.

About the Rated Entity – Key Financials

Parameters	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	228.51	163.65	133.03
Total Income*	Rs. Cr.	21.36	16.73	16.87
PAT	Rs. Cr.	6.23	0.54	5.59
Net Worth	Rs. Cr.	35.95	29.71	26.52
Return on Average Assets (RoAA)	(%)	3.18	0.37	8.41
Return on Average Net Worth (RoNW)	(%)	18.98	1.93	42.17
Total Debt/Tangible Net Worth (Gearing)	Times	5.16	4.24	3.74
Gross NPA	(%)	0.80	2.73	1.78
Net NPA	(%)	0.00	0.52	0.32

* 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

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition -<https://www.acuite.in/view-rating-criteria-17.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)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	NA	NA	NA	7.00	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	0.49	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	2.77	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	0.91	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	1.21	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	1.82	ACUITE BBB /Stable (Assigned)

Term Loan	NA	NA	NA	1.82	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	3.33	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	1.88	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	2.39	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	10.00	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	4.85	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	0.37	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	3.33	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	2.50	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	3.67	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	3.89	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	4.58	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	10.23	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	11.25	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	3.13	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	3.13	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	1.88	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	1.88	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	1.88	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	2.44	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	3.50	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	10.00	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	1.58	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	14.06	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	12.93	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	9.33	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	4.50	ACUITE BBB /Stable (Assigned)

Term Loan	NA	NA	NA	10.00	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	2.44	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	3.00	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	5.00	ACUITE BBB /Stable (Assigned)
Term Loan	NA	NA	NA	81.03	ACUITE BBB /Stable (Assigned)

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About Acuité Ratings & Research:

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