

Press Release

SATYA MicroCapital Limited

May 26, 2020



Rating Assigned; Rating watch with Negative Implications

Total Facilities Rated	Rs.150.00 Cr.
Bank Facilities Rated	Rs. 150.00Cr.
Long Term Rating	ACUITE BBB+ (Assigned, On Watch with Negative Implications)

*Refer annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 150.00 Cr. Proposed bank loan facilities of SATYA MicroCapital Limited (SML). The rating has been placed on '**Watch with Negative Implications**'

Reasons for placing the ratings on 'Watch with Negative Implications'

The outbreak of the COVID-19 virus and the continued lockdowns have significantly impacted the operations of MFIs like SATYA MicroCapital Limited (SML). The borrowers of MFIs typically comprise the economically challenged sections of society whose income streams are linked to their day to day activities. The continued lockdowns have impacted the ability of most of the borrowers to carry on their income generating activities, affecting their cashflows. Besides the impact on the cashflows of the borrowers, the collection efficiency is also impacted due to logistical challenges on the part of MFIs in reaching out to the borrowers and engaging with them on a periodic basis. Resultantly, the collections have drastically declined and there is considerable uncertainty as of now on the resumption of normal operations. It is difficult to ascertain at the current juncture the impact on the overall asset quality as the credit profiles of some of the borrowers could be impaired for a much longer time.

About SML:

Delhi based SATYA MicroCapital Limited (erstwhile TFC Finvest Limited – incorporated in 1995), promoted by Mr. Vivek Tiwari (MD & CEO), is a RBI registered NBFC-MFI engaged in extending microfinance loans to woman borrowers (spouses as their co-borrowers) organized in Joint Liability Groups in rural and semi-rural areas. SML is also engaged in extending individual micro business loans to men and women in urban areas.

The current promoters acquired TFC Finvest Limited, a registered non deposit taking NBFC (NBFC-ND) in 2016. Later, with change of shareholding and management, the company revised its name to SATYA MicroCapital Limited. SML was later registered as NBFC- MFI in 2018. Presently, the day to day operations of the company are managed by Mr. Vivek Tiwari who has nearly two decades of experience in microfinance industry.

SML operates through a network of 150 branches as on March 31, 2020 spread across 131 districts of 22 states on pan India basis.

Analytical Approach

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

Acuité has been guided by recent SEBI circular dated March 30,2020 (circular no SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53) while arriving at the rating. Acuité has also relied on the RBI circular dated March 27, 2020 (circular no RBI/2019-20/186) in this regard. Acuité observes that SML is yet to receive moratorium confirmation from some of its lenders. SML has skipped payments to these lenders in the

month of April. Acuite believes that, this slippage is attributable to the ongoing crisis and hence has not construed these slippages as a credit event while arriving at the rating decision. Acuite policy regarding this "Transitory relaxation from compliance with certain provisions under SEBI (Credit Rating Agencies) Regulations, 1999" is as follows: <https://www.acuite.in/transitory-relaxation-from-compliance-with-certain-provisions-under-SEBI.htm>.

Key Rating Drivers

Strengths

- **Experienced Management supported by marquee investors**

SATYA MicroCapital Limited, a Delhi based NBFC-MFI promoted by Mr. Vivek Tiwari (MD & CEO) is engaged in providing financing to women entrepreneurs (spouses as co-borrowers) under Joint Lending Group model (JLG model) mainly in rural and semi-rural areas. The company also provides individual micro loans to men and women borrowers. SML began its lending operations in 2016. Presently, the day to day operations of the company are managed by Mr. Vivek Tiwari (Managing Director & CEO). He has nearly two decades of experience in the microfinance space, social entrepreneurship and impact investing. Prior to SML, Mr. Tiwari has about nine years of experience in Satin Credit Care Network limited (SCCL) as Chief Operating Officer.

SML's equity shareholding is diversified across Mr. Tiwari (29.38 percent), Gojo & Company Inc (24.42 percent), Dia Vikas Capital Private limited (20.33 percent) and remaining 25.88 percent held by promoter's family, friends, employees and SATYA Employee Welfare Trust, as on March 31, 2020. Besides equity infusion, Gojo & company, Inc has invested in SML in from of compulsorily convertible preference capital under different rounds of funding.

Gojo & Company, Inc, a Tokyo based company, established in July 2014 has supported microfinance institutions in Cambodia, Sri Lanka, Myanmar and India. In India, besides SML, Gojo & Company, Inc. has acquired stake in an affordable housing finance company and fintech SME based lending company. Gojo & Company, Inc has been actively involved in providing capital infusion to SML since its inception. Gojo & Company, Inc has also infused additional funds in SML in May, 2020 (i.e. post the COVID-19 outbreak) which strongly demonstrates the willingness to support SML at a time when resource raising has become critical. Dia Vikas Capital Private limited, established in 2008 as a social investor, has supported the growth of Indian microfinance sector and currently partners with 12 socially focused microfinance institutions.

SML's board comprises 9 members with more than a decade of experience in banking and financial services. SML's board has representation from Gojo & Company, Inc. (Mr. Sanjay Gandhi) and Dia Vikas Capital Private limited (Mr. Saneesh Singh). Mr. Sanjay Gandhi, co-founder of Gojo & Company, Inc, joined the microfinance industry in 2003 and has international experience in MFI industry. Mr. Singh has over two decades of experience in banking and finance, financial inclusion, MSME lending and impact investments. SML continues to benefit from the expertise of their directors.

Acuite believes that SML's business risk profile will be strongly supported by the experience of Indian promoter Mr. Vivek Tiwari and the support from marquee investors primarily Gojo & Company, Inc, over the near to medium term.

- **Geographically diversified portfolio**

SML extends micro loans to woman borrowers organized in Joint Liability Groups. Microfinance loans are usually disbursed in clusters and the borrowing profile comprises of economically challenged sections of society whose income streams are linked to their day to day activities. The inherent nature of the business renders the portfolios vulnerable to event risks such as natural

calamities in the area of operations. However, SML is derisked from such events since SML's portfolio is spread across 131 districts of 22 states of India. SML's maximum exposure accounts for ~23 percent to Uttar Pradesh, followed by ~19 percent to Bihar, ~13 percent to Punjab and balance spread across 19 states as on March 31, 2020. The overall quality of SML's portfolio remained healthy, except for Assam, where larger delinquencies were witnessed as on March 31, 2020.

Acuite believes that SML's business risk profile is supported by geographically diversified portfolio spread across 22 states. This is further supported by management's philosophy to mitigate the risk by limiting the exposure to any specific geographic location.

Weakness

- **Significant built up in portfolio over the last one year resulting in low seasoning of loan book; Challenges in current operating environment to impinge on near term asset quality and profitability margins**

SML began its lending operations in 2016 by providing financing to women entrepreneurs (spouses as co-borrowers) under Joint Lending Group model (JLG model) with loan tenure ranging from 12 to 24 months. The company's assets under management (AUM) stood at Rs.1007.85 Cr. as on March 31, 2020 as against Rs.621.71 Cr. as on March 31, 2019. Of the AUM, around Rs.726.33 Cr was on-book exposure and the balance Rs.281.52 Cr comprises of PTCS/ direct assignment transactions and business correspondent relationship with IDFC First bank. The company scaled up its operations significantly in FY 2020 by expanding its operations to 22 states as on March 31, 2020 from 14 states as on March 31, 2019. SML's branch network expanded to 150 branches as on March 31, 2020 from 84 branches as on March 31, 2019. SML stepped up its pace of disbursements and disbursed around Rs.912.43 Cr. in FY 2020 (Rs.629.42 Cr in FY 2019). Of the AUM of Rs.1007.85 Cr, 79 percent comprise of first time borrowers.

In last quarter of FY 2020 and considerable announcements by GOI has created challenges for MFIs like SML and has impacted the day to day operations of their borrowers. The nationwide lockdown has led to significant deterioration in the collection efficiency of MFIs and cashflows of their borrowers. The MFI operations entail physical meeting and maintaining close contact with borrowers on a weekly basis. The logistical challenges faced due to halt in operations are expected to impact the near term operations of MFIs like SML.

The restoration of normal operations (i.e. disbursements and collections) is expected to be gradual. Acuite believes that impact on MFIs like SML is expected to be two folds. Firstly, the stress on some of their borrowers will become much more pronounced leading to the likelihood of increase in credit costs. Secondly, on disbursements front, the overall momentum of disbursements for MFIs like SML is likely to be impacted till restoration of normal economic activities. This is further expected to impact SML's ability to scale up its operations and affect profitability due to challenges in attaining optimal scale, especially in case of newly opened branches. The return on average assets (ROAA) for the past two years has been below one percent, 0.78 percent for FY 2020 (provisional) and 0.65 percent for FY 2019. The same is expected to be subdued for the current year on account of challenges in scaling up of its loan book and possibility of higher credit cost.

Acuite believes that the ability of SML to scale up its operations, while improve collection efficiency and maintaining healthy asset quality will remain key monitorable.

Rating Sensitivities

- Movement in collection efficiency
- Movement in asset quality and profitability metrics
- Movement in capital adequacy buffers
- Changes in regulatory environment

Material Covenants

SML is subject 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 via mail

dated May 22, 2020, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity Position: Adequate

SML's liquidity buffers primarily depend on its cash inflows (collections from clients, drawdowns from borrowings and equity inflows) vis. a vis. the cash outflows (disbursements, debt servicing commitments, operating expenses). The cash collections from borrowers are currently impacted because of nationwide lockdown and moratorium extended by SML to its borrowers which is in line with general practice followed by other MFIs. The stress is expected to continue till the resumption of normal operations.

Of the total borrowings of Rs. 757.82 Cr as on March 31, 2020 (provisional), around Rs.379.94 Cr. (~50 percent) are due within one year and remaining beyond one year. SML has extended moratorium to its borrowers till May 2020 and has also sought similar moratorium from its lender upto May 2020. At present, 17 out of 30 lenders comprising ~71 percent of total bank and NBFC borrowings of Rs.492.75 as on March 31, 2020 (provisional) have provided moratorium till May 2020. The written confirmation from other lenders is still awaited. SML's scheduled monthly average collections as on March 31, 2020 are around Rs.40 Cr. against which it has monthly debt service obligations of around Rs.27Cr. to Rs.30Cr. and operating costs of ~Rs.5 Cr. per month. SML's liquidity has received some support from the recent capital infusion from investor like Gojo & Company, Inc, in this challenging operating environment, which is expected to provide near term liquidity support to SML.

About the Rated Entity – Key Financials

Parameters	Unit	FY 2020 (Prov)	FY2019 (Actual)
Total Assets	Rs. Cr.	976.51	713.51
Total Income*	Rs. Cr.	83.36	44.72
PAT	Rs. Cr.	6.60	3.24
Net Worth	Rs. Cr.	172.41	89.91
Return on Average Assets (RoAA)	(%)	0.78	0.65
Return on Average Net Worth (RoNW)	(%)	5.03	6.0
Total Debt/Tangible Net Worth (Gearing)	Times	4.40	6.51
Gross NPA	(%)	1.15	0.03
Net NPA	(%)	0.54	0.03

* 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-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)

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
Proposed bank facility	NA	NA	NA	150.00	ACUITE BBB+ (Assigned) On 'Watch with Negative Implications'

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About Acuité Ratings & Research:

Acuité Ratings & Research 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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