

Press Release

Satya MicroCapital Limited

February 03, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	150.00	ACUITE A- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	150.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs.150.00 Cr. bank loan facilities of Satya MicroCapital Limited (SML). The outlook is '**Stable**'.

The rating takes into consideration significant equity infusion, healthy resources raising ability & better than the envisaged AUM growth of about 47 percent y-o-y during FY21. SML received equity infusion of Rs.153.26 Cr. by the existing investor Gojo & Company, Inc. on private placement basis and CCPS of Rs. 105 Cr. converted into equity and issued to Gojo & Company, Inc. during FY21. Post infusion coupled with conversion of CCPS into equity, the shareholding of Gojo & Company, Inc. has increased to 49.54 percent as on March 31, 2021 from 24.42 percent as on March 31, 2020. The credit profile of the company derives strength from its demonstrated ability to raise debt from diverse lenders. SML received sanctions of Rs. 1,131.25 Cr. in FY2021 and ~Rs. 717 Cr. in H1 FY2022 in the form of terms loans, NCD's and securitizations. The rating also takes into account the prudent risk management practices and digital collections mechanism which has helped SML in maintaining sound asset quality as reflected in low Gross Non-Performing Assets (GNPAs) of 1.54 percent as on March 31, 2021 as against 1.62 percent as on March 31, 2020 despite disruptions due to COVID-19 induced lockdowns. Further, GNPA as on September 30, 2021 stood at 1.95 percent while, the restructured portfolio comprised ~16 percent of its on-book portfolio as on September 30, 2021. SML established various collection points by collaborating with banks in its operating area which enabled smooth collections during on-going pandemic.

These strengths are partially offset by the moderate profitability parameters and risks inherent to the nature of the business which renders the portfolios vulnerable to event risks such as natural calamities in the area of operations. Going forward, continued promoter support, profitability and business growth are key monitorables.

About the company

Delhi based, SML was incorporated in 1995. SML is promoted by Mr. Vivek Tiwari (MD, CEO & CIO). SML was acquired by current promoters in 2016 and subsequently registered as NBFC- MFI in 2018. SML is engaged in extending microfinance loans to woman borrowers (spouses/adult sons as their co-borrowers) organized in Joint Liability Groups in rural and semi- rural areas. SML also extends individual micro business loans to men and women in urban areas.

SML operates through a network of 187 branches spread across 160 districts of 21 states on pan India basis as on March 31, 2021.

Analytical Approach

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

Key Rating Drivers

Strength

- Established presence in microfinance lending coupled with experienced management and reputed investors; healthy growth in AUM**

SML, a Delhi based NBFC-MFI, commenced microfinance lending to woman borrowers organized in Joint Liability Groups in 2016. The company is also engaged in extending individual micro business loans to women entrepreneurs in rural and semi-urban areas for income-generating activities. SML has well diversified portfolio spread across 21 states. As on March 31, 2021, Uttar Pradesh accounted for 22 percent of portfolio, followed by Bihar for ~16 percent and ~12 percent for Punjab and ~9 percent for Haryana, and 8 percent for Rajasthan, and remaining accounting for other states like Odisha, Assam, Madhya Pradesh, Jharkhand, Tamil Nadu amongst others.

SML is managed by Mr. Vivek Tiwari (Managing Director, CEO & CIO). He has nearly two decades of experience in the microfinance space, social entrepreneurship and impact investing. Prior to SML, Mr. Tiwari had about nine years of experience in Satin Credit Care Network limited (SCCL) as Chief Operating Officer.

SML's equity shareholding includes Mr. Tiwari share (23.84 percent), Gojo & Company Inc (49.54 percent), Dia Vikas Capital Private limited (13.90 percent) and remaining 12.72 percent held by promoter's family, friends, employees and SATYA Employee Welfare Trust, as on March 31, 2021.

Gojo & company, Inc invested in SML, in form of compulsorily convertible preference capital, was converted to equity which lead to increase its shareholding to 49.54 percent as on March 31, 2021 from 24.42 percent as on March 31, 2020. Gojo & Company, Inc, a Tokyo based company, established in July 2014 has supported microfinance institutions in Cambodia, Sri Lanka, Myanmar and India. It has been actively involved in providing capital infusion to SML since its inception.

SML's board comprises 9 members with one Managing Director, four Independent Director, one non- executive Director and three Nominee Directors. The Board of directors has a vast industry experience. The MD, CEO & CIO has been involved in microfinance and development sector for nearly 20 years and was associated with Satin Creditcare Network Ltd as the COO. The management has a good experience in the microfinance industry. SML's board has representation from Gojo & Company, Inc. (Mr. Sanjay Gandhi & Mr Taejun Shin) 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 Taejun Shin is a Founder, Representative Director & CEO of Gojo & Company, Inc. 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.

The established track record of promoters in microfinance lending has supported SML's growth strategy. The company's Asset Under Management (AUM) has grown by 47 percent to Rs.1,476.16 Cr. as on March 31, 2021 from Rs.1,007.85 Cr. as on March 31, 2020. The off-book portfolio stood at ~Rs.254.18 Cr. as on March 31, 2021 vis. a. vis ~Rs.94.69 Cr. as on March 31, 2020. AUM as on September 30, 2021 stood at Rs. 1,592.21 Cr. With on-book comprising ~86.60 percent. SML has off-book exposure in the form of business correspondence relationships with Ananya Finance for Inclusive Growth Private Limited and DA transactions with 7 institutions. Acuité believes that SML's business profile will continue to benefit from the established presence in microfinance lending backed by strong promoter support.

- Healthy capital raising ability with diversified funding mix**

SML's net-worth increased to Rs. 404.43 Cr. as on March 31, 2021 and reported a capital adequacy ratio (CAR) of 34.62 percent comprising Tier 1 capital at 31.64 percent and Tier II capital at 2.98 percent. The company's leverage improved to 2.79 times as on March 31, 2021 from 5.37 times as on March 31, 2020. This improvement is due to equity infusion of Rs.153.26 Cr. by the existing investor Gojo & Company, Inc. on private placement basis and CCPS of Rs. 105 Cr. converted into equity and issued to Gojo & Company, Inc. during FY2021. The company has a strong lender profile comprising Banks and Financial Institutions, with total debt of Rs. 1,127.08 Cr. outstanding as on March 31, 2021. SML's borrowing profile comprised Term loans, NCD's and subordinated debt from IDFC Capital, UC Inclusive Credit private Limited as on March 31, 2021. The ability to raise debt for microfinance activities remains challenging due to a very selective and cautious approach adopted by Banks and NBFC/FIs. However, SML has demonstrated access to funding from both banks and large NBFC/FIs. SML raised ~Rs.1,131 Cr. from various lenders in FY2021. With improved capitalization levels SML was further able to raise funds in the form of terms loans. NCD's and securitizations of around Rs. 717 Cr. in H1 FY2022. SML was leveraged at 3.63 times as on September 30, 2021.

- Comfortable asset quality supported by digital collections**

SML reported comfortable asset quality as reflected in on-time portfolio at 95 percent as on March 31, 2021 (98 percent as on March 31, 2020) and collection efficiency at ~93 percent for March 2021. In spite of disruption in economic activity due to COVID, the company reported y-o-y improvement in GNPA, which stood at 1.54 percent as on March 31, 2021 as against 1.62 percent as on March 31, 2020. The company has made adequate provisions marked by provision cover of 58 percent as on March 31, 2021. SML's restructured portfolio comprised ~16 percent of its on-book portfolio as on September 30, 2021 and GNPA stood at 1.95 percent. Prudent risk management practices and digital collections mechanism have helped SML in maintaining sound asset quality metrics. SML established various collection points by collaborating with banks in its operating area which enabled smooth collections during on-going pandemic.

Acuité believes, going forward, the ability of the company to maintain comfortable capitalization levels along with stable asset quality in the light of continuously evolving economic scenario will be a key monitorable.

Weakness

- Moderate profitability parameters**

The operating income of SML grew by 50 percent in FY2021 to Rs.139.41 Cr. over FY2020 (Rs.92.71 Cr.) The profitability metrics stood moderate marked by NIM at 10.59 percent for FY2021 as against 12.01 percent for FY2020 (as per Acuité's calculation). RoTA and RoAA also stood moderate at 0.65 percent and 0.76 percent for FY2021 as against 0.69 percent and 0.83 percent for FY2020, respectively. RoAA and RoTA remained at moderate levels at 0.72 percent and 0.65 percent (annualized) respectively for half-year ended FY2022, while NIM improved marginally to 10.83 percent.

Acuité believes that the ability of the company to improve its profitability while growth in its AUM will be crucial.

- Susceptibility to risks inherent to microfinance segment**

SML primarily extends unsecured loans to economically challenged borrowers who have limited ability to absorb income shocks. Since financial assistance to economic challenged borrowers is a sensitive issue, from government stand point the regulatory dispensation in respect of the policies becomes relevant. Any changes in the regulatory environment impeding the ability of entities like SML to enforce collections, etc will have an impact on its operational performance. 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.

Acuité believes that containing additional slippages while maintaining the growth in the loan portfolio will be crucial.

ESG Factors Relevant for Rating

Satya MicroCapital Limited (SML) belongs to the NBFC-MFI sector which facilitates lending to the unbanked population. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks.

The entity maintains adequate transparency in its business ethics practices as can be inferred from the entity's disclosures regarding related party transactions, vigil mechanism and whistle blower policy. The board of directors of the company comprise of 4 independent directors and 2 female directors out of a total of 9 directors. The audit committee formed by the entity majorly comprises of independent directors with the objective to monitor and provide an unbiased supervision of the management's financial reporting process. SML also maintains transparency in terms of disclosures pertaining to interest rate policy and its adherence to Fair Practice Code as disseminated by Reserve Bank of India's circular.

SML aims to empower women by providing micro loans to help them generate additional income opportunities, hence making an economic contribution by way of financial inclusion. It continues to work on several community development initiatives and has also developed a social performance management system to facilitate financial stability of its staff and clients. As per RBI's guidelines on Information Technology framework for NBFCs, SML has constituted an IT strategy committee to ensure adequate control over issues like cyber security and data privacy.

Rating Sensitivity

- Movement in collection efficiency and asset quality
- Continued funding support from promoters as well as capital raising ability
- Movement in Liquidity buffers
- Changes in regulatory environment

Material Covenants

None

Liquidity: Adequate

SML's liquidity buffers primarily depend on its cash inflows (collections from clients and loans from banks) vis. a vis. the cash outflows (disbursements, debt servicing commitments, operating expenses). Since SML established various collection points by collaborating with number of banks available in its operating area, this enable SML to maintain its monthly collection rate in the range of 81-99 percent amidst pandemic. As per ALM statement as on March 31, 2021, SML has no negative cumulative mismatches in any buckets upto 2 year. Around Rs.916 Cr. ~ 81 percent of borrowings mature within 2 year against Rs.1,200 Cr. ~98 percent of total advances in same period as on March 31, 2021. Moreover, SML has unutilized working capital limit of Rs.20 Cr. and also maintain unencumbered FD at Rs.170 Cr. as on March 31, 2021. SML maintained unencumbered cash and bank balances of ~Rs. 238.7 Cr. as on September 30, 2021. Acuité believes that the SML has adequate liquidity to meet its debt obligation in near to medium term.

Outlook: Stable

Acuité believes that SML will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to grow its AUM while maintaining healthy asset quality. The outlook may be revised to 'Positive' in case of higher than expected growth in AUM while maintaining key operating metrics, asset quality and liquidity. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of any challenges in maintaining its asset quality, profitability metrics and capital adequacy parameters around existing levels.

Key Financials - Standalone / Originator

	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	1580.12#	1098.99#
Total Income*	Rs. Cr.	139.41	92.71
PAT	Rs. Cr.	10.22	7.53
Net-worth	Rs. Cr.	404.43	171.77
Return on Average Assets (RoAA)	(%)	0.76	0.83
Return on Net Worth (RoNW)	(%)	3.55	5.76
Total Debt/Tangible Net Worth (Gearing)	Times	2.79	5.37
Gross NPA's	(%)	1.54	1.62
Net NPA's	(%)	0.66	0.56

*Total income equals to Net interest income plus other income

#adjusted for deferred tax liability

Ratios as per Acuité calculations

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

Not Applicable

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
24 Nov 2021	Term Loan	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	43.11	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	6.15	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	7.30	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	6.25	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	7.04	ACUITE A- Stable (Reaffirmed)

	Term Loan	Long Term	15.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	1.53	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	18.62	ACUITE A- Stable (Reaffirmed)
06 Aug 2021	Proposed Bank Facility	Long Term	150.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
26 May 2020	Proposed Bank Facility	Long Term	150.00	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
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	51.86	ACUITE A- Stable Reaffirmed
Capital Small Finance Bank	Not Applicable	Term Loan	02-09-2019	Not available	01-02-2022	0.71	ACUITE A- Stable Reaffirmed
Nabsamruddhi Finance Limited	Not Applicable	Term Loan	04-09-2020	Not available	30-09-2023	6.25	ACUITE A- Stable Reaffirmed
Suryoday Small Finance Bank Limited	Not Applicable	Term Loan	26-10-2020	Not available	05-11-2022	4.91	ACUITE A- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	30-12-2020	Not available	31-12-2022	5.00	ACUITE A- Stable Reaffirmed
Capital Small Finance Bank	Not Applicable	Term Loan	17-03-2021	Not available	01-04-2023	6.24	ACUITE A- Stable Reaffirmed
Nabsamruddhi Finance Limited	Not Applicable	Term Loan	28-06-2021	Not available	30-06-2024	17.19	ACUITE A- Stable Reaffirmed
Capital Small Finance Bank	Not Applicable	Term Loan	23-08-2021	Not available	01-03-2024	13.67	ACUITE A- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	09-09-2021	Not available	10-09-2023	30.00	ACUITE A- Stable Reaffirmed
Suryoday Small Finance Bank Limited	Not Applicable	Term Loan	24-09-2021	Not available	05-04-2024	14.17	ACUITE A- Stable Reaffirmed

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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 8,850 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 Kanjurmarg, Mumbai.

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