

Press Release

SAVE MICROFINANCE PRIVATE LIMITED

March 23, 2024

Rating Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Sh
Bank Loan Ratings	15.00	ACUITE BBB+ CE Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	15.00	-	-

Rating Rationale

Acuite has downgraded the long term rating from 'ACUITE A- (CE)' (read as ACUITE A minus (Credit Enhancement)) to 'ACUITE BBB +(CE)' (read as ACUITE triple B plus (Credit Enhancement)) on Rs.15.00 Cr. partially credit enhanced bank loan facilities of SAVE Microfinance Private Limited (SMPL). The outlook remains 'Stable'.

Rationale for the rating:

The downgrade in the rating is on account of moderation in the earning profile owing to lower disbursements for FY2024. The rating also factors in SMPL's slight elevation in delinquency level as denoted by GNPA of 1.99 percent as on Decemeber 31,2023 compared to 0.93 percent as on March 31,2023 . The rating continues to factor in experienced management team with diversified experience and the support from SAVE group demonstrated through regular equity infusion. Going forward, SMPL's ability to improve earnings profile, strengthen its capitalization levels while growing portfolio and maintaining asset quality would be key monitorable.

The transaction has Partial Credit Enhancement (PCE) in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc (Credit Enhancer/ Guarantor) covering 15% of the initial principal value of the facility amount. The level of guarantee as a percentage of the aggregate outstanding principal of the facility is capped at 25%. Additionally, the facility has security in the form of exclusive first charge on identified book debts and receivables with 110% margin in favour of the lender. SMPL shall make payments of interest and principal amounts due along with all other obligations (if any) under the Facility Documents by T-5 business days. In case of non-payment by SMPL, the Guarantors shall be severally and jointly liable to make the payments by the due date.

In case of non-payment by the Borrower and the Guarantors as stipulated above, the Collection and Payment Agent shall on T-3 Business Days invoke the PCE and send a notice of 2 (Two) Business Day to the Credit Enhancer to make payments. Credit Enhancer shall make payment on T-1 Business Day (i.e. one day prior to the interest or principal due date) into the Collection and Payment Account. The final rating is assigned based on the fulfilment of the structure, terms and covenants detailed in the executed trust deed, deed of guarantee, legal opinion, debenture trust agreement, deed of hypothecation and other documents relevant to the transaction.

About the company

SAVE Micro Finance Pvt Ltd (SMPL) is a NBFC-MFI, which started its operations in 2017, with its registered office at Delhi and headquartered at Gaya (Bihar).. It is a 100% subsidiary of SAVE Solutions Private Limited (SSPL). It operates through Joint liability group (JLG) lending methodology and provides micro-credit services to women entrepreneurs exclusively for Income generating activities such as small business, handicrafts, trade and services, agricultural and allied activities. SMPL leverages on SAVE's wide network of CSPs (Customer Service Points) to provide both cash-in & cash-out at the door step of these women

microentrepreneur's.

SMPL's AUM as on January 31, 2024 stood at Rs. 1142.27 cr. (Rs. 1257.21 Cr. as on March 31, 2023). The AUM comprised of owned portfolio of Rs. 613.54 cr. and managed portfolio of Rs. 528.72 Cr. as on March 31, 2023.

About the Group

Society for Advancement of Village Economy (SAVE) was founded by Mr. Ajeet Kumar Singh, Mr. Ajay Kumar Sinha and Mr. Pankaj Kumar. to socially develop the rural population of Bihar, Jharkhand, Uttar Pradesh (UP), Odisha and Chhattisgarh. Later, it was converted into a private limited company as SSPL to provide basic banking and financial services particularly in rural parts of the country. The founders of SAVE are the promoters of SSPL holding 19.6% stake each in the company. Denmark based Maj Invest Financial Inclusion Fund III has acquired 21.8% stake in the organization and Agrif Cooperatief UA, holds 17.2% stake in SSPL. The rest stakes of SSPL are held by SAVE Solutions Employees Welfare Trust. The promoters have extensive experience in the banking and financial services space with particular expertise in rural banking domain supported by well experienced senior management team. Through a robust network of more than 10000+ Customer Service Points (CSPs), SSPL aims to provide end-to-end banking services to rural India with an objective of inclusive growth.

In order to further expand the operations and foray into the related segments, SSPL has floated two wholly owned subsidiaries SFSPL which is an NBFC engaged in extending Loan Against property (LAP) and Small Ticket size Individual Loans (STIL) and SMPL which is an NBFC-MFI extending small ticket Joint Liability Group loans (JLG) loans. The company was also able to acquire a Housing Finance Company, New Habitat Housing Finance and Development Limited in FY2022

About the Guarantor

Northern Arc, previously known as IFMR Capital Finance Ltd., is a Non-Deposit taking Non Banking Financial Company (ND-NBFC) incorporated in 1989. It is involved in the placement (arranging funding for its clients via loan syndication, securitisation and assignment among others) and lending business. The company acts as a link between mainstream capital markets investors and high quality last mile lending institutions and businesses. The company's business is categorized as finance sector exposure, i.e., microfinance, affordable housing finance, commercial vehicle finance, consumer finance, agri-finance and small business loans, and non-finance sector exposure, i.e., mid-market finance and corporates. Northern Arc reported Network of Rs. 1927.15 Cr. as on March 31, 2023, as against Rs. 1709.91 Cr. as on March 31, 2022. The company's Profit After Tax (PAT) stood at Rs. 225.36 Cr for the period ending FY2023 (Rs. 163.73 Cr as of FY2022). The company's debt/equity ratio is 3.65 times as on March 31, 2023 as compared to 3.50 times as on March 31, 2022.

Unsupported Rating

Acuite BBB-/Stable

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SMPL, the rating of SMPL (ACUITE BBB -/ Stable), and has further factored in the credit enhancement arising from the structure. The suffix (CE) indicates credit enhancement arising from the PCE in the form of unconditional, irrevocable, payable on demand guarantee covering 15% of the initial principal value of the facility amount. The strength of the underlying structure and continued adherence to the same is central to the rating. Accounting for the Partial Credit Enhancement, the agency has downgraded the rating of the facility to ACUITE BBB+(CE)/Stable. The Credit Enhancement (CE) in the rating is solely for the rated issue and its terms and structure. The notched up rating of the loan facility incorporates the PCE in the form of guarantee by Northern Arc Capital Limited ("Northern Arc"), acting as the Credit Enhancer/ Guarantor. Standalone Rating without CE support : Acuite BBB-/Stable

Key Rating Drivers

Strength

Strength of the underlying structure

The Credit Enhancer shall provide PCE, favouring SMPL in the form of an unconditional, irrevocable guarantee that covers 15% to the extent of Guarantee Cap guaranteeing the repayment of principal and payment of interest amounts in relation to the facility. If due to the amortisation of the facility, the credit enhancement percent becomes greater than 25% of the aggregate outstanding principal of the facility, the Guarantee Cap shall be reduced to 25% of the aggregate outstanding principal of the facility (Revised Guarantee Cap). Borrower shall make payments of interest and principal amounts due and payable under the Facility Agreement into the Collection and Payment Account, opened and maintained by the Collection and Payment Agent by 4 PM IST, 5 (five) Business Days prior to due date (i.e., T5 Business Days). In case of non-payment by Borrower as stipulated above, Collection and Payment Agent shall on the same day, i.e., on the T-5 Business Day invoke the guarantees extended by the Guarantors and require the Guarantors to pay such amounts by 4 PM IST, 4 (four) Business Days prior to due date (i.e., T-4 Business Days) and Guarantors shall be jointly and severally liable to make such payment within the said timeline. In case of non-payment by the Borrower and the Guarantors as stipulated above, the Collection and Payment Agent shall on T-3 Business Days invoke the PCE and send a notice of 2 (Two) Business Day to the Credit Enhancer to make payments. Credit Enhancer shall make payment on T-1 Business Day (i.e. one day prior to the interest or principal due date) into the Collection and Payment Account. The facility has security in the form of exclusive first charge on identified book debts and receivables with 110% margin in favour of the lender. The security cover will be met from the date of disbursement of the facility. In case of SMPL senior secured long term rating (as per Acuité view) downgrade to below BBB the Borrower shall transfer the collections from the Hypothecated Property to the Collection and Payment Account on a weekly basis and such collections would be applied by the Collection and Payment Agent towards repayment of principal and interest due and payable in relation to the Facility and then towards accelerated payment of principal on the Facility Acuité believes that the structure provides for adequate covenants to safeguard the interest of the lender. The lender has enough buffers available to initiate corrective action and mitigate the risks arising out of non-adherence to the terms and conditions.

Experienced management and support from SAVE group

SAVE Micro Finance Pvt Ltd (SMPL) is a NBFC-MFI, which started its operations in 2017, with its registered office at Delhi and headquartered at Gaya (Bihar).. It is a 100% subsidiary of SAVE Solutions Private Limited (SSPL). Mr. Ajeet Kumar Singh, current CEO and Director is also one of the Co-founders of SAVE. Having experience in rural marketing strategy related to farm equipment and diverse experience in financial service and banking sector, he has been instrumental in establishing alternative banking Channel in 28 States of India for SAVE.. Mr. Pankaj Kumar, Director and Co-founder, brings in nearly two decades of comprehensive experience in Financial Service Industry. Mr. Ajay Kumar Sinha, Director and Co-founder, have almost two decades of experience in financial services industry, banking and Insurance industry. Mr. Siva Vadivelazhagan, Nominee Director, brings in his experience in corporate finance, investment management and financial inclusion. The promoters are supported by Mr. Gourav Sirohi, CFO, having more than a decade of experience in Treasury, Financial Audit , Company law Matters , Information System Audit and Valuation. Mr. Indrajit Kumar, Business Head, brings nearly two decades of expertise of working with Satin Creditcare Network and NABARD Financial Services Ltd. SMPL's AUM as on December 31, 2023 stood at Rs. 1142.27 Cr. (Rs. 1251.72 Cr. as March 31, 2023). The AUM comprised of owned portfolio of Rs. 613.54 Cr. and managed portfolio of Rs. 528.72 Cr. as on December 31,2023. The networth of the company company stood at Rs 176.69 Cr. and gearing stood at 3.41 times as on January 31,2024. The company is also supported by regular capital infusions by SAVE group.

Weakness

Moderate Earning Profile with slight elevation in delinquency level

The company reported a PAT of Rs.9.36 Cr. as on December 31,2023 compared to Rs.17.14 Cr. as on March 31,2023.The on book disbursements were Rs.248.31 Cr. as on December 31,2023 as compared to Rs.947.05 Cr. as on March 31,2023.The GNPA (90+) increased to 1.99 percent in December 31,2023, from 0.90 percent as on March 31, 2023. The provision

coverage stood at ~74.06 percent as on December 31,2023. Moreover, ~97.12 percent of the portfolio is on time. Acuité believes, going forward, the ability of the company to maintain the asset quality while increasing the portfolio will be a key rating monitorable.

Geographical Concentration

SMPL's portfolio is highly concentrated in Bihar with ~37.39 percent of the portfolio originating from there followed by ~14.70 percent from Uttar Pradesh. It makes SMPL vulnerable to policy changes and/or any other changes in the region affecting the business. Acuité believes that improving the capitalization levels and expanding the business while maintaining the growth in earning profile will be crucial.

Assessment of Adequacy of Credit Enhancement (Applicable only for CE Ratings)

SAVE has significant experience in the financial services industry and SMPL has healthy asset quality along with adequate liquidity. Thus Acuité believes that the CE will stand adequate in all scenarios and in the event of any requirement, Northern Arc will provide the necessary support.

ESG Factors Relevant for Rating

Save Microfinance Private Ltd is a systemically important non-deposit-taking, non-banking financial company .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 6 directors out of which 2 are independent director. The audit committee is with the objective to monitor and provide an unbiased supervision of the management's financial reporting process. SMPL 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. 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.

Rating Sensitivity

- Timely infusion of capital
- Movement in asset quality
- Movement in profitability metrics
- Changes in regulatory environment

All Covenants (Applicable only for CE & SO Ratings)

The Borrower shall maintain the following financial covenants during the currency of the facility:

- Minimum capital ratio of Tier I Capital and Tier II Capital to aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items shall not be less than 17.00% (Seventeen Point Zero Zero percent) or as per the regulatory minimum prescribed by the Reserve Bank of India under the NBFC Master Directions, whichever is higher. For the purpose of calculation of minimum capital ratio: (i) first loss credit enhancements provided by the Borrower on securitization shall be reduced from Tier I Capital and Tier II Capital without any ceiling. (ii) credit enhancements provided by the Borrower on loans originated on behalf of other institutions shall be reduced from Tier I Capital and Tier II Capital without any ceiling. The deduction shall be made at 50 per cent from Tier I Capital and 50 per cent from Tier II Capital. (iii) It is also clarified that in computing the amount of subordinated debt eligible for inclusion in Tier II Capital, the aforementioned subordinated debt shall be subject to discounting as prescribed by RBI.

- Maximum permissible ratio of sum of the Par > 30 and write-offs (on the Borrower's entire portfolio including receivables sold or discounted on a non-recourse basis) to Gross Loan Portfolio shall be 5.00% (Five Point Zero Zero percent), writeoffs would be calculated for trailing twelve months and only writes-offs taken after January 01, 2022 shall be considered.
- Maximum permissible ratio of Par > 30 net off Loan Loss Provisions (on the Borrower's entire portfolio including receivables sold or discounted on a non-recourse basis) to Tangible Networth shall be 20.00% (Twenty Point Zero Zero percent).

Liquidity Position

Adequate

SMPL's overall liquidity profile remains adequate with no negative cumulative mismatches in near to medium term as per ALM dated March 31,2023. The company has cash and bank balances to the tune of Rs. 56.09 Cr. as of March 31,2023 and is in talks with new and existing lenders to further aid its disbursements and liquidity.

Outlook- Stable

Acuité believes that the SMPL will maintain a 'Stable' outlook over the medium term supported by future capital infusions and expansion process. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability, asset quality and capitalization indicators. Conversely, the outlook may be revised to 'Negative' in case of challenges in attaining optimal capital support or significantly higher than expected pressure on asset quality or profitability margins.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY2023(Actual)	FY2022 (Actual)
Total Assets	Rs. Cr.	1018.86	566.25
Total Income*	Rs. Cr.	94.52	32.49
PAT	Rs. Cr.	17.14	3.54
Net Worth	Rs. Cr.	168.61	116.24
Return on Average Assets (RoAA)	(%)	2.16	0.87
Return on Average Net Worth (RoNW)	(%)	12.03	3.09
Total Debt/Tangible Net worth (Gearing)	Times	4.69	3.71
Gross NPA	(%)	0.90	1.26
Net NPA	(%)	0.21	0.26

*Total income equals to Net Interest Income plus other income.

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

Not Applicable

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.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, Acuité 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 level 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
26 Dec 2022	Term Loan	Long Term	15.00	ACUITE A- (CE) Stable (Assigned)
06 Oct 2022	Proposed Long Term Loan	Long Term	15.00	ACUITE Provisional A- (CE) 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
Hinduja Leyland Finance Ltd.	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	06 Apr 2024	Simple	15.00	ACUITE BBB+ CE Stable Downgraded (from ACUITE A-CE)

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

Sr.No	Company name	Relationship
1	SAVE Solutions Private Limited (SSPL)	Parent
2	Save Microfinance Pvt Ltd	Subsidiary

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Ramesh Metri Associate-Rating Operations Tel: 022-49294065 ramesh.metri@acuite.in	

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.