

Press Release

Sahyog Development Services

April 12, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	20.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs. 20.00 Cr bank facilities of Sahyog Development Services (SDS). The outlook is '**Stable**'.

Rating Rationale

The ratings factor in the company's experienced management, comfortable capitalization levels and healthy asset quality metrics. The company has maintained Capital Adequacy Ratio (CAR) of 36 percent as on December 31, 2022 (34 percent as on September 30, 2022 and 28 percent as on March 31, 2022). The company's on-book asset quality was marked by on-time portfolio of 98.44 percent with GNPA's at 0.27 percent as on December 31, 2022 supported by average overall collection efficiency of 89.29 percent for six months ended December 31, 2022. The rating also factors growth in AUM and disbursements. The company reported an AUM of Rs 36.55 Cr. as on December 31, 2022, Rs 34.89 Cr as on September 30, 2022 (Rs 30.69 Cr as on March 31, 2022 and Rs 15.02 Cr as on March 31, 2021). The company's disbursements stood at Rs 27.95 Cr. till 9MFY2023, Rs 28.29 Cr. during FY 2021-22 and Rs 12.48 Cr. during FY 2020-21.

The rating is however, constrained by its Moderate financial performance albeit improving. The company has reported a modest PAT of Rs 0.50 Cr during 9MFY2023, (Rs 0.31 Cr during FY2021-22 and Rs 0.23 Cr during FY 2020-21). The earnings profile has slightly improved owing to growth in AUM and disbursement levels. The rating is also, constrained by its modest scale of operations and geographic concentration and risks inherent to micro finance sector.

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 and collection efficiency will be a key rating monitorable.

About the company

Sahyog Development Services (SDS) is registered as a not-for-profit Section 8 Company under Companies Act, 2013. SDS was incorporated on 2014. The company has 100% operations in Bihar. The company is promoted by personnel having vast experience in microfinance field operations. Mr Raman Shyam Singh is the founder and director who has worked for SKS Microfinance, Arohan Financial Services, Microsave India Private Ltd and EDA Rural Systems/M-CRIL. Mr Raman Shyam Singh has done his PGDM from Institute of Rural

Management Anand (IRMA). Mr Raman Shyam Singh is supported by Mrs Nitu Kumari (Director), Mr Ratna Priya (Director) and Mrs Binod Kumar Das (Director). The organization started its microfinance activity with sanitation/toilet retail finance. The company has diversified its portfolio by introducing Income generation Loans (IGL) given for Agriculture & Allied activities, Enterprise Loans and E-Rickshaw Loans.

Analytical Approach

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

Key Rating Drivers

Strength

Established Presence in Micro Finance Segment:

SDS Commenced its operations in 2014, extending Toilet loans/ Sanitation loans under the Joint Liability Group (JLG) model. The company has diversified its portfolio by introducing Income generation Loans (IGL) given for Agriculture & Allied activities, Enterprise Loans and E-Rickshaw Loans. The company has 100% operations in Bihar. It has a network of 15 branches with a loan portfolio of Rs 36.55 Cr. as on December 31, 2022. SDS is promoted by Mr Raman Shyam Singh. Mr Raman Shyam Singh is the founder and director who has worked for SKS Microfinance, Arohan Financial Services, Microsave India Private Ltd and EDA Rural Systems/M-CRIL. Mr Raman Shyam Singh has done his PGDM from Institute of Rural Management Anand (IRMA). He is supported by Mrs Nitu Kumari (Director), Mr Ratna Priya (Director) and Mrs Binod Kumar Das (Director).

Acuité believes that SDS will continue to benefit from its established presence and experience of the promoters in the microfinance segment.

Healthy asset quality and Adequate capitalisation levels:

SDS primarily focuses on extending Toilet loans/ Sanitation loans, Income generation Loans (IGL) given for Agriculture & Allied activities, Enterprise Loans and E-Rickshaw Loans. The company is able to maintain sound asset quality as significant portion of borrowers have a repayment track record. The healthy asset quality is marked by its on-time portfolio at 98.44 percent (on book portfolio) as on December 31, 2022. This improvement is supported by healthy collections where average collection efficiency is 89.29 percent for 6 months ended December 31, 2022. The company reported GNPA (90 dpd & above) at 0.27 percent as on December 31, 2022 (0.65 percent as on March 31, 2022 and 0.71 percent as on March 31, 2021). The company has maintained Capital Adequacy Ratio (CAR) stood at 36 percent as on December 31, 2022 (28 percent as on March 31, 2022 and 34 percent as on March 31, 2021). The company has maintained a Capital Adequacy Ratio (CAR) increased due to growth in off book portfolio. The overall AUM level stood at Rs 36.55 Cr as on December 31, 2022 (Rs 34.89 Cr. as on September 30, 2022, Rs 30.69 Cr. as on March 31, 2022 and Rs 15.02 Cr. as on March 31, 2021).

Acuité believes that going forward the ability of the company to maintain sound asset quality and adequate capitalization levels will be key rating sensitivity.

Weakness

Modest Financial performance albeit improving:

The overall AUM level stood at Rs 36.55 Cr as on December 31, 2022 (Rs 34.89 Cr. as on September 31, 2022, Rs 30.69 Cr. as on March 31, 2022 and Rs 15.02 Cr. as on March 31, 2021). Improvement in earnings profile is due to increase in AUM. The company reported PAT of Rs 0.31 Cr. during March 31, 2022 (Rs 0.23 Cr during March 31, 2021 and Rs 0.20 Cr. during March 31, 2020). The company has expanded its managed portfolio resulting in marginal decline in Net Interest Margin (NIM). The company has reported a NIM of 7.44 percent as on December 31, 2022, 8.42 as on March 31, 2022, 11.36 percent as on March 31, 2021 (11.87 percent as on March 31, 2020). RoAA of the company stood at 1.32 as on March 31, 2022 (1.58 as on March 31, 2021 and 1.60 as on March 31, 2020).

Acuité believes that the improvement in its financial performance would remain key rating monitorable.

Modest Scale of operations; Geographical concentration risk

The company commenced its operations in 2014 and currently operates through a network of 15 branches located across 17 districts in state of , Bihar. Its Assets Under Management (AUM) stood at Rs. 36.55 Cr. as on December 31, 2022 and Rs. 30.69 Cr. as on March 31, 2022. Of the total AUM of Rs. 36.55 Cr., on book portfolio comprised Rs. 18.58 Cr. (~51 percent) with the balance Rs. 17.97 Cr. (~49 percent) being managed portfolio. This growth in AUM in recent period is driven by management's decision to increase its scale of operations. Against this backdrop, the company has highly concentrated portfolio with Bihar alone contributing ~100 percent of the overall AUM as on December 31, 2022. Resultantly, the company's performance is expected to remain exposed to competitive landscape in these areas and occurrence of events such as natural calamities may adversely impact the credit profile of the borrowers.

Acuité believes that the company's modest scale of operations coupled with geographic concentration will continue to weigh on the company's credit profile over the near to medium term.

Susceptibility to risks inherent to microfinance segment

SDS 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 SDS 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.

Rating Sensitivity

- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability and capitalisation buffers
- Changes in regulatory environment

Material Covenants

Sahyog Development Services is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

Liquidity Position Adequate

Sahyog Development Services overall liquidity profile remains adequate in near to medium term. There are no cumulative mismatches in near to medium term buckets. SDS borrowings stood at ~Rs. 14.01 crore with a gearing of ~2.10 times as on December 31, 2022 . The company has maintained cash and cash equivalents of ~Rs. 2.40 crore as on December 31, 2022.

Outlook: stable

Acuité believes that SDS 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. The outlook may be revised to 'Positive' in case of higher than expected growth in the loan portfolio on account of high disbursements while maintaining asset quality and capital structure. 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 loan portfolio and asset quality, thereby impacting profitability metrics.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Key Financials	Unit	FY22 (Actuals)	FY21 (Actuals)
Total Assets	Rs in Cr.	32.07	15.40
Total Income*	Rs in Cr	2.73	1.77
PAT	Rs in Cr	0.31	0.23
Networth	Rs in Cr	5.68	5.11
Return on Average Assets (RoAA)	%	1.32	1.58
Return on Net worth (RoNW)	%	5.79	4.93
Total Debt/ Tangible Net worth (Gearing)	Times	2.50	1.87
Gross NPA	%	0.65	0.71
Net NPA	%	0.00	0.00

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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	9.02	ACUITE BB Stable Assigned
Nabsamruddhi Finance Limited	Not Applicable	Term Loan	Not available	Not available	05 Nov 2024	Simple	2.00	ACUITE BB Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	30 Aug 2023	Simple	0.36	ACUITE BB Stable Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	10 Jun 2024	Simple	1.52	ACUITE BB Stable Assigned
Friends of WWB	Not Applicable	Term Loan	Not available	Not available	31 Aug 2024	Simple	5.86	ACUITE BB Stable Assigned
Eccler Leasing & Finance Private	Not Applicable	Term Loan	Not available	Not available	05 Feb 2023	Simple	0.36	ACUITE BB Stable Assigned
Samunnati Financial Intermediation & Services Private Limited	Not Applicable	Term Loan	Not available	Not available	05 Oct 2023	Simple	0.31	ACUITE BB Stable Assigned
Muthoot Microfin	Not Applicable	Term Loan	Not available	Not available	05 Jul 2023	Simple	0.15	ACUITE BB Stable Assigned
Nabsamruddhi Finance Limited	Not Applicable	Term Loan	Not available	Not available	31 Jul 2023	Simple	0.42	ACUITE BB Stable Assigned

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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.

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