December 27, 2022

Svasti Microfinance Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	22.50	22.50	[ICRA]BBB- (Stable); reaffirmed
Total	**22.50**	**22.50**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation factors in Svasti Microfinance Private Limited's (SMPL) established track record of operations in the microfinance industry for over a decade and its experienced promoters and management team, which has helped it register a healthy growth in its scale of operations. After witnessing a decline in its assets under management (AUM) in FY2021 and H1 FY2022 because of the Covid-19 pandemic-induced disruptions, the company saw a pickup in disbursements in H2 FY2022, which led to the healthy growth in its AUM in FY2022. The trend continued in FY2023, and SMPL reported an annualised growth of 41% in its AUM to Rs. 738 crore as on September 30, 2022 from Rs. 621 crore as on March 31, 2022. ICRA expects disbursements to pick up further in H2 FY2023 and the growth trajectory to continue. The rating also factors in the adequate capitalisation profile with a demonstrated track record of timely equity infusions to support its growth plans. ICRA takes note of the company's plans to raise further equity in the near term to maintain a prudent capitalisation profile.

However, the rating is constrained by the deterioration in SMPL's asset quality indicators owing to the disruptions caused by the pandemic and the corresponding impact on its profitability. The company reported an increase in its gross non-performing assets (GNPAs) to 2.65% as on September 30, 2022 from 2.01% as on March 31, 2022 because of higher slippages in the restructured book. Consequently, it witnessed increase in credit costs, which along with reduced yields impacted its profitability in the last two fiscals. SMPL witnessed some improvement in its profitability in H1 FY2023, though the same remains moderate. Going forward, its ability to recover from restructured accounts and contain credit costs will be critical for its credit profile.

Besides, the company has a moderate scale of operations and a geographically concentrated portfolio with Maharashtra accounting for around 54% of its AUM as on September 30, 2022, though the same has reduced from 63% as on March 31, 2022. Further, SMPL's borrowing profile remains dominated by loans from non-banking financial companies (NBFCs)/ financial institutions (FIs) at 39% of total borrowings as on September 30, 2022, followed by bank borrowings (29%), debentures (19%), sub-debt (8%), and external commercial borrowings (ECBs; 4%). Though the company has increased its relationships with banks over the past year by adding new banks to its lenders list, its ability to diversify its funding profile further and tie up funds in a timely manner will remain important for sustaining and supporting business growth. The rating also factors in the marginal borrower profile, focus on unsecured lending, the political and operational risks associated with microlending, and the rising ticket sizes and borrower leverage in the industry.

SMPL also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial, operating and rating-linked covenants. Upon its failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure. Nevertheless, ICRA notes that the company has been able to raise fresh funds despite the covenant breaches in the last 1-2 years.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company will continue to benefit from the experience of its management team and will be able to improve its asset quality metrics.

Key rating drivers and their description

Credit strengths

Established track record in microfinance sector and experienced management team – Since commencing operations in 2010 under microfinance lending, SMPL has a track record of over a decade. Its promoters and management team have diversified experience of more than 15 years across banks, NBFCs and various other microfinance institutions (MFIs). SMPL's existing investors include Nordic Microfinance and the Poonawala Group, which support the capital base.

Adequate capitalisation profile supported by regular capital infusions – SMPL's capitalisation profile remains adequate and the same has been supported by regular capital infusions by the promoters and the primary investors, namely Nordic Microfinance and the Poonawala Group. As on September 30, 2022, the company reported a capital to risk weighted assets ratio (CRAR) of 24.7% (24.3% as on March 31, 2022) with a managed gearing[1] of 5.1 times as on September 30, 2022 (4.2 times as on March 31, 2022). Going forward, ICRA expects the company to raise equity capital in a timely manner to support its stated growth plans and its ability to do so while growing its book will remain a monitorable.

Credit challenges

Deterioration in asset quality leading to moderation in profitability profile – The company's asset quality deteriorated in FY2022 owing to the pandemic and it reported GNPAs of 2.01% as on March 31, 2022 compared to 1.80% as on March 31, 2021. Given the slippages in the restructured book, which is coming out of the moratorium, the GNPAs increased further to 2.65% as on September 30, 2022. In addition, SMPL had a restructured portfolio of 8% of its AUM as on September 30, 2022. Going forward, its ability to increase its collections further and recover from the restructured portfolio will help improve its asset quality indicators.

The company also witnessed subdued profitability indicators in FY2022 driven by reduced margins. The company reported a return on average managed assets (RoMA) and a return on equity (RoE) of 0.4% and 1.8%, respectively, in FY2022. In H1 FY2023, the net interest margin improved with SMPL increasing its lending rates. However, the increase in operating costs with the expansion of operations and higher credit costs due to increased provisioning negated the impact to some extent and SMPL reported a slightly improved RoMA and RoE of 0.9% and 5.3%, respectively, in H1 FY2023.

Moderate scale with high geographical concentration, though some improvement seen – ICRA notes the improvement in the scale of operations with the AUM increasing to Rs. 738 crore as on September 30, 2022 from Rs. 621 crore as on March 31, 2022 (Rs. 418 crore as on March 31, 2021), though the same remains moderate. SMPL expanded into 4 new states, namely Tamil Nadu, Chhattisgarh, Rajasthan and Goa, in FY2022 and had a presence across 89 districts in 8 states as on September 30, 2022. The company has seen some improvement in its geographical concentration, though it remains high with Maharashtra accounting for around 54% of its AUM as on September 30, 2022. Nevertheless, the same has reduced from 63% as on March 31, 2022. Going forward, SMPL's ability to further diversify its operations geographically will remain important from a credit perspective.

Ability to manage political, communal and other risks in the microfinance sector – The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations and financial position. However, a geographically diversified portfolio would mitigate these risks to some extent as these issues are largely region-specific, so far. SMPL's ability to onboard borrowers with a good credit history, recruit and retain employees and improve its geographical

[1] *Managed gearing = (on-book debt + off-book portfolio) / net worth*

diversity further by penetrating in recently entered territories with nascent operations would be relevant for managing the high growth rates.

Marginal borrower profile with high susceptibility to income shocks – The rating factors in the risks associated with the marginal borrower profile, unsecured lending, risks from multiple lending and overleveraging, business and political risks, along with the challenges associated with a high pace of growth and attrition. While credit bureau checks and the regulatory ceiling on borrower repayment capacity reduce concerns on overleveraging, issues related to the policy of MFIs regarding their underwriting practices, borrowers' income and leverage assessment, multiple identity proof as well as gaps in the information available with the bureaus remain.

Liquidity position: Adequate

As on October 31, 2022, the company was carrying unencumbered on-book liquidity of Rs. 48 crore against scheduled debt obligations of ~Rs. 252 crore till April 30, 2023. SMPL has Rs. 25 crore of sanctioned but unavailed lines along with collections due of Rs. 424 crore in the next six months to meet its debt obligations in a timely manner, assuming its collection efficiency does not drop below the current level. Going forward, its ability to improve the collection efficiency and raise fresh funds in a timely manner will be important from a liquidity perspective.

Rating sensitivities

Positive factors – ICRA could revise the outlook or upgrade the rating if SMPL diversifies its geographical presence as the portfolio expands and improves its earnings profile on a sustained basis with a RoMA of over 2.5% while maintaining prudent capitalisation levels and keeping the managed gearing below 6 times.

Negative factors – Pressure on the rating could arise if there is a further deterioration in the asset quality, which could affect the profitability. The weakening of the capitalisation profile with a managed gearing of more than 7 times could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non- Banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Svasti Microfinance Private Limited was incorporated in October 2008 as Svasti Foundation and was renamed Svasti Microfinance Private Limited (SMPL) in October 2010. The company is registered with the Reserve Bank of India as a non-deposit taking, non-banking finance company – microfinance institution (ND-NBFC-MFI). SMPL provides microcredit to women borrowers for income-generating activities under the joint liability group (JLG) lending model. Along with microcredit, it offers individual loans for business activities and insurance products to the existing members of the JLGs.

As on September 30, 2022, the company reported an AUM of Rs. 738 crore with a presence in 8 states and 89 districts, catering to 3.2 lakh borrowers through a network of 123 branches.

Key financial indicators

SMPL	FY2021	FY2022	H1 FY2023
	Audited	Audited	Provisional
Accounting as per	IGAAP	IGAAP	IGAAP
Net interest income	36.7	41.8	33.4
Profit after tax	2.0	2.4	3.7
Net worth	135.5	137.3	138.1
Assets under management	418.2	620.9	737.6
PAT / Average managed assets	0.4%	0.4%	0.9%
PAT / Average net worth	1.7%	1.8%	5.3%
Gross NPAs	1.8%	2.0%	2.6%
Net NPAs	0.8%	1.0%	0.4%
Net NPA / Net worth	1.9%	3.9%	1.8%
Capital adequacy ratio	33.8%	24.3%	24.7%
Gearing (reported; times)	2.5	3.7	4.0
Gearing (managed; times)	3.1	4.2	5.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
Managed gearing = (on-book debt + off-book portfolio) / net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
						FY2022	FY2021	FY2022
		Type	Amount (Rs. crore)	Amount outstanding (Rs. crore)	Dec-27-2022	Dec-29-2021	Dec-21-2020	-
1	Non-convertible debentures	Long term	22.50	22.50	**[ICRA]BBB- (Stable)**	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debentures	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE513Q07124	**NCD**	December 17, 2020	12.39%	December 13, 2025	22.50	[ICRA]BBB- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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