

May 10, 2023

IIFL Samasta Finance Limited: Ratings reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures (NCD)	125	-	[ICRA]A+ (Stable); reaffirmed & withdrawn
Commercial paper (CP) programme	550	-	[ICRA]A1+; reaffirmed & withdrawn
Total	675	-	

*Instrument details are provided in Annexure I

Rationale

IIFL Samasta Finance Limited's (Samasta) ratings take into account the strong promoter profile, with IIFL Finance Limited (IIFL; rated [ICRA]AA (Stable)/[ICRA]A1+) holding a 99.51% stake in the company as on March 31, 2023. The ratings factor in the strategic importance of Samasta to IIFL and the existence of a shared brand name, which strengthens ICRA's expectation that Samasta is likely to receive timely and adequate support from IIFL. The ratings also factor in Samasta's established track record in the microfinance space and its experienced management team. The company's gross assets under management (AUM) grew 63% year-on-year (YoY) to Rs. 10,552 crore as on March 31, 2023 with improved geographical diversification.

With the waning impact of the Covid-19 pandemic on the asset quality, ICRA expects the profitability to improve in FY2024. However, credit costs remained elevated in FY2023 because of loan provisions on the impacted portfolio. Despite this, the profitability in FY2023 was supported by higher gains on the sale of the loan portfolio.

The ratings continue to factor in the risks associated with the unsecured nature of microfinance loans, the marginal borrower profile, which is susceptible to income shocks, and the political and operational risks inherent in the microfinance business.

The Stable outlook is driven by ICRA's expectation that Samasta will continue to grow its scale of operations with improvement in the profitability. Moreover, ICRA expects the capitalisation to be supported by regular infusions by the parent.

ICRA has reaffirmed and withdrawn the ratings assigned to Samasta's Rs. 125-crore non-convertible (NCD) programme and the Rs. 550-crore commercial paper (CP) programme at the company's request and in accordance with ICRA's policy on the withdrawal of credit ratings. No amount is outstanding against the instruments.

Key rating drivers and their description

Credit strengths

Support from IIFL; capitalisation supported by regular equity infusions – IIFL has a 99.51% stake in Samasta. To scale up its operations, Samasta has been receiving equity capital regularly from its parent (Rs. 840 crore in the last five years) with the most recent being Rs. 200 crore in FY2023. With the significant growth in the AUM and the increase in the managed gearing¹ to 6.74 times as on March 31, 2023 (5.72 times as on March 31, 2022), ICRA expects support from the parent to be forthcoming to support the company's growth plans. Further, with the expected improvement in profitability, capitalisation is expected to be partly supported by internal capital generation.

¹ Managed gearing is defined as (on-book borrowings + off-book portfolio)/net worth

Improved scale of operations and geographical diversification – The company has been consistently growing its portfolio with a 3-year compound annual growth rate (CAGR) of 46%. As on December 31, 2022, Samasta was operating in 17 states through a network of 1,110 branches across 324 districts, catering to more than 20 lakh borrowers. The AUM grew to Rs. 10,552 crore as on March 31, 2023 (Rs. 6,484 crore as on March 31, 2022). The growth was supported by the company’s experienced management team, adequate systems and processes for scaling up, and the geographical diversification of the operations. The top 3 states comprised 50% of the portfolio outstanding as on December 31, 2022 (93% as on March 31, 2018). Further, the top 10 districts comprised 16% of the portfolio outstanding as on December 31, 2022 with the largest district having a share of ~2% in the AUM.

Credit challenges

Elevated pressure on asset quality and profitability, though likely to improve – The company’s asset quality has been impacted by the pandemic-induced disruptions. The gross stage 3 and standard restructured portfolio stood at 11.5% of the loan book, as on March 31, 2022, and declined to 2.9% as on March 31, 2023. This was supported by significant write-offs and the sale to the asset reconstruction company (ARC). Samasta’s net stressed book (net stage 3 and net security receipts) stood at 2.9% of the loan book as on March 31, 2023. Further, the net standard restructured book declined to 0.7% of the loan book as on March 31, 2023. As on March 31, 2023, ~90% of the AUM of Rs. 10,552 crore belonged to post-Covid disbursements, i.e., after October 2021. As the pandemic-induced stress has largely been recognised and provided for, the company’s asset quality and profitability are expected to improve. Credit costs increased to 4.6% of the average managed assets (AMA) in FY2023 (3.6% in FY2022 and 2.8% in FY2021) as Samasta made provisions for the stressed book in FY2023. Despite this, it reported a higher net profit in FY2023 supported by improved net interest margins (NIMs), fee income and higher gains on assignment.

Ability to manage political and operational risks, given the marginal borrower profile and limited product and revenue diversification – Microfinance is susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple sources of finance in Samasta’s areas of operations. Further, political, and operational risks associated with microfinance may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political, climatic, and operational risks, which could negatively impact Samasta’s operations. Additionally, in line with the industry, the company’s ability to onboard borrowers with a good credit history and recruit and retain employees would be a key monitorable. Nevertheless, ICRA notes that the revised guidelines for the microfinance industry are expected to provide the players, including Samasta, with better pricing ability in view of the underlying risks.

Liquidity position: Adequate

As on March 31, 2023, Samasta had a cash and bank balance and liquid investments of Rs. 227 crore and sanctioned but unutilised bank lines of Rs. 878 crore from various bankers against scheduled debt obligations of Rs. 2,188 crore till September 30, 2023. As advances comprise relatively shorter-tenure microfinance loans compared to the tenure of the borrowed funds, the asset-liability maturity profile remains comfortable. Samasta’s ability to maintain and improve its collection efficiency and raise fresh funds will be important for growth and liquidity. Further, ICRA expects support from the parent if needed.

Rating sensitivities

The rating sensitivities have not been captured as the rated instruments are being withdrawn. The previous detailed rating rationale is available at the following link: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Rating Approach – Implicit Parent or Group Support ICRA's Policy on Withdrawal of Credit Ratings
Parent/Group support	The ratings factor in the high likelihood of financial support from the parent, IIFL, given the strategic importance evidenced by the majority ownership and regular capital infusions. ICRA expects financial support from the parent to be forthcoming if required.
Consolidation/Standalone	Standalone

About the company

Bengaluru, Karnataka-based IIFL Samasta Finance Limited (erstwhile Samasta Microfinance Limited) is a non-deposit accepting non-banking financial company (NBFC). The company began its microfinance operations in 2008 and had a portfolio of Rs. 10,552 crore as on March 31, 2023. As on December 31, 2022, Samasta had a presence in 17 states, catering to more than 20 lakh customers through a network of 1,110 branches spread across 324 districts.

Key financial indicators (audited)

IIFL Samasta Finance Limited	FY2022	FY2023
Total income	1,011	1,741
Profit after tax	51	128
Net worth	999	1,322
Loan book	5,773	7,961
AUM	6,484	10,552
Total assets	6,394	8,904
Return on managed assets	0.8%	1.3%
Return on net worth	6.1%	11.0%
Gross gearing (times)	5.27	5.51
Managed gearing (times)	5.72	6.74
Gross stage 3	3.1%	2.1%
Net stage 3	0.9%	0.8%
Solvency (Net stage 3/Net worth)	4.7%	4.9%
CRAR	17.8%	17.1%

Amount in Rs. crore; All calculations are as per ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on May 10, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					May 10, 2023	Oct 21, 2022	Oct 06, 2021	Nov 27, 2020	
1	NCD programme	Long term	125	Nil	[ICRA]A+ (Stable); withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	
2	CP programme	Short term	550	Nil	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Very Simple
CP programme	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Not placed	Non-convertible debentures programme	-	-	-	125	[ICRA]A+ (Stable); withdrawn
Not placed	Commercial paper programme	-	-	-	550	[ICRA]A1+; withdrawn

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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Branches



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