December 21, 2023

Svasti Microfinance Private Limited: Long-term rating upgraded to [ICRA]BBB (Stable)

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); upgraded from [ICRA]BBB- (Stable)
Total	**22.50**	**22.50**	

**Instrument details are provided in Annexure I*

Rationale

The rating action factors in the improvement in Svasti Microfinance Private Limited's (SMPL) profitability indicators along with the healthy growth in its scale of operations. The improvement in the profitability indicators was driven by the increase in the yields in H1 FY2024, with the share of the new portfolio, which has been generated at higher yields, increasing. SMPL reported assets under management (AUM) of Rs. 1,118 crore as on September 30, 2023 compared to Rs. 1,059 crore as on March 31, 2023 (Rs. 621 crore as on March 31, 2022). Its return on managed assets (RoMA) improved to 2.9% (annualised) in H1 FY2024 from 1.8% in FY2023 (0.4% in FY2022). Further, SMPL raised Rs. 16.5 crore in FY2023 and around Rs. 23 crore in YTD FY2024 in the form of compulsory convertible preference shares (CCPS), improving its net worth and providing support for its growth plans. ICRA takes note of the company's plans to raise further equity in the near to medium term to maintain a prudent capitalisation profile.

However, the rating is constrained by the company's moderate asset quality indicators. The gross non-performing assets (GNPAs) increased to 2.4% as on September 30, 2023 from 1.3% as on March 31, 2023 primarily because of slippages from the restructured book. SMPL had a standard restructured book of 4.0% of its on-book portfolio as on September 30, 2023. Going forward, its ability to recover from restructured accounts and contain fresh slippages will be critical for its credit profile.

Moreover, the company has a geographically concentrated portfolio with Maharashtra accounting for around 45% of its AUM as on September 30, 2023, though the same has declined 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 37% of the total borrowings as on September 30, 2023, followed by bank borrowings (30%), debentures (27%) and sub-debt (6%). Though the company has increased its relationships with banks over the past two years 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.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company will be able to maintain a steady credit profile as well as prudent leverage while expanding its scale of operations and improving its asset quality.

Key rating drivers and their description

Credit strengths

Established track record in microfinance sector – SMPL, which commenced operations in 2010 under microfinance lending, has a track record of over a decade. It reported a growth of 71% in its AUM in FY2023, which stood at Rs. 1,059 crore as on March 31, 2023 (Rs. 621 crore as on March 31, 2022). As on September 30, 2023, the company had a presence in 94 districts across 8 states through a network of 142 branches, while catering to 4.1 lakh borrowers and managing a portfolio of Rs. 1,118 crore.

Adequate capitalisation profile, supported by regular capital infusions – The company's capital adequacy ratio (CAR) stood at 21.5% as on September 30, 2023 (20.6% as on March 31, 2023), well above the regulatory requirement of 15%, while the managed gearing was 5.8 times as on September 30, 2023 (6.0 times as on March 31, 2023). The management plans to maintain the CAR above 20% in the medium term. ICRA notes that SMPL raised Rs. 16.5 crore in FY2023 and around Rs. 23 crore in YTD FY2024 in the form of CCPS. 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

Moderate asset quality indicators – The company's asset quality deteriorated in FY2022 owing to the Covid-19 pandemic and it reported GNPAs of 2.0% as on March 31, 2022 compared to 1.8% as on March 31, 2021. However, with write-offs of Rs. 7.5 crore in FY2023 and the increase in the portfolio base, the GNPAs declined to 1.3% as on March 31, 2023. The GNPAs increased to 2.4% as on September 30, 2023 primarily because of slippages from the restructured book. SMPL also had a standard restructured portfolio of 4.0% of its on-book portfolio as on September 30, 2023. Going forward, its ability to increase its collections further and recover from the restructured portfolio will help improve its asset quality indicators.

High geographical concentration, though some improvement seen – Although the company has a presence in 8 states, its concentration remains high with Maharashtra accounting for around 45% of its AUM as on September 30, 2023. However, the same has declined from 50% as on March 31, 2023. The top 3 states comprised 80% of the microfinance portfolio as on September 30, 2023 (84% as on March 31, 2023; 92% as on March 31, 2022). ICRA notes that the company intends to reduce its geographical concentration and has expanded its presence to support its growth plans. Going forward, SMPL's ability to improve its geographical diversification while scaling up its operations remains important from a credit perspective.

Political, communal, and other risks in microfinance sector, given the marginal borrower profile – Microfinance remains susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb any income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the 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 its operations. SMPL's ability to onboard borrowers with a good credit history, recruit and retain employees as well as improve the geographical diversity of its operations would be key for managing high growth rates while maintaining its credit profile.

Liquidity position: Adequate

As on September 30, 2023, the company had a free cash and liquid balance of Rs. 175 crore with debt obligations of Rs. 243 crore for the six-month period ending March 2024 and collections of Rs. 291 crore during this period. Factoring in the estimated collections from advances, the liquidity profile is expected to remain adequate to meet the debt obligations in a timely manner.

Rating sensitivities

Positive factors – ICRA could 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.

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 6 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 financial company – microfinance institution (ND-NBFC-MFI). SMPL provides microcredit to women 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, 2023, the company reported an AUM of Rs. 1,118 crore and had a presence in 8 states and 94 districts, catering to 4.1 lakh borrowers through a network of 142 branches.

Key financial indicators

SMPL	FY2022	FY2023	H1 FY2024
	Audited	Audited	Provisional
Accounting as per	IGAAP	IGAAP	IGAAP
Net interest income	45.4	90.6	68.8
Profit after tax	2.4	17.6	19.0
Net worth	137.3	168.5	194.7
Assets under management	620.9	1,059.3	1,117.6
PAT / Average managed assets	0.4%	1.8%	2.9%
PAT / Average net worth	1.7%	11.5%	21.0%
Gross NPAs	2.0%	1.3%	2.4%
Net NPAs	1.0%	0.4%	0.4%
Net NPA / Net worth	3.9%	2.0%	1.6%
Capital adequacy ratio	24.3%	20.6%	21.5%
Gearing (reported; times)	3.7	4.3	4.3
Gearing (managed; times)	4.2	6.0	5.8

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: 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.

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
						Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
		Type	Amount (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024 Dec-21-2023	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)**	**[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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Branches