January 08, 2024

Sarvagram Fincare Private Limited: [ICRA]BBB (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	200.00	[ICRA]BBB (Stable); assigned
NCD programme	100.00	[ICRA]BBB (Stable); assigned
Total	**300.00**	

**Instrument details are provided in Annexure I*

Rationale

The assigned rating takes into consideration the comfortable capital profile of Sarvagram Fincare Private Limited (SFPL) and Sarvagram Solutions Private Limited (SSPL), together referred to as the Sarvagram Group, backed by regular equity infusions in the past. The Group's net worth stood at Rs. 301.1 crore[1] as of September 2023 with a managed gearing[2] of 1.5 times (reported gearing of 1.3 times). The rating also takes into consideration the Group's focus on rural financing with good growth potential, backed by the experience of the founders in this segment and the well-defined underwriting and risk management framework.

The rating is, however, constrained by the inherently risky customer profile, which is susceptible to asset quality shocks, and the low seasoning of the portfolio as significant portfolio growth was witnessed over the last two years. The rating also considers the Group's weak earnings profile, constrained by the elevated operating expenses as the Group has been ramping up its operating infrastructure over the last few years. Going forward, improving the operational efficiency while maintaining the asset quality and keeping the credit costs under control would be critical for enhancing the earnings profile on a sustained basis.

Key rating drivers and their description

Credit strengths

Comfortable capital profile – The Group has maintained comfortable capitalisation metrics, supported by regular capital infusions. SSPL has raised equity of Rs. 385.5 crore till date (Rs. 282.8 crore in FY2023, Rs. 76.9 crore in FY2021, Rs. 25.8 crore in FY2020) from private equity (PE) investors – Elevar Equity, Elevation Capital, Temasek and TVS Capital. Of this, SSPL has infused Rs. 253 crore into SFPL (Rs. 138 crore in H1 FY2024, Rs. 37 crore in FY2023, and Rs. 78 crore during FY2020-FY2022) till date. The Group's net worth stood at Rs. 301.1 crore as of September 2023 (Rs. 308.9 crore as of March 2023) with a managed gearing of 1.5 times (reported gearing of 1.3 times) and 1.3 times as of March 2023 (reported gearing of 1.1 times). ICRA notes the impact of the recent Reserve Bank of India (RBI) circular {higher risk weights for consumption credit extended by non-banking financial companies (NBFCs)} on SFPL's capital adequacy, with personal loans accounting for about 25% of the overall assets under management (AUM) as of September 2023. SFPL's low leverage shall, however, support the capital profile. ICRA expects the managed gearing to be capped at 4 times in the near-to-medium term. The Group would need to raise further equity in the near term, given its steep growth plans and reported losses (albeit on an improving trend).

[1] Net of goodwill and inclusive of minority interest

[2] Managed Gearing = (On-book borrowings + Total off-book exposure)/Net worth (Net of goodwill and inclusive of minority interest)

Focus on rural finance with good growth potential – The Group's target customers are rural households, a segment which has typically been underserved and offers good growth potential over the medium-to-long term. As of October 2023, the Group had an operational presence in 126 branches across 5 states (Rajasthan, Gujarat, Maharashtra, Karnataka and Telangana). The AUM increased at a compound annual growth rate (CAGR) of 164% during FY2020 to H1 FY2024, supported by branch expansion and the scaling up of operations in existing branches. The Group's total AUM stood at Rs. 565 crore as of September 2023 (Rs. 411 crore as of March 2023). Its field presence, through its branch operations, is complemented by the digitally-enabled support processes, including for the onboarding of customers, the know your customer (KYC) process, credit underwriting and collections.

The key management personnel have long-standing experience in rural finance. SSPL has a five-member board consisting of one independent director, two nominee directors representing the PE investors (Elevar Equity and Elevation Capital), and two co-founder directors. SFPL has a three-member board, consisting of two co-founder directors and one independent director. Going forward, ICRA expects the experience of the founders and the well-defined credit underwriting and risk management processes to support the scaling up of operations.

Credit challenges

Modest customer segment, though prudent underwriting policies support asset quality – The Group's target customer profile is rural households, with sources of income from farm (dairy income, agricultural income, etc.), small businesses or salary. As of September 2023, around 38% of the exposures were towards customers with primary income from the farm/dairy segment. ICRA notes that this segment is inherently risky with uneven cash flows and susceptibility to asset quality shocks.

However, the Group's well-defined underwriting and risk management practices would support the asset quality in the near-to-medium term. The Group typically targets households with multiple income sources and with a credit history (new-to-credit segment accounted for only ~7-8% of the portfolio as of FY2023). Around 65% of the portfolio, as of September 2023, is secured by mortgage on residential/commercial/agricultural property, further supporting the risk profile of the Group's portfolio. Nevertheless, given the modest track record of operations, the portfolio lacks seasoning. Thus, the ability to manage the asset quality as the portfolio scales up is yet to be seen and would remain a key monitorable.

Weak earnings profile – The Group has been undergoing significant scale-up of its operational infrastructure, including branches, technology-related augmentation and employee base, over the last few years. This has resulted in high operating expenses and the Group has continued reporting losses. Nevertheless, with the reduction in operating cost/AMA[3] to 15.1% in FY2023 from 26.9% in FY2022, the loss declined to -6.9% of AMA (loss of Rs. 34.1 crore) in FY2023 from -17.7% (loss of Rs. 29.6 crore) in FY2022. The loss reduced further to -2.0% (Rs. 7.7 crore) in H1 FY2024. The credit costs (as a percentage of AMA) have remained under control in the past (0.4% in H1 FY2024 and 0.7% in FY2023).

On a standalone basis, SFPL reported a profit of Rs. 1.3 crore in H1 FY2024 vis-à-vis a loss of Rs. 19.2 crore in FY2023. Going forward, ICRA expects the profitability to improve with the planned scaling-up of the loan portfolio, supported by an improvement in the operational efficiency. However, it would be critical to keep the credit costs under control.

Liquidity position: Adequate

As on October 31, 2023, SFPL (standalone) was carrying unencumbered on-book liquidity of Rs. 49.6 crore against scheduled debt obligations of Rs. 152.9 crore from November 2023 to April 2024. The company also has scheduled collections of Rs. 78.5 crore during this period. Its asset-liability maturity (ALM) profile, as of September 2023, reflects no cumulative negative mismatches in the less than-one-year bucket. As of September 30, 2023, the Group had a cash and bank balance of Rs. 50.7 crore and mutual fund investments of Rs. 72.9 crore. It had borrowings from around 19 lenders as of September 2023.

[3] Operating cost /Average managed assets

The funding mix comprises borrowings from NBFCs (constituting 49.3% in September 2023), DFIs (6.4%), banks (28%) and non-convertible debentures (NCDs; 16%). Going forward, the share of bank borrowings is expected to increase as the Group diversifies its borrowing profile.

Rating sensitivities

Positive factors – Significant improvement in the earnings profile, supported by sustained portfolio growth, improved operating efficiency and stable asset quality performance.

Negative factors – Pressure on the rating could arise if the Group is unable to improve its earnings profile. Deterioration in the asset quality, resulting in 90+ days past due (dpd) of more than 5%, or in the capitalisation profile would also negatively impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of Sarvagram Solutions Private Limited and its subsidiary, Sarvagram Fincare Private Limited

About the company

Sarvagram Fincare Private Limited (SFPL) is a non-deposit taking NBFC that focuses on providing credit products such as farm loans, business loans, housing loans, personal/consumer durable loans, and gold loans to households with multiple sources of income in rural India. It was incorporated in November 2018 and the corporate office is in Mumbai. SFPL is a 79.7% subsidiary of Sarvagram Solutions Private Limited (SSPL), with the balance held by the founders – Mr. Utpal Isser and Mr. Sameer Mishra. SSPL provides non-lending financial services such as farm mechanisation solutions, insurance distribution, etc, in the same geographies catered to by SFPL through a network of individual franchisees (Sarvamitras). SSPL also provides a digital platform with technology solutions to SFPL.

The Group reported a net loss of Rs. 7.7 crore in H1 FY2024 on total managed assets of Rs. 769.5 crore while it reported a net loss of Rs. 34.1 crore on total managed assets[4] of Rs. 744.5 crore in FY2023. On a standalone basis, SFPL reported a net profit of Rs. 1.3 crore on total managed assets of Rs. 666.0 crore in H1 FY2024 while it reported a net loss of Rs. 19.2 crore on total managed assets of Rs. 491.5 crore in FY2023.

Key financial indicators

SSPL (consolidated)	FY2022	FY2023	H1 FY2024*
Accounting as per	**IGAAP**	**IGAAP**	**IGAAP**
Total income	25.8	79.1	68.4
Profit after tax	(29.6)	(34.1)	(7.7)
Total managed assets	236.8	744.5	769.5
Return on managed assets	-17.7%	-6.9%	-2.0%
Managed gearing (times)	2.5	1.3	1.5

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

[4] *Managed Assets = Total Assets (net of goodwill) + Total off-book portfolio*

SFPL (Standalone)	FY2022	FY2023	H1 FY2024*
Accounting as per	IGAAP	IGAAP	IGAAP
Total income	22.0	70.3	62.0
Profit after tax	(21.2)	(19.2)	1.3
Total managed assets	214.1	491.5	666.0
Return on managed assets	-15.4%	-5.4%	0.4%
Managed gearing (times)	3.0	5.9	2.1
Gross NPA/GS3#	1.1%	1.0%	1.6%
CRAR	28.0%	18.8%	36.3%

*Source: Company, ICRA Research; * Provisional numbers (limited review);# GNPA for FY2022 and FY2023 are based on 180+dpd, H1FY2024 is based on 90+dpd; All ratios as per ICRA's calculations; Amount in Rs. crore*

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 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date and Rating in FY2022	Date and Rating in FY2021
					Jan 08, 2024	-	-	-
1	Long-term fund based – Term loan	LT	200.00	140.00	[ICRA]BBB (Stable)	-	-	-
2	NCD programme	LT	100.00	100.00	[ICRA]BBB (Stable)	-	-	-

LT – Long term; ST – Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Term loan	Simple
NCD programme	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
NA	**Long-term fund based – Term loan**	Aug 21, 2023	-	Aug 21, 2027	60.00	[ICRA]BBB (Stable)
NA	**Long-term fund based – Term loan (unallocated)**	-	-	-	140.00	[ICRA]BBB (Stable)
Unallocated	**NCD programme**	-	-	-	100.00	[ICRA]BBB (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sarvagram Solutions Private Limited	Parent	Full Consolidation
Sarvagram Fincare Private Limited	79.7%*	Full Consolidation

**Held by Sarvagram Solutions Private Limited*

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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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