

Press Release

Svasti Microfinance Private Limited

March 27, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 40.00 crore
Long Term Rating	ACUITE BBB+/ Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) to the Rs. 40.00 crore bank facilities of Svasti Microfinance Private Limited (SMPL). The outlook is '**Stable**'.

About FCPL:

Established in 2008, as Svasti Foundation, Svasti Microfinance Private Limited (SMPL) is a NBFC-MFI promoted by Mr. Arunkumar Padmanabhan and Mr. Narayanan Subramanian. In March 2010, Svasti Foundation bought over an existing NBFC, Easy Housing and Finance Limited and renamed it as Svasti Microfinance Private Limited. The microfinance business was transitioned from Svasti Foundation to SMPL in October 2010. SMPL is primarily engaged in extending microfinance to women borrowers through Joint Liability Model (JLG).

SMPL operates through a network of 54 branches spread across states of Maharashtra, Madhya Pradesh, Gujarat and Uttar Pradesh and has a borrower base of 1,83,495 borrowers as on December 31, 2019.

Analytical Approach

Acuite has considered standalone business and financial risk profile of SMPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management and support of marquee investors

SMPL, a Mumbai based NBFC-MFI is promoted by Mr. Arunkumar Padmanabhan (Co-Founder & CEO) and Mr. Narayanan Subramanian (Co-Founder, CFO & CIO). Mr. Arunkumar Padmanabhan is a lawyer and has over a decade of experience in banking industry. He has acted as the legal advisor to the corporate banking, project and structured finance, private banking and treasury operations at ICICI bank during his tenure for over a period of six years. Mr. Narayanan Subramanian is a Chartered Accountant and a Certified Information Systems Auditor. As a banking technology consultant, he has been involved in various projects for providing technology solutions to banking operations of ICICI Bank, ING Vysya Bank and Lord Krishna Bank. The board also comprises Mr. M.N Venkatesan and Mr. Ramanathan Annamalai as independent directors who have extensive experience in banking and microfinance lending.

The promoters have demonstrated their resource raising ability by raising funds from reputed and diverse set of investors at regular intervals which includes Michael and Susan Dell Foundation, Bamboo Financial Inclusion Fund, Poonawala Group, Nordic Microfinance Initiative amongst others.

Bamboo Finance and Nordic Microfinance Initiative Fund have board representation and SMPL benefits from their expertise. Mr. Arun Asok of Bamboo Finance and Mrs. Smriti Chandra of Nordic Microfinance Initiative Fund are on board.

SMPL has been able to raise capital in the form of equity and compulsorily convertible preference capital under different rounds of fundings which has supported their capitalization levels, having been raised ~Rs. 90.39 crore since inception. The company has also been able to obtain term loans from Banks, NBFC's and Financial Institutions and issued non-convertible debentures.

Acuite believes that the company's growth prospects will be supported by the promoter's experience in the industry along with their demonstrated track record of resource raising ability.

- **Growth in AUM through a mix of on book and off book exposure**

SMPL is primarily focused on microfinancing through JLG model and have also started loan against property and consumer durable finance in recent years. The company's Asset Under Management (AUM) has grown to Rs. 326.15 crore as on March 31, 2019 as compared to Rs. 229.97 crore as on March 31, 2018. As on December 31, 2019, the company's AUM stood at Rs. 381.79 crore of which owned portfolio comprised Rs. 219.87 crore and off-book comprised Rs. 161.92 crore. Over the years, the contribution of off-book exposure to overall AUM has increased to ~42 percent as on December 31, 2019 as against ~39 percent as on March 31, 2019 and ~11 percent as on March 31, 2018. SMPL takes off-book exposure through Business correspondence model, Direct Assignment and Securitization. The company is engaged in a Business Correspondent relationship with Fedbank Financial Services Limited, has done Direct Assignment transaction with MAS Financial Services Limited and Securitization deal (PTC) with Vivriti Capital Private Limited. The increasing off-book exposure reflects the market acceptability of the robust underwriting practices adopted by the company.

The increase in scale of operations was attributable to its expansion in its network of branches in districts of Maharashtra, Madhya Pradesh, Gujarat and Uttar Pradesh. The company has expanded its network to 54 branches in 26 districts as on December 31, 2019 as compared to 40 branches in 19 districts as on March 31, 2019. Despite the expansion concentration was seen in district-wise contribution with top 5 districts contributing ~67 percent of the total portfolio as on December 31, 2019 reducing from ~71 percent as on March 31, 2019. SMPL disbursed loans amounting to Rs. 318.52 crore in FY 2019 and Rs. 277.70 crore for nine months ended FY 2020.

Acuite expects SMPL to maintain the growth momentum in a sustainable manner while diversifying its geographical reach.

- **Healthy asset quality**

SMPL has been operating for over a decade in microfinance lending and has established track record of healthy asset quality. The company is engaged in unsecured lending to marginal borrower with limited ability to absorb income shocks and extends micro credit through Joint Liability Group model. Its AUM has grown to Rs. 381.79 crore as on December 31, 2019 from Rs. 326.15 crore as on March 31, 2019.

SMPL reported a Gross NPA of 0.39 percent as on December 31, 2019 as compared to 0.64 percent as on March 31, 2019 and 0.76 percent as on March 31, 2018. Its average collection efficiency stood at 92.09 percent for twelve months ended December 2019. With an overall AUM of Rs. 381.79 crore, its overdues stood at Rs. 4.02 crore as on December 31, 2019. Based on the track record of lending and collections, the company has been able to grow off book exposures through business correspondent relationships, direct assignments and securitization deals. SMPL's ability to maintain healthy collection efficiency along with its prudent lending policies have supported the company's ability to maintain its asset quality at healthy levels.

Acuite believes that the ability of the company to demonstrate growth in its loan assets while maintain healthy asset quality will be crucial to the credit profile of the company.

Weaknesses

- **Risk inherent to microfinance segment**

The activities of microfinance companies, like SMPL are exposed to geographical concentration risks. SMPL has presence in four states with concentration in Maharashtra (~77.74 percent of the overall portfolio) and Madhya Pradesh (~10.41 percent of the overall portfolio) as on December 31, 2019. It has 54 branches located over 10 districts in Maharashtra, 5 districts in Madhya Pradesh, 4 districts in Gujarat and 7 districts in Uttar Pradesh. This exposes the company to high geographical concentration risk. Thus, the company's performance is expected to remain exposed to competitive landscape in these regions and occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework, thereby impacting credit profile of SMPL.

Rating Sensitivity

- Impact of natural calamities on ongoing operations
- Diversification in geographical profile while maintaining asset quality
- Sustainable and healthy growth in profitability metrics
- Significant deterioration in asset quality

Material Covenants

The lenders have stipulated asset quality and leverage indicators. Acuite observes that the company has adhered to such stipulated conditions based on their position as on December 31, 2019.

Liquidity: Adequate

SMPL's overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term as per ALM dated December 31, 2019. The company's liquidity is supported by recent capital infusion by investors. The company has maintained cash and bank balance of ~Rs. 64.77 crore as on December 31, 2019. Acuite believes that the company's liquidity profile will continue to benefit from funding support from its promoters.

Outlook: Stable

Acuite believes that SMPL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated growth in loan portfolio will maintaining asset quality and liquidity levels. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio 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 asset quality and profitability metrics.

About the Rated Entity - Key Financials

Particulars	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	263.52	237.00
Total Income*	Rs. Cr.	28.05	19.05
PAT	Rs. Cr.	3.62	0.97
Networth	Rs. Cr.	55.51	31.89
Return on Average Assets (RoAA)	(%)	1.45	0.54
Return on Net Worth (RoNW)	(%)	8.29	3.80
Total Debt/Tangible Net Worth (Gearing)	Times	3.44	6.18
Gross NPA's	(%)	0.64	0.76
Net NPA's	(%)	0.04	0.00

* Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

None

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB+/ Stable (Assigned)

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About Acuite Ratings & Research:

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