

## Press Release

### Svasti Microfinance Private Limited

December 10, 2020



### Rating Update

<b>Total Facilities Rated*</b>	Rs. 40.00 crore
<b>Long Term Rating</b>	ACUITE BBB+/ Stable (Reaffirmed)

\*Refer annexure for details

### Rating Rationale

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

The rating factors in the SMPL's experienced management and support of marquee investors. The rating takes into account the demonstrated ability of promoters to infuse the capital at regular intervals, which has helped the SMPL to grow its AUM through a mix of on-book and off-book exposure while maintaining the healthy capitalization levels. Acuité also takes notes of the SMPL's funding plan through compulsory convertible preference shares for H2 FY2020, which would support the company with its growth plans. The rating also considers the efficient risk management systems and collection process adopted by the company reflected in its asset quality with GNPA of 0.85 percent as on September 30, 2020. SMPL's overall collection efficiency is seeing improvement month on month and stands ~73 percent in September, 2020.

The rating is constrained by the relatively geographically concentrated loan portfolio with a focus in urban areas. Maharashtra contributes ~75 percent towards the AUM. The rating is also constrained by inherent risks associated with lending in this segment.

### About SMPL

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 62 branches spread across states of Maharashtra, Madhya Pradesh, Gujarat and Uttar Pradesh and has a borrower base of 1,98,821 borrowers as on September 30, 2020.

### Analytical Approach

Acuité has considered the 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 the 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. Nordic Microfinance Initiative Fund has board representation and SMPL benefits from their expertise.

SMPL has been able to raise capital in the form of equity and compulsorily convertible preference capital under different rounds of fundings which have 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. SMPL is also in the process of finalizing funding through compulsory convertible preference shares of ~Rs. 31 crore by Q3 of FY21. The fundings would majorly be led by its existing investor Nordic Microfinance Initiative Funds amongst others. The support from investors has resulted in company's comfortable capital adequacy ratio (CAR) which stood at 25.81 percent as on September 30, 2020 along with a gearing of 2.64 times.

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 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. SMPL's AUM has increased from ~Rs. 230 crore as on March 31, 2018 to ~Rs. 336 crore as on March 31, 2019 and to ~Rs. 425 crore as on March 31, 2020. The contribution of off-book exposure to overall AUM was ~26 percent as on September 30, 2020 as against ~38 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 62 branches in 33 districts as on September 30, 2020 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 ~63 percent of the total portfolio as on June 30, 2020 reducing from ~71 percent as on March 31, 2019. SMPL disbursed loans amounting to ~Rs. 389 crore in FY 2020.

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

## **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 (~75 percent), Gujarat (~9 percent), Uttar Pradesh (~8 percent) and Madhya Pradesh (~7 percent) of the total AUM as on June 30, 2020. In Maharashtra, Mumbai Suburban contributed ~23 percent and Thane contribute ~17 percent to the overall AUM of Rs. 416 crore as on June 30, 2020. Concentration was seen towards district-wise contribution of with ~63 percent of the outstanding portfolio from top 5 districts as on June 2020.

With a major focus on urban areas, SMPL faced difficulties in offtake in collections because the impact of pandemic was more severe in urban areas as compared to rural areas. The collection efficiency was at ~64 percent in Mumbai region and ~75 percent in rest of Maharashtra in the month of September 2020, as compared to collection efficiency in the range of 80-88 percent in other states like Madhya Pradesh, Gujarat and Uttar Pradesh during the same period. The same is expected to improve gradually in the following months. While the geographical diversity has improved with expansion into new states since

FY2019, the business risk profile will be strengthened in case of further geographical diversification of the portfolio. However, the company's performance is expected to remain exposed to the 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 any changes in the regulatory framework. The current lockdowns and economic disruptions may slow down the process of scaling up of operations, thereby, affecting the return metrics. Although SMPL has demonstrated healthy asset quality in the past with low Gross Non-Performing Assets (GNPA) at 0.64 percent as on March 31, 2019 which stood at 0.85 percent as on September 30, 2020, rise in delinquency is expected due to impact of Covid-19 as the credit profiles of some of the borrowers could be impaired for a much longer time.

Acuite believes that containing additional slippages while maintaining the growth in the loan portfolio will be crucial.

### Rating Sensitivity

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metric
- Changes in the regulatory environment

### Material Covenants

SMPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

### Liquidity: Adequate

SMPL's overall liquidity profile remains adequate with no negative cumulative mismatches in near to medium term as per ALM dated September 30, 2020. The company has maintained unencumbered cash and bank balances of ~Rs. 30.56 crore as on September 30, 2020. The borrowing profile of SMPL of Rs. 281.14 crore as on September 30, 2020 comprised Term loans from Banks (~18 percent), NBFC/FI's (~48 percent), NCD's (~24 percent) and External commercial borrowings (~9 percent). As per ALM statement, the company has debt servicing obligations of Rs. ~148 crore over the period of one year. The company has undrawn sanctions of around Rs. 16 crore and is in talks in raising additional fundings from Banks and NBFC/FI's. SMPL's collections during September and October 2020 were around Rs. 22.16 crore and Rs. 23.11 crore (~73 percent and ~77 percent) respectively.

### 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 while 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	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	382.66	263.52
Total Income*	Rs. Cr.	44.78	28.05
PAT	Rs. Cr.	8.77	3.62
Networth	Rs. Cr.	104.29	55.51
Return on Average Assets (RoAA)	(%)	2.71	1.45
Return on Net Worth (RoNW)	(%)	10.98	8.29

Total Debt/Tangible Net Worth (Gearing)	Times	2.50	3.44
Gross NPA's	(%)	0.76	0.64
Net NPA's	(%)	-	0.04

\* 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-52.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

#### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

#### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-March-2020	Proposed Bank Facility	Long Term	40.00	ACUITE BBB+/ Stable (Assigned)

#### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	28-07-2020	Not Available	10-04-2021	20.00	ACUITE BBB+/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB+/Stable (Reaffirmed)

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**About Acuité Ratings & Research:**

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