Satya MicroCapital Limited

February 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	50.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**50.00 (Rs. Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating reaffirmation for the long term bank facilities of Satya MicroCapital Limited (SML) continues to derive strength from experienced promoters and management team, manageable asset quality trends and improving geographic diversification with top three states contributing to 54.5% of assets under management (AUM) as on September 30, 2020. The company has comfortable liquidity profile with positive cumulative mismatches in all the time buckets as per Asset Liability Maturity (ALM) statement dated Oct 31, 2020. These rating strengths are, however, partially offset by SML's low seasoning of loan portfolio with limited track record and modest profitability metrics. While the company's gearing and capitalizations have improved post the recent rounds of capital infusion, timely capital infusion would be imperative to provide further headroom for growth and maintain manageable gearing levels. Also, the rating remains constrained by inherent risk involved in the microfinance industry including unsecured lending, socio-political intervention risk and regulatory uncertainty. Additionally, CARE takes note of unprecedented situation of COVID-19 outbreak that has led to elevated risk aversion in general and particularly with respect to microfinance sector owing to uncertainty arising from unsecured lending to customers with weaker credit profiles.

Rating Sensitivities

Going forward, the ability of the company to scale up its operations in a profitable manner, while maintaining comfortable asset quality and capitalization would be the key rating sensitivities

Positive Factors

- Scale up of operations in sustainable and profitable manner
- Comfortable asset quality with GNPA below 1%
- Maintaining adequate capitalization profile with gearing below 5.0 times on a steady basis

Negative Factors

- Weakness in profitability, asset quality and/or capitalization profile of SML with gearing rising above 7 times and/or decline in asset quality
- Delay in raising equity capital

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team

SML is promoted and managed by Mr. Vivek Tiwari, who held 29.38% stake in SML end October 2020 and has experience of nearly two decades in the microfinance sector. Before venturing out with SML, he was associated with Satin Creditcare Network Limited (rated CARE A-; Stable/ CARE A1) as its Chief Operating Officer (COO). He is a member of the governing board of SML which consists of nine other members who are/have been associated at senior management level with some of the prominent microfinance institutions in the country. He is supported by experienced senior management team which has good experience in the microfinance and financial sector. The company's largest institutional investor is Japan based Gojo and Company Inc (24.42% stake), an impact investment vehicle that invests in microfinance institutions and affordable housing finance companies in south east Asia. The other larger institutional shareholder Dia Vikas Capital Private Limited (20.33% stake) has been SML's funder since the first round of institutional funding in October 2017.

Strong loan growth and geographically diversified book in relation to its size

SML started its microfinance business in Nov 2016 and has completed 4 full years of operations and received NBFC-MFI license in February 2018. The AUM of the company grew from Rs. 26.11 crore as on March 31, 2017 to Rs.1007.85 as on March 31, 2020 and further increased to Rs.1028.26 crore as on Oct 30, 2020 registering a three year CAGR of 237.95% till

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

fiscal 2020, mainly due to its lower base leading to almost nine fold rise in portfolio in FY18 and more than two fold increase in FY19. Joint Liability Group (JLG) loans comprised 97% of the loan book; while non-JLG loan (including individual loan, micro business loan, cross selling product and LAP) constituted the remaining 3% as on Sep-20. The operations of the company are geographically well diversified with presence across 22 states with top three states contributing to 54.5% of the AUM. Uttar Pradesh being India's most populous state, remains the largest market for SML as well, contributing to 23.6% of the AUM end Sept 2020 followed by Bihar (18.1%), Punjab (12.8%), Haryana (10.2%), Rajasthan (9.7%), Assam (5.3%), Orissa (6.6%), West Bengal (5.1%), Chattisgarh (3.0%), Uttrakhand (1.5%) and balance portfolio in remaining 12 states. Subsequently SML follows one district one branch model and ensures that the geographical concentration risk for the company remains relatively low.

Adequate capitalization profile though gearing remains high

The capitalization profile of the company is adequate with Tier 1 CAR and overall CAR at 27.59% and 32.72% respectively as on Sep 30, 2020. The capitalization profile is supported by tangible net worth (excluding intangible assets and DTA) at Rs.239.76 crore as on Sep 30, 2020, which increased from Rs.167.16 crore as on March 31, 2020 on account of accrual of profits and capital infusion in the form of Compulsorily Convertible Preference Shares (CCPS) by Gojo & Company Inc. of Rs.68.25 crore in May 2020. A total of Rs.78.79 crore was infused in FY20 in the form of equity and CCPS by the promoters. The overall gearing of the company declined from 9.03 times as on March 31, 2019 to 5.52 times on March 31, 2020 on account of equity infusion and further declined to 3.95 times as on Sept 30, 2020 underpinned by muted business operations in first half of FY 21 due to covid-19 related disruptions that led to lower borrowings. The company has informed its plans to raise capital and any further material change in gearing will remain a key rating sensitive.

Diversified resource profile

SML has a diversified borrowings profile from various banks, NBFCs, financial institutions and other investors. The total borrowings of the company increased from Rs.742.4 crore as on March 31, 2019 to Rs.923.1 crore as on March 31, 2020. As on October 31, 2020, total borrowings stood at Rs.786.5 crore, in line with sharp increase in company' loan book. The borrowing profile has funds raised from terms loans from Banks and FIs (59.3% of total borrowings as on Oct-20), followed by NCD borrowings at 28.8%, refinance at 3.3%, Tier II debt at 3.2%, subordinated debt from NCD at 2.5%, subordinated debt from Bank/ NBFCs at 1.6% and ECB at 1.3%. Major source of external funding for SML has been term loans (short term/long term) from banks/financial Institutions. As on Oct 31, 2020, the company had funding tie ups and investments from 44 banks, FIs and investors.

Adequate Loan Origination Systems & Risk Management Systems

SML has set up an adequate loan origination, and monitoring structure for overseeing its operations. More specifically, SML also has additional layer of credit team, before disbursement of loan. The company does cashless disbursements through NEFT which reduces the risk of cash management besides enabling greater operational efficiencies. The company has also taken various steps towards cashless collections.

Key Rating Weaknesses

Relatively small size of operations with limited track record albeit significant growth in previous years

SML started its microfinance business in Nov 2016 and has completed four full years of operations. Owing to the smaller base, the company had registered 184% y-o-y growth in the AUM (own portfolio and managed portfolio) in FY19. In FY20, its AUM grew by 62% from Rs.621.71 crore as on March 31, 2019 to Rs.1007.85 crore as on March 31, 2020 and declined to Rs. 954.27 crore as on Sep 30, 2020. For the fiscal year ending March 31, 2020, the disbursements stood at Rs.912.4 crore while for 7 months ending Oct 2020, the disbursements were Rs.250.6 crore. However with majority of its loan book still in first cycle (78.8% as on Sept 30, 2020), the company is still in its initial years of operations and remains relatively small in size.

Moderate albeit improving profitability

After incurring losses since its inception mainly due to incurrence of high operating and establishment costs that are required at the incipient stage, SML turned profitable in fiscal 2019 and reported net profit after tax (PAT) of Rs.3.24 crore as per I-GAAP (as per IND AS, there were losses of Rs.0.26 crore) as against net losses of Rs.6.38 crore in FY18. For FY20, the company reported PAT of Rs.7.53 crore on total income of Rs.208.61 crore. For the half year ending September 30, 2020, the company's PAT stood at Rs.3.83 crore on an income of Rs.117.11 crore. Overall, as the company's size increases and economies of scale set in, the profitability of the company is expected to improve further.

The net interest margin (NIM) on average total assets and return on tangible assets (RoTA) of the company stood at 8.39% and 0.78% respectively as on March 31, 2020 as against 6.48% and -0.05% respectively as on March 31, 2019 (as per IND AS). Further, the company's annualized NIM and RoTA stood at 8.9% and 0.7% respectively end H1FY21. The operating expenses in relation to asset size of the company have been on a fluctuating trend as it increased from 6.5% as on March 31, 2019 to 7.4% on March 31, 2020 and reduced to 5.3% on Sep 30, 2021. The rise in expenses in FY20 has also been due to the fact that the company expanded in 4 new states during the year, thereby leading to high personnel costs and branch expenses.

Low seasoning of portfolio though asset quality is good

The seasoning of the loan book remains low as the company has completed only four years of operations and majority (79%) of its customers are in first loan cycle as on Sept 30, 2020. As a result, sustainable asset quality trends are yet to be established. However, the asset quality has been moderate so far with gross NPA of Rs.15.07 crore (1.5%) as on March 31, 2020 as against GNPA of 0.03% as on March 31, 2019.

With respect to Assam, CARE takes note of increase in delinquencies in the state with 90+ DPD at about 11% as on March 31, 2020, following unrest in North Eastern districts of Assam viz. Biswanath, Golaghat, Jorhat, Sivasagar. PAR> 30 for Assam stood at 23.5% that came down to 19.2% in PAR> 60 and 10.8% in PAR>90 buckets as on March 31, 2020. While the Assam Micro Finance Institutions (Regulation of Money Lending) Bill 2020, which was recently passed by the Assam Assembly, is likely to affect collections in the region in short term, CARE draws comfort from the fact that SML has limited exposure in Assam, slowed down its pace of incremental disbursements in the region and is addressing the concerns of borrowers on the ground level and encouraging them to repay. Subsequently the continued maintenance of asset quality remains a key rating sensitive given the low income profile of the borrowers and unsecured nature of lending.

Industry Risk

The microfinance industry continues to be impacted by the inherent risk involved viz. socio-political intervention risk and regulatory uncertainty and risks emanating from unsecured lending besides operational risks related to cash based transaction and vulnerability of the borrower segment to economic downturns which leads to higher portfolio vulnerability. Also the ongoing Covid-19 pandemic could have larger impact as earlier event risks were usually limited to certain geographies but this is going to impact across geographies. The impact might be higher in case of NBFCs focusing on urban and semi-urban areas as the customer profile will involve small businesses or workers engaged on contractual basis losing man-days of work due to prevailing lockdown. The impact may also be partially mitigated due to the measures taken by RBI and the Government in terms of recognition of NPA and relaxation in capital adequacy norms.

Liquidity: Adequate

As per ALM statement dated October 31, 2020, the liquidity profile of the company is comfortable with positive cumulative mismatches in all the time buckets. The liquidity profile of the company is also supported by shorter tenure and regular amortizing microfinance loan book. Further, SML had cash and bank balance aggregating to Rs.155.31 cr as on Sep 30, 2020.

Impact of covid-19

Due to COVID-19 imposed lockdown, the operations of the company were affected including disbursements in H1FY21. The company disbursed loans of Rs 98.4 crore from April to September 2020. In line with RBI's notification, SML had granted moratorium on the payment of interest and/or principal on loans falling due between 1st March 2020 and 31st May 2020 that was further extended to 31st August 2020. The company had granted moratorium to all its customers, however it wasn't availed by all. Subsequently, SML also availed moratorium from some of its lenders as a part of the COVID-19 – Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. CARE has not recognized this instance as a default, as the same is permitted by the RBI as part of the relief measures announced recently. The non-recognition of default for the payment of principal/interest is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Non Banking Finance Companies (NBFCs)
Financial Ratios – Financial Sector

About the Company

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total income	101.71	208.61
PAT	-0.26	7.53
Interest coverage (times)	0.99	1.10
Total Assets*	843.07	1098.91
Net NPA (%)	0.04	0.54
ROTA (%)	-0.05	0.78

A: Audited

**excluding intangibles and deferred tax assets*

Note: Financials are as per IND AS

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan (Proposed)	-	-	-	50.00	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	50.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Feb-20)	1)CARE BBB-; Stable (21-Jan-19) 2)CARE BBB-; Stable (12-Sep-18)	1)CARE BB+; Stable (12-Feb-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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