

Svatantra Microfin Private Limited
September 16, 2021

Ratings

Instruments	Amount (Rs. Crore)	Rating	Rating Action
Subordinate Debt	75	CARE A; Stable [Single A; Outlook: Stable]	Reaffirmed
Non-Convertible Debentures	50	CARE A; Stable [Single A; Outlook: Stable]	Reaffirmed
Total	125 (Rs. One Hundred and Twenty-Five Crore Only)		

Detailed Rationale & Key Rating Drivers

CARE Ratings (CARE) has reaffirmed the ratings of debt securities of SMPL at CARE A; Stable. The rating continues to factor in SMPL's strong linkages to, and expected continued support from, its promoters – the Birla Family and various investment companies of the Aditya Birla Group. The rating also derives strength from SMPL's strategic importance to its Founder Ms. Ananya Birla's mission to cater to the economically weaker sections of the society. The rating also factors in adequate capitalization, relatively low gearing, adequate liquidity, and comparatively better asset quality than similar rated peers. These rating strengths are partially offset by SMPL's modest profitability constrained by high operating costs, limited seasoning of the portfolio, marginal profile of the underlying borrowers, and socio-political risks inherent to Microfinance sector. In view of expected lagged effects of COVID's second wave on the Microfinance sector, SMPL's ability to restore pre-COVID levels of growth maintaining asset quality at low levels will be the key monitorable. Further, credit profile of the Promoters and its ability and willingness to render managerial, operational and financial support to SMPL as and when envisaged, will continue to be the rating drivers.

Key Rating Sensitivities

Positive factors - Factors that could lead to positive rating action/upgrade:

- Significant scale up and geographical diversification of operations maintaining asset quality in terms of GNPA below 2%

Negative factors: Factors that could lead to negative rating action/downgrade:

- Deterioration in asset quality leading to substantial increase in credit losses thereby impacting the profitability and capitalization levels
- Increase in overall gearing levels beyond 7 times
- Dilution in stake by, or linkages with, the promoter family/investment companies of Aditya Birla Group below 74%

Detailed description of the key rating drivers**Key Rating Strengths****Strong parentage, capital and managerial support from promoters and Aditya Birla Group investment companies**

SMPL is headed by Ms. Ananya Birla (Chairman) and is entirely held by Birla family and other investment companies of Aditya Birla Group. SMPL derives significant capital support from promoters. Since inception, the promoter and investment companies of Aditya Birla Group has infused Rs.252 crore as equity and another Rs.255 crore in the form of Compulsorily Convertible Preference Shares (CCPS). Out of this, Rs.175 crore came in FY21 alone and additional Rs.300 crore is expected to be infused during FY22. SMPL was founded by Ms. Ananya Birla with mission of helping economically weaker sections of the society, and SMPL being the first venture of her supporting this mission, is expected to remain strategically important to the founder. Further, strong managerial linkage of SMPL with Birla Family is evident from the significant representation of Birla Family on the board of SMPL, with one of the directors being Mr. Kumar Mangalam Birla, who is the Chairman of the Aditya Birla Group.

Experienced management team

SMPL is backed with strong and experienced team headed by Ms. Ananya Birla who is the Founder and Chairperson. Mr. Vineet Chatterjee, who is the director, has over 20 years of experience in operations and management consulting. Mr. Anujeet Varadkar, who is the CEO, has over 15 years of experience with institutions like Mahindra & Mahindra, Axis and ICICI Bank. Ms. Vrushali Mahajan is the CFO she has over 19 years of experience in the banking sector along with other service industries. SMPL is further streamlined into various verticals namely Accounts & Finance, Risk, Operations,

Internal Audit, Learning and development, Information technology & CBS, and Human Resources each having a functional head. All the functional heads have at least 10 years of work experience in the financial sector and have been previously associated with established micro-finance institutions.

Adequate capitalization levels with moderate gearing

The capitalization profile of SMPL remains adequate supported by Rs.252 crore of equity and Rs.255 crore of CCPS infusion by the Promoter and investment companies of Aditya Birla Group since inception. These infusions took place through Svatantra Holding, which is 90% held by Ms. Ananya Birla and other investment companies of Aditya Birla Group. The tangible net worth stood at Rs.542 crore as on March 31, 2021, with the total CAR of 21.88% as on March 31, 2021, compared to 20.55% as on March 31, 2020, which well above regulatory requirement of 15%. The tangible net worth stood at Rs.550 crore as on June 30, 2021. The recent capital infusion of Rs.175 crore via CCPS mode (part of Rs. 255 crore) has resulted in bringing down the gearing levels to 5.66 times as on March 31, 2021 (FY20: 6.80 times). The planned capital infusion of Rs.300 crore during FY22 is expected to further bring down the gearing levels. On a steady state basis, SMPL plans to operate with a gearing band of 5 to 6 times.

CARE understands from the Management of SMPL that the capital support from the Group in the form of both growth capital and distress support as and when required, shall be forthcoming, and considers this to be one of the key ratings monitorable.

Diversified geographical presence

SMPL has witnessed significant growth in scale of operations with number of branches increasing from 275 as March 31, 2019, to 673 as on June 30, 2021. During FY21 and Q1FY22, the company expanded its business from being present in 14 states to 18 states. The newly added states in past year include Kerela, Tamil Nadu, Tripura and Uttarakhand. SMPL also increase its district wise presence from 144 as on March 31, 2019, districts to 292 districts as on June 30, 2021. This has resulted in slight reduction in geographical concentration with top 3 states contributing ~50% of AUM as on June 30, 2021, compared to 1.29% as on March 31, 2020. Further, as on June 30, 2021, no single district accounted more than 4% of portfolio indicating healthy geographical spread.

Prudent lending practices and strong IT systems

SMPL has a unique end to end mobility solution integrated with CBS (Core Banking Solutions) namely Omni from Infracore through its in-house application namely *Saathi*. *Saathi* is a mobile application which tracks all the front-end operations happening at the field level, namely the disbursements, group formation, financial training, group appraisal and repayments. It also essentially captures all the borrower details by scanning the KYC documents. This app is integrated with CBS software (Loan Management and Accounting modules i.e., *Omni*, which extracts various reports. SMPL is one of the few MFIs who offers 100% cashless disbursements to the clients in their bank accounts. Further, SMPL has been proactively adopting cashless mode for collections as well, with 20-25% of the customers repaying digitally.

SMPL deploys the risk officer for every 2 branches who reports to Regional Risk Manager, who in turn reports to Zonal Risk Manager, who further reports to the Risk Head. The Risk Officer audits the entire process from lead generation to disbursement on a real time basis. Apart from Risk Officer, there is also an Internal Audit Team who audits the operations of Branches on a sample basis and reports to Board of Directors on a quarterly basis.

Key rating weakness

Moderate profitability, expected to remain pressured on account of higher credit costs in the aftermath of COVID's second wave, and high operational costs due to geographical expansion

SMPL commenced its operations from March 2013 and has turned profitable in FY17. With geographical expansion in last 2 to 3 years, SMPL has witnessed significant operational costs (~5.3% of Total Assets as on March 31, 2021) putting pressure on its profitability. SMPL's credit costs, although better than similar rated peers, remained elevated at 2.5% for FY21. Further, seasoning of the book originated in last 2 to 3 years of growth phase (AUM increasing from Rs.2,602 crore as on March 31, 2019, to Rs.3,564 crore as on March 31, 2021) remains to be tested in terms of seasoning. In view of CARE, the inherently marginal nature of its borrowers and vulnerability of their cash flows on account of COVID's second wave, SMPL's collection performance is expected to remain subdued over medium term, thereby resulting in higher credit costs. Therefore, SMPL's ability to return to normal collection efficiency while profitably executing its growth strategy will remain key rating sensitivities.

Limited seasoning of the loan along with uncertainty around resuming collection efficiencies to normalcy

SMPL was Incorporated on February 17, 2012, and commenced operations from March 01, 2013, in Wada, Dist. Palghar, Maharashtra. SMPL witnessed significant growth in past 4 years with its AUM increasing from Rs.253 crore in FY17 to Rs.3564 crore in FY21, indicating limited seasoning of majority of the book. CARE also notes that SMPL has expanded its presence from 14 to 18 through FY21 and Q1FY22. The GNPA and NNPA levels also moderated to 1.99% and 1.02% respectively, as on March 31, 2021, as against 1.21% and 0.68% as on March 31, 2020. Considering the aftereffects of COVID's second wave are not yet completely subsided and the resultant uncertainty about collection efficiency returning

to normalcy, SMPL's ability to curtail credit costs going forward and the performic of asset quality of portfolio originated in newer geographies will be credit sensitivities in the near term.

Susceptibility of business on account of event-based risk

The company's business operations are highly susceptible to event-based risks like socio-political disruptions, regulatory risk and natural calamities. Post demonetization and local political interference in some states, collection efficiency has substantially declined in MFI entities. Also owing to the unsecured nature of the portfolio, there is no recourse available to the company in case of default by the borrowers. Although CARE believes that SMPL should be in a position to withstand such economic shocks on the basis of distress capital support forthcoming from the Group as and when required, any material deterioration in SMP's asset quality and profitability metrics due to third wave, if any, or any other economic shock, can put negative pressure on its rating.

Liquidity- Adequate

SMPL has adequate liquidity profile with liquidity of around Rs.473 crore as on June 30, 2021, in the form of cash and liquid investments, which was sufficient to meet all the debt obligations including interest for next 1-2 months. ALM as on June 30, 2021, is also comfortable with positive cumulative mismatches in all time buckets. Further, SMPL also had Rs.600 crore of unutilized bank lines as on June 30, 2021.

Industry Outlook and Prospects

Post the AP crisis and regulatory intervention by RBI, the microfinance sector has seen strong growth in loan portfolio on account of improving funding profile, control over operating expenses, improving margins and moderate leverage levels. The sector has evolved with the advent of credit bureaus in the sector and subsequent control over asset quality. However, it remains exposed to event-based risks, marginal profile of borrowers and cash flow vulnerability to economic shocks. Also, the outbreak of Covid-19 has impacted the asset quality and credit costs. The credit rating will continue to anchor on risks associated with unsecured lending, socio-political intervention, geographic concentration and operational risks related to cash-based transactions.

Analytical approach: Standalone business profile, management and financial risk profile of SMPL along with support and linkages from promoters and investment companies of Aditya Birla Group which hold 100% stake in SMPL.

Applicable Criteria

[Consolidation and factoring linkages in rating](#)

[Rating Outlook and Credit Watch](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Non-Banking Financial Companies](#)

[Financial ratios – Financial Sector](#)

About the Company

Svatantra Microfin Private Limited (SMPL) is registered with RBI as a Non-deposit taking Systemically Important Non-Banking Finance Company-Microfinance Institution. It was Incorporated on February 17, 2012, and commenced operations from March 01, 2013, in Wada, Dist. Palghar, Maharashtra. It is promoted by Ms. Ananya Birla, daughter of K.M. Birla with an aim to bring about a positive change in the lives of the underprivileged. SMPL follows the Joint Liability Group methodology (JLG Methodology), wherein women are organized into 8 or 20 members group. SMPL seeks to cater to the underserved community of the rural and semi-urban areas. SMPL operates through 673 branches across 292 districts in 18 states. The AUM as on 31st March 2021 is Rs.3,564 crore.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total Income	392	560
PAT	29	27
Total Assets	2601	3717
Net NPA (%)	0.68	1.02
ROTA (%)	1.48	0.86

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

ISIN	Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
INE00MX08011	Subordinate Debt	31-May-18	11.75	30-Nov-23	75	CARE A; Stable
INE00MX07096	NCD	01-Oct-20	10.67	01-Apr-22	50	CARE A; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Subordinate Debt Issue	LT	75	CARE A; Stable	-	1) CARE A; Stable (29-Sep-20)	1) CARE A-; Stable (05-Jul-19)	1) CARE A-; Stable (28-May-18)
2.	Non-Convertible Debentures	LT	50	CARE A; Stable	-	1) CARE A; Stable (29-Sep-20)	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Subordinated Debt	Complex
2.	Non-Convertible Debentures	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarification

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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