

## Svatantra Microfin Private Limited

December 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	2,000.00	CARE AA-; Stable	Reaffirmed
Non-convertible debentures	100.00	CARE AA-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to Svatantra Microfin Private Limited (SMPL) factor strong parentage, capital and managerial support from promoters and the Aditya Birla group investment companies (herein referred to as the promoter group). The entity is of strategic importance to the mission of Ananyashree Birla to cater to the society's economically weaker sections (EWS) and intent and willingness of promoters and investment companies to provide growth and distress capital. Ratings additionally factor experienced management team, comfortable capitalisation levels supported by regular equity infusion, increasing scale of operations with improving profitability, diversified resource profile in terms of lenders partially offset by moderate asset quality due to marginal profile of underlying borrowers, and business susceptible to event-based risks.

As announced on October 31, 2024, Advent and Multiples ("Investors") acquired ~44.7% stake on a diluted basis in SMPL through Primary infusion: ₹830 crore in SMPL, Secondary Purchase of CCPS from IGH: ₹1,100 crore. On November 06, 2024, Board of Directors of the SMPL ("Board") have inter-alia, considered and approved the draft Scheme of Amalgamation between Svatantra Holdings Private Limited, Chaitanya India Fin Credit Private Limited and Svatantra Microfin Private subject to receipt of necessary approvals from statutory and regulatory authorities. Even post-merger, as indicated by management, the current promoter group, led by Ananyashree Birla, will continue to have a significant majority stake in SMPL and the stake will be above 51%.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade:

- Significantly scaling-up and geographically diversifying operations, while maintaining asset quality in terms of gross non-performing assets (GNPA) below 2%.
- Increasing return on total assets (ROTA) to 3% on a sustained basis.
- Improvement in the credit profile of investment companies.

#### Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade:

- Dilution in stake by promoter group below 51% or deterioration in credit profile of investment companies.
- Increasing overall gearing levels beyond 6x.
- Deteriorating asset quality, leading to a substantial increase in credit losses, impacting profitability and capitalisation.
- Increasing net non-performing assets (NNPA) to tangible net worth beyond 12% on a sustained basis.

### Analytical approach: Combined

The rating is based on combined assessment of SMPL and its wholly owned subsidiary, CIFCPL, and factoring in its linkage and demonstrated support from the promoter group. Subsidiaries considered for consolidation is listed under Annexure 6.

### Outlook: Stable

The 'Stable' outlook factors in continued support from promoter and investment companies of Aditya Birla Group, and that SMPL will maintain healthy capitalisation, improve scale of operations, while maintaining healthy asset quality and diversified resource profile, going forward.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

## Detailed description of key rating drivers:

### Key strengths

#### **Strong parentage, capital and managerial support from promoters and the Aditya Birla group investment companies**

SMPL is founded and headed by Ananyashree Birla (Chairman) and is currently held by the Birla family and investment companies of the Aditya Birla group (55.3% on diluted basis). SMPL derives significant capital support from promoter and investment companies of Aditya Birla group. Since inception, promoter and investment companies of the Aditya Birla group have infused ₹252 crore as equity and another ₹1,755 crore as compulsorily convertible non-cumulative preference shares (CCPS), of this, ₹1500 crore have been infused since FY22. Post capital infusion from PE investors in October 2024, the current promoter group, led by Ananyashree Birla, continues to have a significant majority stake in SMPL and is expected to hold majority stake. Being Ananyashree Birla's first venture for helping the society's economically weaker sections, SMPL is expected to remain strategically important to promoters. SMPL's strong linkages with the Birla family are evident from significant representation of the Family on its board, with three of six directors being from the Aditya Birla group. SMPL is backed by strong and experienced team, headed by Ananyashree Birla, who is the founder and chairperson. The company also benefits from Kumar Mangalam Birla being on the board. Vineet Chattree, one of directors, has over 20 years of experience in operations and management consulting. He has been associated with the Aditya Birla group since 2008, before being inducted into the SMPL board. SMPL is further streamlined into verticals, each having a functional head with at least 10 years of experience in the financial sector and has been previously associated with established micro-finance institutions (MFI). SMPL's senior management team has largely remained stable since inception.

CARE Ratings Limited (CARE Ratings) anticipates continued support from the promoter group in terms of capital and other resources to facilitate SMPL's operational growth. Reducing ownership by the promoter group below majority holding or change in SMPL's strategic importance to the group, will be a key sensitivity.

#### **Comfortable capitalisation profile**

SMPL has seen multiple rounds of capital infusions from its promoter group. The company's capital position remained adequate with increase in its scale of operations. As on March 2024, combined tangible net worth (including CCPS net of investment in CIFICPL) stood at ₹1,866 crore (₹1,758 crore as on March 31, 2023), which further increased to ₹2102 crore as on September 2024 supported by internal accruals. Post primary infusion of ₹830 crore tangible net worth further increased to ~₹2932 crore. At a combined level, gearing stood at 5.00x as on September 30, 2024 (5.96x as on March 31, 2024). With additional infusion of ₹830 crore, combined gearing further reduced to 3.58x. Going forward, CARE Ratings expects the Company to maintain a gearing level in range of 5-5.5x in the medium term.

As on September 30, 2024, SMPL's standalone tangible net worth and gearing stood at ₹2435 crore and 2.34x respectively. The total capital adequacy ratio (CAR) and Tier-I CAR, as on September 30, 2024, are 19.17% and 14.65%, respectively against 22.32% and 16.09%, respectively, as on March 31, 2023.

Similarly, CIFICPL's net worth and gearing stood at ₹1223 crore and 3.94x respectively as of September 30, 2024. Total capital adequacy ratio (CAR) and Tier-I CAR, as on September 30, 2024, are 22.51% and 18.97%, respectively against 22.34% and 16.01%, respectively, as on March 31, 2023.

Overall CARE Ratings believes that financial flexibility to raise equity will not only aid business growth and expansion in the medium term but will also absorb unforeseen shocks in asset quality in the medium term. CARE Ratings understand that capital support from promoter group in the form of growth capital and distress support when required, shall be forthcoming, and considers this to be one of the key ratings monitorable.

#### **Increasing scale of operations in FY24, however, growth expected to moderate in FY25**

On combined basis, SMPL's assets under management (AUM) for FY24 reached ₹14,438 crore, reflecting a growth of ~16.3% compared to the FY23 AUM of ₹12,409 crore. This growth trajectory benefited from broader geographic reach of the combined entity, specially at a district level, leveraging CIFICPL's foothold in south India and SMPL's presence in the northern and eastern regions, overlapping less than 3% as indicated by the management. However, growth slowed down in H1FY25 on combined basis, with SMPL registering a de-growth of 2% owing to lower disbursements compared to repayments. The trend was largely in line with the industry, where MFI book de-grew by 2.01% in Q1FY25, primarily due to increasing borrower indebtedness and

weakening joint liability group (JLG) model. Total disbursement in FY24 stood at ₹12,570 crore against ₹11,278 crore in FY23, which was ₹4,721 crore in H1FY25.

On combined basis, SMPL is one the largest NBFC-MFI in terms of total assets. SMPL due to the acquisition will have a significant increase in its geographical presence over India with a combined branch network of over ~2000 branches at the end of H1FY25. The number of states covered remain at 19 post acquisition. In terms of concentration as on September 2024, state concentration changed post-acquisition with Bihar at 21.74% share (FY23: 20%), UP at 16.47% (FY23: 16%), Maharashtra at 14.22% (FY23: 15%), Karnataka at 15.11% (FY23: 10%). The acquisition has helped the company with its plan to increase operations in southern India to further reduce geographical concentration.

Amidst the ongoing stress in MFI sector, CARE Ratings expects the company to report lower growth of ~10% in FY25.

### **Improving profitability metrics**

On a combined basis, the company reported a profit after taxes (PAT) and ROTA (as a percentage of average total assets) of ₹522 crore and 3.89% respectively in FY24 vs ₹278 crore and 2.77% in FY23. Operating cost (as percentage of average total assets) and credit cost (as percentage of average total assets), at combined level, was at 6.07% and 3.25% in FY24 against 5.86% and 3.90% respectively in FY23. Opex increased in FY24 as SMPL expanded operations by opening new branches and hiring field officers to support next phase of growth. Credit cost improved in FY24 due to lower incremental slippages and write offs compared to FY23. Yield on advances (as a percentage of average loan book increased from 21.36% in FY23 to 23.46% in FY24, repricing fresh loans from FY23 as RBI removed capping on interest rates in MFI loans. Yields continued to increase in H1FY25 offsetting impact of higher opex in H1FY25 at 7.75% in H1FY25. On combined basis, credit cost remained stable at 2.41% on annualised basis in H1FY25 despite stress in the MFI sector leading to ROTA of 4.48% on annualised basis.

### **Adequate loan appraisal, risk monitoring and collection systems**

SMFL and CIFCPL operate under JLG lending model, where the group undergoes compulsory group training (CGT) and group recognition test (GRT) training programs before qualifying for loan. Credit Bureau Checks are done at the field level to assess eligibility of borrowers for loan approval. Income assessment is done by FDOs by discussing with the customer and looking at certain surrogates based on standard of living. The loan approval process is decentralised at the branch level, where the Area Manager approves the loan amount. All disbursements (100%) are done online to the borrower's account. Every borrower is provided with the repayment schedule indicating due dates and loan card for the loan account. Portfolio is monitored on an on-going basis by post disbursement verification of assets created from loan amount. SMFL currently follows 4-week (28 days) collection model, while CIFCPL follows bi-weekly model. Collections happen in centre meetings, where instalments are collected by FDOs. SMFL and CIFCPL has adequate structure to monitor the operations at different levels. It has defined credit appraisal, collection, and monitoring systems. The company has an internal audit team that conducts operational audit every month at all branches. The audit team also visits centre meetings and conducts random checks to ensure process compliance. MIS systems generate all requisite reports.

### **Key weaknesses**

#### **Moderate asset quality metrics susceptible to inherent risk in microfinance borrowers**

On combined basis, the asset quality as reflected in gross non-performing assets (GNPAs) stood at 1.11% as of September 30, 2024 (March 31, 2024: 2.03 %, March 31, 2023: 3.30%). However, referring to standalone position, SMPL's GNPA was high at ~1.69% (March 31, 2024: 3.33%, March 31, 2023: 5.00%), whereas for CIFCPL it stood at 0.5% (March 31, 2024: 0.29 %, March 31, 2023: 0.28%). Write offs on combined basis stood at 1.97% as of September 30, 2024 (March 31, 2024: 2.76% March 31, 2023: 1.42%). However, referring to standalone position, write off for SMPL stood at 3.47% (March 31, 2024: 4.62%, March 31, 2023: 1.89%), whereas for CIFCPL was at ~0.36% (March 31, 2024: 0.16%, March 31, 2023: 0.36%). SMPL maintains a provision coverage of 77.5% (FY 24: 75%) on NPA, while CIFCPL maintains provision coverage of 83.2% (FY 24: 85%).

Considering the ongoing stress in the overall MFI industry, credit costs may rise further due to increasing delinquencies. The company has demonstrated better control on slippages and, asset quality management. The company's ability to maintain overall profitability metrics with economies of scale, by keeping operating and credit costs under control, will remain a key monitorable.

The company's business operations are highly susceptible to event-based risks such as socio-political disruptions, regulatory risks, and natural calamities apart from risk emanating from unsecured lending and marginal profile of borrowers, who are vulnerable to economic downturns. Across the MFI sector, there was a rise in delinquencies in H1FY25 owing to rising indebtedness among over-leveraged borrowers, debt-waiver campaigns, continued high attrition rate at field staff level and heat wave effect, a trend if continues raises concerns about borrowers' repayment capabilities. This increase in delinquencies poses risks to growth trajectory of NBFC-MFIs and their profitability metrics.

Although CARE Ratings believes that SMPL should be able to withstand such economic shocks based on distress capital support from promoter group, material deterioration in SMPL's asset quality and profitability metrics or other economic shocks, can put negative pressure on its ratings.

### **Liquidity: Adequate**

On standalone basis, SMPL has unencumbered cash and liquid investments amounting to ₹465 crore as on September 30, 2024, and advances of ₹1100 for the next three months. This provides adequate liquidity cover for debt repayments amounting to ₹1103 crore (excluding interest income) due for the next three months. The company has undrawn credit lines to the extent of ₹4,260 crore and the ability to raise capital with parent support. There are no cumulative mismatches in any time bucket as on September 30, 2024.

For CIFCPL, as on September 30, 2024, there are no cumulative mismatches in the ALM. The company's cash and cash equivalents including liquid investments amounted to ₹243 crore as on September 30, 2024. This is further supported by inflows from advances to the tune of ₹3784 crore (excluding interest income) in the next one year against debt repayments of ~₹2706 crore (excluding interest expenses) for the next one year. The company also has undrawn credit lines to the extent of ₹1197 crore.

### **Assumptions/Covenants**

Not applicable

### **Environment, social, and governance (ESG) risks**

Not applicable

### **Applicable criteria**

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

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[Consolidation and Combined approach](#)

[Parent Sub JV Group](#)

### **About the company and industry**

#### **Industry classification**

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Microfinance institutions

SMPL is a non-deposit taking systemically important non-banking finance company microfinance institution (NBFC- MFI). The company was incorporated in 2012 and commenced operations from 2013. It is promoted by Ananyashree Birla, the daughter of Kumar Mangalam Birla, Chairman of the Aditya Birla group. Through this venture Ananyashree Birla aims to help underprivileged, particularly women in rural areas, currently engaged in income-generating activities, or who intend to start them. SMPL follows the JLG model, where women are organised into groups of 8-20 members. On a combined basis, the company operates through 1901 branches in 19 states and has a base of four million clients as of March 2024. On combined basis, the gross AUM as on March 31, 2024, stood at ₹14,438 crore.

**Combined Financials of SMPL and CIFICPL<sup>^</sup>**

Brief Financials (₹ crore)	March 31, 2023	March 31, 2024	H1FY25
	A	A	UA
Total income	2,159	3,020	1,640
PAT	278	522	296
Total assets	11,822	13,429	13,015
Net NPA (%)	1.08	0.48	0.24
ROTA (%)	2.77	4.13	4.48

A: Audited UA: Unaudited; Note: these are latest available financial results

<sup>^</sup>Numbers of both companies have been added to give a combined picture and ratios have been calculated accordingly, actual number and ratios may differ.

**Standalone Financials of SMPL**

Brief Financials (₹ crore)	March 31, 2023	March 31, 2024	H1FY25
	A	A	UA
Total income	1,396	1,758	866
PAT	130	226	136
Total assets	7,443	9,178	8,287
Net NPA (%)	1.71	0.90	0.40
ROTA (%)	1.97	2.72	3.11

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:**

Not applicable

**Any other information:**

Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Debentures non-convertible debentures	INE00MX08094	20-Dec-2022	9.50	20-Dec-2024	100.00	CARE AA-; Stable
Fund-based - LT-Term Loan	-	-	-	May - 2028	1150.14	CARE AA-; Stable
Fund-based - LT-Term Loan (Proposed)	-	-	-	-	849.86	CARE AA-; Stable

**Annexure-2: Rating history for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Debt-Subordinate Debt	LT	-	-	-	1)Withdrawn (13-Mar-24) 2)CARE AA-; Stable (19-Jun-23)	1)CARE AA-; Stable (20-Jun-22)	1)CARE A; Stable (16-Sep-21)
2	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (19-Jun-23)	1)CARE AA-; Stable (20-Jun-22)	1)CARE A; Stable (16-Sep-21)
3	Fund-based - LT-Term Loan	LT	2000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Mar-24) 2)CARE AA-; Stable (19-Jun-23)	1)CARE AA-; Stable (13-Dec-22) 2)CARE AA-; Stable (30-Jun-22)	-
4	Debentures-Non Convertible Debentures	LT	100.00	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Mar-24) 2)CARE AA-; Stable (19-Jun-23)	1)CARE AA-; Stable (13-Dec-22)	-

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of instruments rated**

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

**Annexure-5: Lender details**

To view lender-wise details of bank facilities please [click here](#)

**Annexure-6: List of entities consolidated**

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Chaitanya India Fin Credit Pvt Ltd	Full	Subsidiary

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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### About us:

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