

Svatantra Microfin Private Limited (Revised)

June 30, 2022

Rating

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|------------------------------|---|--|---------------|
| Long Term Bank Facilities | 1,000.00 | CARE AA-; Stable (Double A Minus; Outlook: Stable) | Assigned |
| Total Bank Facilities | 1,000.00 (₹ One Thousand Crore Only) | | |

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has assigned the ratings to the Long term bank facilities of Svatantra Microfin Private Limited (SMPL) 'CARE AA-; Stable' (pronounced 'Double A Minus; Outlook: Stable'). The rating assigned factors in SMPL's ability to revive through the COVID-19 pandemic and generate significant scale-based growth, while managing asset quality metrics. Furthermore, SMPL received ₹250 crore of capital during FY22 from Svatantra Holdings Private Limited (SHPL), a period when the microfinance institutions (MFIs) sector was reeling with asset quality issues, which underscores the commitment of its promoters – the Birla Family and various investment companies of the Aditya Birla group – towards growing the MFI franchise, despite headwinds in the operating environment. The ratings also derive strength from SMPL's strategic importance to the mission of Ananyashree to cater to the economically-weaker section (EWS) of society as well as the intent and willingness of the promoters to provide both, growth and distress capital, when required. The ratings also factor in the experienced management, the increasing scale of operations, the adequate capitalisation levels, the well-diversified resource profile partially offset by SMPL's moderate profitability constrained by the high operating costs, the limited seasoning of the loan portfolio, the marginal profile of the underlying borrowers, and the susceptibility of the business on account of event-based risks.

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%.
- Increase in the return on total assets (ROTA) to 2-3% on a sustained basis.

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

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

Detailed description of the key rating drivers

Key rating strengths

Strong parentage, capital, and managerial support from the promoters and the Aditya Birla group investment companies: SMPL is founded and headed by its Chairperson, Ananyashree Birla, and is entirely held by the Birla family and other investment companies of the Aditya Birla group. SMPL derives significant capital support from the promoters. Since inception, the promoters and investment companies of the Aditya Birla group have infused ₹252 crore as equity and another ₹505 crore in the form of compulsorily convertible non-cumulative preference shares (CCPS). Of this, ₹250 crore was invested in FY22 alone. SMPL, being Ananyashree Birla's first venture, is expected to remain strategically important to the promoters, with the mission of helping the EWS of society. Furthermore, the strong linkage of SMPL with the Birla family is evident from the significant representation of the Birla family on the board of SMPL, with one of the directors being Kumar Mangalam Birla, the Chairman of the Aditya Birla Group.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Ananyashree Birla has a direct equity shareholding of 82.5% in SMPL, while SHPL holds 15.9%, and around 0.83% each, is held by Neerja Birla and IGH Holdings Private Limited (IGHPL), an investment company of the Aditya Birla group. SHPL, a 90% equity shareholding of which is held by Ananyashree Birla, has infused ₹505 crore in the form of CCPS till date. SHPL, in turn, has received capital funding from IGHPL.

Experienced management team: SMPL is backed by a strong and experienced team, headed by Ananyashree Birla, who is the Founder and Chairperson. SMPL also benefits from the presence of Kumar Mangalam Birla on the board, in the form of his timely guidance. Its Director, Vineet Chattree, has over 25 years of experience in financial services and operations management consulting and has served on the board of the Microfinance Institutions Network (MFIN). The CEO, Anujeet Varadkar, has over 22 years of experience with institutions like Mahindra & Mahindra, Axis Bank, and ICICI Bank. The CFO, Vrushali Mahajan, has over 19 years of experience in the banking sector along with other service industries. SMPL is further streamlined into various verticals, each having a functional head with at least 10 years of work experience in the financial sector and having been previously associated with established MFIs. The senior management team of SMPL has largely remained stable.

Significant increase in the scale of operations: SMPL has reported a 52% annualised growth rate, with total assets under management (AUM) increasing from ₹3,564 crore as on March 31, 2021, to ₹5,446 crore as on March 31, 2022, notwithstanding the impact of the second wave of the COVID-19 pandemic, which impacted the business in Q1FY22. The managed book remained small, at 10.7% of the overall AUM, and the company does not intend to increase this level to more than 15-17%, at least in the near to medium term. The growth in the AUM level comes from the sharp increase in the level of yearly disbursements, which increased from ₹2,414 in FY21 to ₹4,549 in FY22. The borrower base has increased from 2.8 lakh in FY18 to 16.8 lakhs in FY22. During the past two years, SMPL has doubled its district presence from 144 districts to 303 districts, resulting in a well spread out geographical presence, with no single district accounting for more than 2.5% of the overall AUM.

Adequate capitalisation levels with moderate gearing: Post the capital infusion worth ₹250 crore by SHPL, the tangible net worth of SMPL stood at ₹865.49 crore as on March 31, 2022. The total capital adequacy ratio (CAR) and Tier-I CAR, as on March 31, 2022, are 23.96% and 15.74%, respectively, as against 21.88% and 17.43%, respectively, as on March 31, 2021. Since its inception, the overall capital infusion that has come in from the promoters has aggregated to ₹757 crore, a significant portion of which has come in the past three years. The capital infusion is triggered once the CAR reaches an internally defined threshold. The overall gearing stood at 5.59x as on March 31, 2022, as against 5.66x as on March 31, 2021. The company intends to operate at a gearing level of 5-6x on a steady-state basis.

Well-diversified resource profile: SMPL has a well-diversified lender mix, with relationships with more than around 33 public/private sector banks, five foreign banks, eight non-banking financial companies (NBFCs), three foreign institutional investors (FIIs), and four development finance institutions (DFIs). The quantum of term loans, although down from 94% of the total borrowing mix in FY20, still constitutes a sizeable share of the borrowings, at 74% in FY22. The incremental share of borrowings has come in the form of bonds or NCDs. SMPL's top 10 borrowings account for 54.3% of its total borrowings. The company raised an additional ₹4,275 crore in the form of term loans and NCDs during FY22, besides raising funds through the direct assignment route of around ₹576 crore in the same fiscal.

Strong technology-driven information and risk management systems: SMPL has a unique end-to-end mobility solution integrated with core banking solutions (CBS), namely, Omni from Infracsoft through its in-house application – Saathi. Saathi is a mobile application that tracks all the front-end operations happening at the field level – the disbursements, group formation, financial training, group appraisal, and repayments. This application is integrated with the CBS software, which extracts various reports. SMPL is one of the few MFIs that offer 100% cashless disbursements to clients in their bank accounts. Furthermore, SMPL has been proactively adopting the cashless mode for collections as well, with 40% of the customers repaying digitally. Only 2% of the cash collected reaches the branches for bank deposits, while the rest 98% is routed through the CBS network. The company has been prompt in adopting the newly-introduced regulatory framework. SMPL is utilising the loan mobility solution to derive a surrogate-based assessment of the household income. The company uses an analytical engine to derive the risk score for each borrower. It does not undertake lending where aggregate indebtedness exceeds a pre-defined threshold.

Key rating weaknesses

Moderate profitability, expected to remain range-bound: SMPL's net interest income (NII) increased to ₹301 crore in FY22, from ₹181 crore in FY21, owing to growth in the loan portfolio. The yield on average advances, however, declined to 16.9% from 17.3% since a significant portion of the portfolio growth occurred in the fourth quarter. The cost of funds declined to 9.6% from 10.5% as the company benefited from borrowings under the Micro Units Development and Refinance Agency

(MUDRA) refinance scheme as well as the Partial Credit Guarantee Scheme (PCGS) of the government. The resultant interest spread increased to 7.3% in FY22, as compared to 6.8% in FY21. Correspondingly, the NIM also increased to 6.3% in FY22, as compared to 5.7% in FY21. Other operating income significantly increased to ₹143 crore, from ₹99 crore, mainly on account of the rise in income from direct assignment transactions as well as fee and commission income and higher net gains on fair value changes on investments in mutual funds. With an increase in the overall asset base, the opex/ATA remained range-bound, at 5.2%. Credit costs increased to ₹140 crore in FY22, from ₹79 crore in FY21, owing to portfolio growth as well as higher write-offs, inching up to 2.9% of the ATA from 2.5% in FY21. While profit-after-tax (PAT) increased to ₹44 crore in FY22 from ₹27 crore in FY21, benefitting from the growth in pre-provisioning operating profitability, the overall ROTA registered a meagre growth, rising to 0.91% in FY22 vis-à-vis 0.86%.

Moderate asset quality and limited seasoning of the loan book: SMPL witnessed significant growth in the last two years, with its AUM increasing from ₹2,602 crore in FY20 to ₹5,447 crore in FY22, indicating limited seasoning of the majority of the book. The gross non-performing asset (GNPA) and net non-performing asset (NNPA) levels also moderated, to 3.52% and 1.64%, respectively, as on March 31, 2022, as against 1.99% and 1.02%, respectively, as on March 31, 2021, owing to the impact of the pandemic, which led to the spill-over of restructured assets into non-performing assets (NPA). The overall restructured book stood at 3.41% as on March 31, 2022, and compares favourably to other players in the MFI industry. Of all the loans originated in FY22, 99% of them remained current as on March 31, 2022. Collection efficiency (including overdue collections) dipped to a low of 82.5% in May 2021 during the second wave of the pandemic, nonetheless, it normalised soon and has trended strongly, at above 96% during the fourth quarter of FY22.

Susceptibility of business on account of event-based risks: The company's business operations are highly susceptible to event-based risks such as socio-political disruptions, regulatory risks, and natural calamities. Post demonetisation and local political interference in some states, the 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 Ratings believes that SMPL should be in a position to withstand such economic shocks on the basis of distress capital support forthcoming from the promoters, as and when required, any material deterioration in SMPL's asset quality and profitability metrics, if any, or any other economic shock, can put negative pressure on its ratings.

Liquidity: Adequate

The company's cash and bank balance of ₹795 crore is sufficient to meet debt obligations of around ₹685 crore in the next three months. Overall, the liquidity profile is comfortable, with positive cumulative mismatches in all buckets, except the six months to one-year bucket of around ₹80 crore. Nonetheless, the company has access to undrawn sanctioned lines of ₹1,400 crore.

Analytical approach

Factoring the business profile, along with support and linkages from the promoters and investment companies of the Aditya Birla group, which hold 100% stake in SMPL.

Applicable criteria

[Consolidation and factoring linkages in rating](#)

[Rating outlook and credit watch](#)

[CARE Ratings' policy on Default Recognition](#)

[Criteria for non-banking financial companies](#)

[Financial ratios – Financial sector](#)

About the company

SMPL is registered with the Reserve Bank of India (RBI) as a non-deposit taking systemically-important non-banking finance company-microfinance institution (NBFC-MFI). It was incorporated on February 17, 2012, and commenced operations from March 01, 2013. SMPL is promoted by Ananyashree Birla, daughter of Kumar Mangalam Birla, Chairman of the Aditya Birla group. Ananyashree Birla, through this venture, aims to bring about a positive change in the lives of the underprivileged, particularly women in rural areas who are currently engaged in some income-generating activities or who intend to start new income-generating activities on their own. SMPL follows the joint liability group (JLG) methodology, wherein, women are organised into groups of eight or 20 members. SMPL operates through 692 branches across 292 districts in 19 states and has 1.68 million clients. The gross AUM, as on March 31, 2022, stood at ₹5,446 crore.

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (UAss) |
|----------------------------|--------------------|-----------------------|
| TOI | 559.99 | 830.47 |
| PAT | 27.08 | 43.53 |
| Interest coverage (times) | 1.13 | 1.16 |
| Total assets | 3,849.93 | 6,055.23 |
| Net NPA (%) | 1.02 | 1.64 |
| ROTA (%) | 0.83 | 0.88 |

A: Audited

Status of non-cooperation with previous CRA: Not Applicable**Any other information:** Not applicable**Rating history for the last three years:** Please refer Annexure-2**Covenants of the rated instruments/facilities:** 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 | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---------------------------|------|------------------|-------------|---------------|-----------------------------|---|
| Fund-based - LT-Term Loan | - | - | - | - | 1000.00 | CARE AA-; Stable |

Annexure-2: Rating history for the 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 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Debt-Subordinate Debt | LT | 75.00 | CARE AA-; Stable | 1)CARE AA-; Stable (20-Jun-22) | 1)CARE A; Stable (16-Sep-21) | 1)CARE A; Stable (29-Sep-20) | 1)CARE A-; Stable (05-Jul-19) |
| 2 | Debentures-Non Convertible Debentures | LT | 50.00 | CARE AA-; Stable | 1)CARE AA-; Stable (20-Jun-22) | 1)CARE A; Stable (16-Sep-21) | 1)CARE A; Stable (29-Sep-20) | - |
| 3 | Fund-based - LT-Term Loan | LT | 1000.00 | CARE AA-; Stable | | | | |

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities-Not applicable**Annexure-4: Complexity level of various instruments rated for this company**

| Sr. No. | Name of Instrument | Complexity Level |
|---------|--------------------|------------------|
| 1. | Bank Facilities | Simple |

Annexure-5: Bank lender details for this company

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

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

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About us:

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Disclaimer:

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