

Samunnati Financial Intermediation & Services Private Ltd

January 14, 2020

Ratings

Instruments/Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities-Term Loan	40.00	CARE BBB; Stable (Triple B ; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Total Facilities	40.00 (Rupees forty crore only)		
Non-Convertible Debenture	45.00	CARE BBB; Stable (Triple B ; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Total Instruments	45.00 (Rupees forty five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities and *non-convertible debenture* of Samunnati Financial Intermediation & Services Private Ltd (Samunnati) factors in the fresh equity infusion of Rs.305 crore in May 2019, resultant improvement in networth and improved financial performance of the company during FY19 (refers to the period April 01 to March 31) and H1FY20 (refers to the period April 01 to September 30) with increase in scale of operations. The ratings continue to derive strength from the experience of senior management team in agri-financing, Samunnati's credit policy which is designed with good knowledge of the target customer segments and strong capital adequacy levels.

The rating is however constrained by limited track record of operations and evolving nature of loan products, marginal credit profile of borrowers in the retail and CBO (Community based organizations) segment with limited seasoning of loan portfolio, exposure to client concentration risk and moderately diversified resource profile.

Rating Sensitivities

Positive Factors

- Improvement in geographical diversification, scale of operations and maintain good asset quality indicators
- Improvement in financial performance on a sustained basis

Negative Factors

- Deterioration in asset quality indicators
- Deterioration in capitalization and liquidity profile

Detailed description of the key rating drivers

Key Rating Strengths

Experience of senior Management team and board members with representatives from investor group

Samunnati was promoted by Mr. Anil Kumar SG, who is the CEO of the company and has an overall experience of more than 27 years in banking industry and is one of the founding members of IFMR trust. Mr. Gurunath who is the executive director of Samunnati has more than 30 years of experience in the banking industry and has served in various roles in ICICI bank and Tamil Nadu Mercantile Bank. The day to day operations are managed by team of professionals having significant experience in the related fields and managing well-defined functional teams. The operations are overseen by the Board which comprises ten directors with two promoter directors, three independent directors and five representative directors of the investor group from Accel India, Elevar Equity, Nuveen Alternatives Advisors LLC and ResponsAbility. All the board members have extensive experience in the NBFC sector and Mr. N. Srinivasan, who has been associated with RBI and NABARD for more than 30 years, is serving as chairman of Samunnati's board since inception.

Strong capitalization supported by recent equity infusion

Samunnati has been able to mobilise equity funds despite being in the initial stage of operations due to which the capitalisation level is comfortable although the loan portfolio has been growing steadily at higher rate. During the month of May 2019, the company received fresh funds infusion of Rs.305 crore (Primary- Rs.305 crore and Secondary- Rs.82 crore). New investor, Teachers Insurance and Annuity Association of America (Nuveen Alternatives Advisors LLC) has invested in Samunnati along with Accel Us and Elevar M i-IV AIF. The net worth of Samunnati increased to Rs.502.7 crore as on September 30, 2019 (Rs.191.6 crore as on March 31, 2019). The gearing of the company has declined to 0.6 times as on September 30, 2019 (1.9 times in March 31, 2019). Capital adequacy ratio (Tier II-NIL) and Tier I stood at 70% as on September 30, 2019 as against 34.28% as on March 31, 2019. Present level of capitalisation is adequate to meet the business growth envisaged for the next two years.

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

Adequate credit policy norms, IT systems and good knowledge on the target customer segment

Samunnati has developed its in-house team covering all the facets starting from business sourcing, process, audit & recovery and collection teams. Samunnati follows a hub and spoke model the company has a centralised credit-appraisal and monitoring system apart from sourcing, initial credit and collections which is carried on field level. Samunnati's loan products are customized based on the value chain in agriculture. The company has a defined template for selection of Community Based Organizations (CBOs)/Farmer Producer Organizations (FPOs) with negotiable and non-negotiable clauses and relies on the cash flows of CBOs and FPOs. The process of selection of the customers includes KYC verification, risk assessment, personal discussion and verification of the business, bank statements and references from the aggregators. The company has committee based credit sanctioning process, wherein each committee has power to sanction upto specified limits.

Post the disbursement of loans, the company checks the end use of loans by stipulating conditions like disbursement of funds against invoices, verifying bank account statements, documents confirming delivery of goods in some loan products and field inspection. Samunnati uses mobile based Loan management system (Artoo) for maintaining customer database where the details of every customer is entered by the business team and validated by credit team. The company uses Encore, developed by Sersei Technologies for its MIS which takes care of credit appraisal, approval and sanction process. Apart from that, the Audit team uses Audit 360 which lists down the set of observations in terms of documentation and field operations and raises to respective teams.

Improvement in profitability primarily supported by increase in scale of operations

On account of initial stage of operations and high spending by the company on technology and overhead cost, the company reported net loss during FY17 and FY18. However, with transition from branch model to hub & spoke model which requires lesser investment in infrastructure since the company moves from retail products to wholesale products, the operating expenses as a % of average total assets declined from 20.92% in FY17 to 8.10% in FY19 (PY:8.72%). The NIM stood at 9.67% during FY19 (PY: 6.34%) and improved on account of decline in interest expenses to 12.72% during FY19 from 16.41% in FY18. ROTA stood at 2.04% during FY19 (PY: loss reported at 1.30%) and improved during FY19 supported by improvement in NIM and operating expenses. The company reported a PAT of Rs.7.5 crore on a total income Rs.60.7 crore during H1FY20 as against Rs.9.4 crore on a total income of Rs.85.6 crore during FY19. ROTA of the company stood at 2.16% for H1FY20.

Key Rating Weaknesses***Limited geographical diversification in portfolio***

Samunnati's scale of operations has been improving consistently with AUM increasing to Rs.463.8 crore as on March 31, 2019 from Rs.241.5 crore as on March 31, 2018. During H1FY20, the AUM has increased by 20% and stood at Rs.557.9 crore as on September 30, 2019. As on September 30, 2019, Samunnati has presence in 16 states with 18 branches and 9 regional offices, however, the loan portfolio is concentrated across the states of Tamil Nadu (45.61%), Karnataka (14.23%) and Madhya Pradesh (6.95%) as against Tamil Nadu (48.73%), Karnataka (11.15%) and Maharashtra (8.22%) as on March 31, 2019. Ability of the company to manage its growing scale of operations and operational efficiencies as it opens new branches/ enters new geographies remains critical for its growth prospects.

Marginal credit borrower profile in the retail and CBO/FPO segments

Samunnati's target segment includes farmers, Agri enterprises, FPOs and CBOs. The company extends loans to CBOs and FPOs which further lends to Farmer Income Groups. The customers of retail and CBO/FPOs segments are characterized by marginal credit profile who are not serviced by the banking sector. However, the management team's knowledge on its target customer segments and selection of customers whose produce may not impacted by natural calamities and cross guarantee between the value chain players provides comfort to an extent. The company will remain focused on agri segment, as there is significant potential to grow their business though this segment is highly susceptible to the impact of economic downturn.

Sharp increase in loan ticket sizes in the wholesale segment during FY19

During FY19, the company concentrated more on agri receivable financing, agri enterprise loans and also has begun lending to institutions where the loan ticket size is higher as compared to retail financing. The ticket size of loans lent has increased sharply in FY19, the average ticket size of financial institutional lending stood at Rs.5.0 crore, ARF and agri-enterprise loans product stood at Rs.17 Lakhs and Rs.38 lakhs respectively. The loans lent in the ticket size of Rs.0.5-1.0 crore and more than Rs.1.0 crore stood 11% and 35% of the total loan portfolio respectively as on March 31, 2019 (18% and 37% of the portfolio as on September 30, 2019). The top 20 clients of Samunnati contributed to 27% of the total loan portfolio and 65% of total net worth as on March 31, 2019. The portfolio of the top 50 clients stood at 52% of the AUM and 58% of the net worth as on September 30, 2019. The ability of the company to keep its asset quality under control especially in the wholesale segment remains critical since loss due to high ticket default would have significant impact.

Increase in delinquencies in softer buckets; Limited seasoning of loan portfolio

Samunnati commenced its operations during November 2014; the loan portfolio is characterized by limited seasoning due to significant growth of operations in a short period, CAGR (FY17-FY19) stood at 153%. The company's gross NPA and net NPA stood at 1.62% and 1.23% respectively as on March 31, 2019 (PY:2.35% and 2.15%) and at 3.74% and 2.84% respectively as on September 30, 2019. During H1FY20, the delinquencies in the 0+ and 30+ increased to 28.75% and 13.59% as on September 30, 2019 (12.80% and 7.07% as on September 30, 2018) as against 11.95% and 6.65% as on March 31, 2019. Increase in delinquencies during H1FY20 can be partly attributed to seasonality associated with its customer segments. The 0+ dpd of Agri-enterprise loans, agri-receivable financing and input/output loans has increased to 42%, 23% and 29% respectively as on September 30, 2019. As the repayment of the loans is related to the crop seasons and the delinquencies are expected to decline by March 2020. It is critical for Samunnati to keep its asset quality indicators under control with the envisaged growth plans and increasing average ticket sizes and moderate borrower profiles in certain segments.

Moderately diversified resource profile

The company's resource profile is moderately diversified with funding from banks, financial institutions, NCDs and securitization. The total borrowing excluding securitization as on March 31, 2019 was at Rs. 368.7 (Rs. 309.8 crore as on September 30, 2019) as against Rs.161.3 crore as on March 31, 2018. Majority of the company's borrowing profile comprised of funds from financial institutions and private sector banks. Borrowings from banks, loans from NBFCs and NCDs stood at 9%, 47% and 44% respectively as on March 31, 2019 (7%, 38% and 55% as on September 30, 2019). The company had associations with 10 financial institutions and 5 banks as on March 31, 2019. Going forward, the ability of the company to diversify their resource profile and raise funds at competitive interest rates would remain critical for profitability of the company.

Liquidity: Adequate

Samunnati's ALM profile is comfortable with low leverage levels and borrowings with average tenure of around 2-3 years and advances in the range of 1-3 years. The ALM profile as on September 30, 2019 was comfortable with no cumulative mismatches in any of the time buckets. The ALM reflects positive cumulative mismatches up to 5 years buckets under stressed collection efficiencies of 85% and 75% respectively.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook and Credit watch to Credit Ratings](#)

[CARE Policy on Default Recognition](#)

[Rating Methodology- Non Banking Finance Companies](#)

[Financial ratios - Financial Sector](#)

About the Company

Samunnati Financial Intermediation & Services Pvt Ltd (Samunnati) headquartered in Chennai promoted by Mr. S.G. Anil Kumar, started its operations during November 2014. The company is registered with RBI as an NBFC with focus towards Agri Value chain financing. Samunnati lends to the Agri producers, Intermediaries (majorly Community based Organizations (CBO)/Farmer Producer Organizations (FPO)) and traders of the agri products in the form of working capital financing and receivable financing.

As on March 31, 2019, Samunnati operates across 18 branches and 9 regional offices in 13 states with total AUM of Rs. 463.8 crore (Rs.557.9 crore as on September 30, 2019). The company extends loan under the following loan products namely Agri Receivable Financing (ARF), CBO/FPO Financing, Retail Financing, Agri Enterprise Loans, working capital and Institutional Lending (started in Q4FY19). The company has been downsizing its retail financing portfolio during FY19 on account of higher delinquencies in this segment and is focusing more on ARF and CBO/FPO. As on March 31, 2019, total AUM stood at Rs. 463.82 crore of which 44.12% is loans to CBO/FPO, 25.41% is Agri Enterprise Loans, 18.48% is ARF and 7.34% is institutional lending, with rest from retail segment.

As on September 30, 2019 Promoter & related parties held 13.42% (14.80% as on March 31, 2019), Elevar Equity held 21.68% (23.58%), Accel held 25.51% (23.58%), ResponsAbility held 18.06% (20.00%), Nuveen held 10.32% and employees held 7.67%(8.74%).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	36.8	85.6
PAT	-2.9	9.4
Interest coverage (times)	0.84	1.30
Total Assets	349.0	574.6
Net NPA (%)	2.15	1.23
ROTA (%)	NM	2.04

A: Audited; NM: Not Meaningful

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Sep, 2020	40.00	CARE BBB; Stable
Debentures-Non Convertible Debentures	INE551U07043	Sep 24, 2018	12.02	Sep 24, 2024	45.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	40.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (28-Mar-19) 2)CARE BBB-; Stable (29-Jun-18)	-	-
2.	Debentures-Non Convertible Debentures	LT	45.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (28-Mar-19) 2)CARE BBB-; Stable (24-Sep-18)	-	-

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 clarifications.

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