Satya Microcapital Limited

January 21, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	50.00 (Rupees Fifty crore only)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Reaffirmed**
Total 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 Micro Capital Limited (SML) continues to derive strength from experienced promoters and management team, geographically diversified loan book, diversified resource base, adequate liquidity profile, comfortable capitalization profile supported by regular capital infusion and adequate loan origination, monitoring and risk management systems put in place by the company. These rating strengths, are however, partially offset by the short track record with small scale of operations, low seasoning of loan portfolio, although comfortable asset quality indicators, loss making operations being in initial years of business and inherent risk involved in the microfinance industry including unsecured lending, socio-political intervention risk and regulatory uncertainty.

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

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team: SML is promoted by Mr. Vivek Tiwari who has experience of nearly two decades in the microfinance sector. Before venturing out with SATYA, he was associated with Satin Creditcare Network Limited as COO. He is promoter director on BoD of SML and is also a member of the governing board of SML which consists of 7 other members who are/have been associated at senior management level with some of the prominent microfinance institutions in the country. Senior management team of the company also has good experience in the microfinance and financial sector.

Geographically diversified loan book in relation to its size: SML started its operations in November 2016 and currently operating in thirteen states with loan book of Rs.350.75 crore as on September 30, 2018. SML's loan book is diversified across geographies; with UP (22% of loan book as on September 30, 2018), Punjab (20%), Bihar (17%), Rajasthan (13%), Haryana (13%), Chattisgarh (6%), Uttarakhand (4%) and remaining book spread across rest six states.

Adequate Liquidity: As per ALM dated September 30, 2018, there are 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. Over the next six months, the company expects repayment from loan book of Rs.95.19 crore while its debt repayment will be around Rs.80.13 crore.

Comfortable capitalization profile on account of capital raising: The capitalization profile of the company is comfortable with overall CRAR and Tier 1 CRAR at 27.43% and 21.21% as on Sep-18. The tangible net worth of the company increased from Rs.17.95 cr as on March 31, 2018 to Rs.77.52 cr as on Sep-18; on account of fresh equity capital raising of close to Rs.43 crore in July-18. Gearing of the company was 4.96 times as on September 30, 2018.

Adequate Loan Origination Systems & Risk Management Systems: SML has set up an adequate loan origination, monitoring structure for overseeing its operations. More specifically, SML also has additional layer of credit team, before disbursement of loan.

Diversified Resource base however funding cost remains high: Major source of external funding for SML has been term loans (short term/long term) from Financial Institutions. As on September 30, 2018, the company has funding tie up with 31 lenders and the total borrowing outstanding was Rs.311.3 crores (long term/short term).

Key Rating Weaknesses

Short track record and small scale of operations: SML started its microfinance business in Nov 2016 and hence short track record of around 2 years. The loan portfolio of the company has grown from Rs.87.11 cr as on Sep 30, 2017 to Rs.176.29 cr as on March 31, 2018 and further to Rs.307.50 cr as on Sep 30, 2018. In addition to on balance sheet loan

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

book, the company also had managed portfolio, including which company's AUM was Rs.350.75 crore as on September 30, 2018. Despite the growth, company's loan book remains relatively small.

Loss making operations being in initial years of business: The company has reported net losses of Rs. 6.39 cr in FY18 and Rs.2.07 cr in H1FY19 as it is in growth phase and hence operating expenses in relation to managed loan book remained high.
The NIM and ROTA of the company stands at 1.03% and -6.49% during FY18 vs. 0.24% and -5.69% as on during FY17. NIM and ROTA stands at 5.28% and -1.08% as on Sep-18. However, company's profitability is expected to improve with scaling up of operations and equity raised in Jul-18 and company is projected to report positive PAT in FY19.

Low seasoning of portfolio though asset quality is good: As SML started operations in Nov-16, loan book's seasoning of the portfolio remains low; though the asset quality is good so far but trend in company's asset quality is yet to be established. SML has good portfolio quality as reflected by PAR > 30 days of 0.06% as on Sep 30, 2018.

Industry Risk: Inherent risk involved in the microfinance industry including unsecured lending, socio-political intervention risk and regulatory uncertainty results in higher portfolio vulnerability.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating Methodology for Non-Banking Financial Companies
Financial Ratios (Financial Sector)

About the Company
Satya Microcapital Limited (SML) is a public limited company, originally incorporated on May 18, 1995 at New Delhi as TFC Finvest Ltd under the provisions of The Companies Act, 1956. TFC Finvest Ltd. was acquired by the current promoter, Mr. Vivek Tiwari and the name was changed to SML in November 2016 when the company commenced Microfinance lending operations. The company started its operations in November 2016 from Sikanderabad Branch, Bulandshar District of Uttar Pradesh and has now spread its reach to thirteen states i.e. Uttar Pradesh, Punjab, Bihar, Rajasthan, Haryana, Chattisgarh, Uttrakhand, Orissa, Delhi, Assam, West Bengal, Jammu Kashmir and Delhi.
SML's operations are managed by Mr. Vivek Tiwari, promoter director with experience of more than a decade in the microfinance sector.
The company follows Joint Liability Group (JLG) model. SML's target segment consists of rural and urban women from low income families at the bottom of the pyramid. SML's operations are managed through a network of 74 branches and workforce of 768 employees spread across 13 states as on Sep-18.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total Income	0.96	26.96
PAT	-1.46	-6.39
Interest coverage (times)	NM	0.61
Total Assets (excluding Intangibles and unamortized expenses)	49.9	284.0
Net NPA (%)	Nil	Nil
ROTA (%)	NM	NM

A: Audited, NM: Not Meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	Nov 2020	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	50.00	CARE BBB-; Stable	1)CARE BBB-; Stable (12-Sep-18)	1)CARE BB+; Stable (12-Feb-18)	-	-

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