Satya Microcapital Limited

February 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	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, manageable asset quality trends and improving geographic diversification with top three states contributing to 50.7% of assets under management (AUM) as on September 30, 2019, down from 51.1% end fiscal 2019 and 62% end fiscal 2018. The company has comfortable liquidity profile with positive cumulative mismatches in all the time buckets as per Asset Liability Maturity (ALM) statement dated September 30, 2019. These rating strengths, are, however, partially offset by SML's small scale of operations with limited track record, low seasoning of loan portfolio, although comfortable asset quality indicators with GNPA at 0.14% as on September 30, 2019, modest albeit improving profitability with return on total assets (RoTA) at 1.65% as September 30, 2019. While the company's capitalization remains adequate, timely capital infusion would be imperative to provide further headroom for growth and maintain manageable gearing levels. Also, the rating remains constrained by inherent risk involved in the microfinance industry including unsecured lending, socio-political intervention risk and regulatory uncertainty.

Rating Sensitivities:

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

Positive Factors:

- Scale up of operations in sustainable and profitable manner
- Comfortable asset quality with GNPA on a sustainable basis at around 1%
- Maintaining adequate capitalization profile with gearing below 6 times on a steady basis

Negative factors:

- Weakness in profitability, asset quality and/or capitalization profile of SML with gearing rising above 7 times and/or decline in asset quality (GNPA above 1%).
- Delay in raising equity capital

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team: SML is promoted and managed by Mr. Vivek Tiwari, who held 31.7% stake in SML end H1 FY 2020 and has experience of nearly two decades in the microfinance sector. Before venturing out with SML, he was associated with Satin Creditcare Network Limited as its Chief Operating Officer (COO). He is a member of the governing board of SML which consists of eight other members who are/have been associated at senior management level with some of the prominent microfinance institutions in the country. He is supported by experienced senior management team which has good experience in the microfinance and financial sector. The company's largest institutional investor is Japan based Gojo and Company Inc (23.89% stake), an impact investment vehicle that primarily invests in microfinance institutions in south east Asia. The other larger institutional shareholder Dia Vikas (21.9% stake) has been SML's funder since the first round of institutional funding in October 2017.

Strong loan growth and geographically diversified book in relation to its size: SML started its microfinance business in Nov 2016 and has completed only 3 full years of operations and received NBFC-MFI license in February 2018. End September 2019, the AUM of SML stood at Rs.795 crore, of which 68% or Rs.539 crore was own portfolio while the remaining 32% or Rs.255 crore was managed portfolio. The own-loan portfolio of the company grew to Rs.539 crore as on Sep 30, 2019 registering a three year compounded annual growth rate (CAGR) of 174% till fiscal 2019. Joint Liability Group (JLG) loans

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

comprised 97% of the loan book; while non-JLG loan (including individual loan, micro business loan, cross selling product and LAP) constituted the remaining 3.08% as on Sep-19. The operations of the company are geographically well diversified with presence across 18 states with top three states contributing to 50% of the AUM, though no single state contributing more than 20% of the AUM. Uttar Pradesh being India's most populous state, remains the largest market for SML as well, contributing to 19.4% of the AUM end Sept 2019 followed by Bihar (17.5%), Punjab (13.8%), Haryana (10.8%), Rajasthan (9.0%), Assam (7.9%), Orissa (7.4%), West Bengal (6.2%), Chattisgarh (4.1%), Uttrakhand (2.1%) and balance portfolio in remaining 8 states. As a policy the company intended to maintain single state exposure at upto 20% by March 31, 2019 and upto 15% by March 31, 2020. Subsequently SML follows one district one branch model and ensures that the geographical concentration risk for the company remains relatively low.

Adequate capitalization profile though gearing remains high: The capitalization profile of the company is adequate with Tier 1 CAR and overall CAR at 15.4% and 22.4% respectively as on March 31, 2019 and 15.7% and 24.3% respectively as on Sep 30, 2019. The overall gearing and adjusted gearing (adjusted for managed book) of the company increased to 8.55 times and 10.95 times respectively as on Sep 30, 2019 from 6.56 times and 8.58 times respectively as on March 31, 2019 on account of sharp rise in borrowings to Rs.910 crore as on Sep 30, 2019 from (Rs.585 crore as on March 31, 2019) coupled with only marginal increase in tangible net worth to Rs.106.4 crore as on Sep 30, 2019 (Rs.89.2 crore as on March 31, 2019) on account of capital raising of around Rs.4 crore from the promoters in July-19 and Rs.10 crore from the investors in Sep-19 coupled with accrual of profits. The company has informed its plans to raise capital and any further material change in gearing will remain a key rating sensitive.

Adequate Loan Origination Systems & Risk Management Systems: SML has set up an adequate loan origination, and monitoring structure for overseeing its operations. More specifically, SML also has additional layer of credit team, before disbursement of loan. The company does cashless disbursements through NEFT which reduces the risk of cash management besides enabling greater operational efficiencies. The company has also taken various steps towards cashless collections.

Key Rating Weaknesses

Relatively small size of operations with limited track record: SML started its microfinance business in Nov 2016 and has completed only 3 full years of operations. Owing to the smaller base, the company has registered 184% y-o-y growth in the AUM from Rs.219 crore as on March 31, 2018 to Rs.622 crore as on March 31, 2019 and further to Rs.795 crore as on Sep 30, 2019. For the fiscal year ending March 31, 2019, the disbursements stood at Rs.629 crore while for half year ending Sept 2019, the disbursements were Rs.400 crore. However the company is still in its initial years of operations and remains relatively small in size.

Moderate albeit improving profitability: After incurring losses since its inception mainly due to incurrence of high operating and establishment costs that are required at the incipient stage, SML turned profitable in fiscal 2019 and reported net profit after tax (PAT) of Rs.3.24 crore in FY19 as against net losses of Rs.6.38 crore in FY18. End H1 FY 2020, the company's PAT stood at Rs.7.17 crore in H1FY20. Overall, as the company's size increases and economies of scale set in, the profitability of the company is expected to improve further. The net interest margin (NIM) on average interest earning assets and return on tangible assets (RoTA) of the company stood at 5.95% and 0.65% respectively as on March 31, 2019 as against 2.57% and -3.82% respectively as on March 31, 2018. The company's annualized NIM and RoTA further improved to 8.5% and 1.6% respectively end H1FY20. The operating expenses in relation to asset size of the company reduced to 7.31% as on March 31, 2019 (from 8.87% as on March 31, 2018) and the cost to income ratio improved to 84% as on March 31, 2019 (from 143% as on March 31, 2018) as the company achieves economies of scale.

Low seasoning of portfolio though asset quality is good: The seasoning of the loan book remains low as the company completed only three years of operations and majority (85%) of its customers are in first loan cycle. As a result, sustainable asset quality trends are yet to be established. However the asset quality has been good so far with marginal gross NPA of Rs.0.19 crore (0.03%) as on March 31, 2019 and Rs.1.08 crore (0.14%) as on September 30, 2019 vs. Nil NPA as on March 31, 2018. The manageable asset quality is also reflected by PAR > 30 days of 0.34% as on Sep 30, 2019. However, CARE has also take note of increase in softer delinquencies in Assam (6.7% of AUM as on Dec-19), following unrest in North Eastern districts of Assam viz. Biswanath, Golaghat, Jorhat, Sivasagar. PAR> 30 for Assam stood at 11.5% that came down to 0.9% in PAR> 60 and 0.3% in PAR>90 buckets. SML has slowed down its pace of disbursements in Assam and is addressing the concerns of borrowers on the ground level and encouraging them to repay. Subsequently the continued maintenance of asset quality remains a key rating sensitive given the low income profile of the borrowers and unsecured nature of lending.

Majority funding from NBFCs: The borrowing profile of the company, though increasingly diversified, remains largely dependent on funding from NBFCs that contributed to almost 50% of total borrowings end March 2019. As on September 30,

2019, the company has funding tie up with 43 banks/NBFCs/financial institutions and the total borrowing outstanding was Rs.585.2 crore as on March 31, 2019 that increased to Rs.910 crore as on Sep 30, 2019. The weighted average cost of borrowings is 14.25% as on September 30, 2019.

Industry Risk: The microfinance industry continues to be impacted by the inherent risk involved viz. socio-political intervention risk and regulatory uncertainty and risks emanating from unsecured lending besides operational risks related to cash based transaction and vulnerability of the borrower segment to economic downturns which leads to higher portfolio vulnerability.

Liquidity: Adequate

As per ALM statement dated September 30, 2019, the liquidity profile of the company is comfortable with 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. As on December 31, 2019, the company has cash and cash equivalents of around Rs.182 crore and over the next six months, scheduled inflows on the loan book are at Rs.256 crore and the company's debt obligation outflows are around Rs.266 crore.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Non Banking Finance Companies (NBFCs)
Financial Ratios – Financial Sector

About the Company

Incorporated on May 18, 1995, Satya Microcapital Limited (formerly known as TFC Finvest Limited) is an NBFC-MFI based out of Delhi. The company obtained MFI license in February 2018. The company commenced its microfinance lending operations in November 2016 in Uttar Pradesh and as on Sep 30, 2019, the operations of the company are managed through a network of 110 branches and workforce of 1,360 employees spread across 18 states. The company follows Joint Liability Group (JLG) model with limited liability and as on Sep 30, 2019, JLG product forms around 97% of the company's AUM. SML's target segment consists of rural and urban women from low income families at the bottom of the pyramid. During H1FY20, the company reported total income of Rs.92.40 crore and net profit after tax (PAT) of Rs.7.17 crore. The AUM of the company reached Rs.794.62 crore as on September 30, 2019 (including managed book of Rs.255.24 crore).

SML is promoted by Mr Vivek Tiwari, who is the largest shareholder holding 31.73% equity shares as on Sep 30, 2019, followed by Gojo & Company (23.89%), Dia Vikas Capital (21.99%) and remaining by employees and friends of promoter and senior management.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Income	26.96	96.64
PAT	-6.38	3.24
Interest coverage (times)	0.61	1.09
Total Assets (excluding Intangibles and unamortized expenses)	283.92	713.45
Net NPA (%)	Nil	0.03
ROTA (%)	-3.82	0.65

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

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	Proposed			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 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	50.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (21-Jan-19) 2)CARE BBB-; Stable (12-Sep-18)	1)CARE BB+; Stable (12-Feb-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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