Satya Microcapital Limited

February 12, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	50.00 (Rupees Fifty crore only)	**CARE BB+; Stable** **(Double B Plus; Outlook: Stable)**	**Assigned**
Total Facilities	**50.00 (Rs. Fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to Satya Micro Capital Limited (SML) derives strength from experienced promoters and management team, geographically diversified loan book, diversified resource base, adequate liquidity profile and adequate loan origination, monitoring and risk management systems put in place by the company. These rating strengths, are however, offset by the short track record of operations, small scale of operations, low seasoning of loan portfolio, relatively higher gearing and loss making operations being in initial years of business.

Going forward, the ability of the company to raise capital in a timely manner to maintain comfortable capitalization profile, improve profitability and maintain good asset quality 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, promoter director who is also a member of the governing board of SML which consists of 6 other members who are/have been associated at senior management level with some of the prominent microfinance institutions in the country .Mr. Vivek Tiwari has an experience of nearly two decades in the microfinance sector. Before venturing out with SATYA, he was associated with Satin Creditcare Network Limited as COO. Senior management team of the company also has good experience of working in the microfinance and financial sector.

Geographically diversified loan book: SML started its operations in November 2016 and currently operating in seven states with loan book of Rs.126.47 crore as on December 31, 2017. SML's loan book is well diversified across geographies (specifically despite small scale of operations); as on December 31, 2017, its operations are spread across seven states namely Punjab (29.8% of total loan book as on Dec-17), Haryana (18.2%), UP (23.4%), Rajasthan (17.5%), Uttarakhand (5%), Chattishgarh (3.5%) and Bihar (2.4%). The company plans to expand into another 8-9 states during FY18-FY19.

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 and Adequate Liquidity Profile: Major source of external funding for SML has been term loans (short term/long term) from Financial Institutions. As on Oct 31, 2017, the company has funding tie up with 15 lenders and the total borrowing outstanding was Rs.100.84 crores (long term/short term). Weighted average cost of funds for these borrowings was around 15.0%.

The liquidity profile of the company is comfortable supported by shorter tenure and regular amortizing microfinance loan book. There were no negative mismatches in ALM as on September 30, 2017.

Key Rating Weaknesses

Short track record and small scale of operations: SML started its microfinance business in Nov 2016. The loan book size of SML is relatively small with a loan portfolio of Rs.126.47 crore as on Dec 31, 2017. The company's operations are currently spread over 7 states.

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

Loss making operations being in initial years of business: The Company has reported net losses of Rs.1.46 crore in FY17 and Rs.3.28 crore in H1FY18 as it is yet to achieve scale of operations and hence operating expenses in relation to managed loan book remained high.

The interest spread of the company is 9.17% as on Sep 30, 2017. Its operating expenses are high at 7.5% as on Sep'17.

Low seasoning of portfolio though asset quality is good: As SML started operations in Nov-16 and all of its borrowers are in first loan cycle, 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 NIL as on March 31, 2017 and Sep 30, 2017. However sustenance of asset quality at reasonable levels of operations is yet to be demonstrated.

Yet to raise substantial capital base to fund planned loan book growth: SML had raised capital of Rs.14.24 crore till Sep'17. Adjusted for losses reported in FY17 and H1FY18, SML's net worth stood at Rs.9.4 crore as on Sep'17. SML's adjusted gearing was relatively high at 10.5 times and CRAR at 18.76% as on September 30, 2017. Subsequently, in October 2017, the company had raised equity capital of Rs.11.5 cr from Dia Vikas Capital, which is likely to support company's capitalization profile. The company also intends to raise capital in short term to support its growth plans. Going forward, the ability of the company to raise capital in a timely manner to maintain comfortable capitalization profile would be the key sensitivity.

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 Sikandrabad Branch, Bulandshar District of Uttar Pradesh and has now spread its reach to 27 districts in seven states i.e. Haryana, Punjab, Rajasthan, UP, Uttarakhand and Chattisgarh.

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 27 branches and workforce of 282 employees spread across 6 states.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total Income	0.17	0.96
PAT	0.01	-1.46
Interest coverage (times)	NM	NM
Total Assets (excluding Intangibles and unamortized expenses)	1.43	49.93
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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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 BB+; 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	50.00	CARE BB+; Stable	-	-	-	-

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