

Swarna Pragati Housing Microfinance Private Limited

April 02, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	150.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total	150.00 (Rupees One hundred fifty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating to the bank facilities of Swarna Pragati Housing Microfinance Private Limited (SPHMPL) continues to derive strength from experienced management, adequate capitalization levels, low gearing levels considering initial stages of operations leading to large part of the loan book being funded by equity capital, the company's demonstrated ability to raise funds through equity and debt route, moderate liquidity profile and untapped market segment providing strong growth opportunities.

The rating strengths, however, are constrained by deterioration in asset quality post demonetization, geographic concentration with largely unseasoned loan portfolio, moderate financial risk profile marked by moderate scale of operations with low profitability, evolving systems related to risk management, and exposure to target customer segment which may have high susceptibility to economic downturn as well as dependence on agricultural income which is dependent on vagaries of nature.

The company's ability to grow its scale of business while maintaining adequate capitalization levels, improvement in asset quality and financial risk profile in terms of improvement in profitability and liquidity are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management

SPHMPL was founded by Mr. A Ramesh Kumar, Chairman of the company. Mr. A Ramesh Kumar is a post graduate in Physics and an MBA with over three decades of experience in banking sector. He is former Chief General Manager of State Bank of India (SBI) and was the head of all International offices and subsidiaries of the bank. The senior management team includes highly qualified and experienced personnel.

Investment by reputed private equity investors

SPHMPL has successfully raised equity capital from private equity investments by reputed equity investors. The major investors in the company include Aavishkaar Goodwill India Microfinance Development Company II Limited, Omidyar Network, Aavishkaar Venture Management Services Private Limited and Zephyr Peacock India Fund III Limited.

Adequate capitalization levels and low gearing indicators

The company has been able to raise equity capital over the last three years and its net worth has increased from Rs.10.70 crore as on March 31, 2013 to Rs.61.72 crore as on March 31, 2017. The company reported capital adequacy ratio (CAR) of 77.49% (Tier I CAR: 76.77%) as on March 31, 2017 [P.Y.: 131.47% (Tier I CAR: 130.46%)].

Additional borrowings availed during the year resulted in marginal deterioration in the capital structure as on March 31, 2017. Total borrowings stood at Rs.134.74 crore as on March 31, 2017 (Rs.63.89 crore as on March 31, 2016). Overall gearing stood at 2.18x as on March 31, 2017 (1.13x as on March 31, 2016).

Strong fund raising capability helping growth in loan portfolio

Apart from equity capital raised from various private equity players, the company has been able to raise debt funding largely from banks as well as NBFC's. As on March 31, 2017, the company had total debt of around Rs.134.74 crore largely by way of term loans from ten NBFCs and 2 banks. The ability to raise funds has helped the company to increase its scale and its loan portfolio has increased from Rs.15.17 crore as on March 31, 2013 to Rs.159.00 crore as on March 31, 2017

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

(Rs.92.96 crore as on March 31, 2016). Further, as per changed guidelines for priority sector lending (PSL), entire portfolio of SPHMPL would qualify under PSL which may help it raise funds at lower cost in the near future. Going forward, the company's ability to raise additional equity capital as envisaged would be a rating monitorable.

Key Rating Weaknesses

Moderate asset quality and unseasoned loan portfolio

Asset quality deteriorated during FY17, mainly as a result of impact of demonetization on the rural economy. The company reported Gross NPA Ratio of 4.48% [P.Y.:3.28%] and Net NPA ratio of 3.30% [P.Y.: 2.53%] as on March 31, 2017.

Moderate financial profile

SPHMPL reported total income of Rs.27.80 crore during FY17 as against Rs.18.96 crore during FY16. PAT was seen at Rs.0.27 crore, marginally higher than that in FY16, i.e. Rs.0.12crore. Net interest margin for FY17 declined marginally to 8.28% from 8.84% during FY16.

Profitability metrics were impacted mainly as a result of higher provisioning, employee costs and operating expenses, resulting from changing focus on direct lending model instead of channel partners model, which translates into higher branch operating expenses and hiring additional ground level staff. Deterioration in the asset quality required higher provisioning, impacting the profitability further. ROTA for the year was seen at 0.16% in FY17 as compared to 0.11% in FY16.

Comfortable liquidity profile

The liquidity profile is comfortable with positive cumulative mismatches across all time buckets in the asset liability maturity profile on account of high proportion of the medium tenor housing loans as against largely medium term bank borrowing profile (3-5 years).

Small scale of operations

The company was incorporated in January, 2009 and commenced lending operations in 2011. The loan book size, although increased from as low as Rs.22.78 crore as on March 31, 2014, remained low at Rs.159.00 crore as on March 31, 2017.

Geographical concentration and exposure to economically weaker segment

The company presently has operations in six states namely Karnataka, Maharashtra, Pondicherry, West Bengal, Orissa & Tamil Nadu, of which Maharashtra, Orissa & Tamil Nadu collectively accounted for ~94% of outstanding portfolio as on March 31, 2017. In order to achieve diversification, the company has started operations in Pondicherry and West Bengal in FY17. Also, SPHMPL is primarily lending towards the housing finance needs of the self-employed customers or salaried borrowers in the unorganized sector in the low and middle income segment who are not serviced by the banking sector. Since this segment is highly susceptible to the impact of economic downturn, ability of SPHMPL to manage asset quality of the loan portfolio is a key rating sensitivity.

Industry Risk

In recent times, HFCs (mainly Small and Mid HFCs) focusing in the affordable housing segment have expanded their lending operations with focus on self-employed and low ticket size loans. They operate in geographies where marketability of repossessed properties is yet to be tested. Thus, going forward, CARE Ratings expects the credit cost for Large HFCs to continue to be at the current levels while that for Mid and Small categories are likely to be higher. Hence, to limit credit cost, the adoption of stricter underwriting standards by Small and Mid HFCs will be the key differentiating factor for individual entities. Historically, HL as a product has seen lowest delinquencies vis-à-vis other retail asset classes. Going forward, increasing gearing levels for

HFCs operating in the affordable housing space might not be an appropriate strategy given that credit costs are expected to be higher.

Analytical approach: Standalone

Applicable criteria

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

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Housing Finance Companies \(HFCs\)](#)

[Ratios- Financial Sector](#)

About the Company

SPHMPL is a housing finance company (HFC) registered with the National Housing Bank (NHB). The company was founded by Mr. A Ramesh Kumar, former Chief General Manager (CGM) of State Bank of India (SBI), Maharashtra Circle. SPHMPL has seen investment by reputed private equity investors like Zephyr Peacock India Fund III Limited, Aavishkaar Goodwill India Microfinance Development Company II Limited, Polaris Banyan Holding Private Limited, Omidyar Network as well as investors like MA Alagappan Holdings Private Limited, Mr. Vikram Gandhi and Mr. Pramod Bhasin.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	18.97	25.90
PBILDT	0.12	0.27
PAT	1.02	1.03
Overall gearing (times)	131.29	206.70
Interest coverage (times)	2.53	3.30

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

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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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	-	-	June 2022	150.00	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 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	150.00	CARE BBB-; Stable	-	1)CARE BBB-(25-Oct-16)	-	-

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