



Press Release

Samunnati Financial Intermediation & Services Private Limited

May 08, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Bank Facilities- Long Term	200.00	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook).	Assigned
	Total	200.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the Bank facilities of Samunnati Financial Intermediation & Services Private Limited (“Samunnati”) derives comfort from its experienced promoters and management team with established presence in its lending sector and adequate credit policy norms, IT systems and good knowledge on the target customer segment. The rating also factor in its comfortable capitalization profile, diverse borrowing profile and satisfactory asset quality. These rating strengths are partially offset by Limited track record of operations with geographically concentrated operation, high portfolio vulnerability on account of marginal income profile borrowers in retail and CBO/FPO and Increase in delinquencies in softer buckets.

Key Rating Sensitivities

Upward Factors

Infomerics could upgrade the rating if the company scales up its loan book significantly with diversification in its borrowing profile, while maintaining satisfactory GNPA and the track record of comfortable gearing and improvement in earnings profile.

Downward Factors

Pressure on the company’s rating could arise if there is deterioration in the asset quality with Gross NPAs of more than 4.00% on sustained basis, which could affect its profitability. Also, significant increase in company’s gearing along with stretch in its liquidity profile could also exert pressure on the company’s rating.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced management team

Samunnati is promoted by Mr. Anil Kumar S G, who has over 27 years of experience in banking and agriculture financing business. He embarked on the journey in rural agriculture financing from 2007 onwards as the founder trustee of IFMR Trust, wherein he was involved in designing and deploying a local financial institution model called Kshetriya Gramin Financial Services. The second line of management comprises professionals with an average experience of over a decade in fields of commercial and lending, audit, operations and information technology. The board has adequate representation from investors and extends strategic support to the company. The management is aware of the risks associated with the segment and has put in place an elaborate credit policy for on boarding and sanction process.

Diverse borrowing profile

Samunnati enjoys good financial flexibility, as the company has associations with 10 financial institutions and 5 banks as on March 31, 2020. 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.

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



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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. The company uses Encore, developed by Sensei 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 total operating income declined from 120.45% in FY17 to 47.19% in FY20. The NIM stood at 13.74% during FY20, on account of decline in interest expenses as a % of total operating income to 31.08% during FY20 from 38.35% in FY19. ROTA stood at 2.59% in FY20 as against 2.04% during FY19, improved due to improvement in NIM and operating expenses.

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. The company has had six rounds of funds raising since fiscal 2016 and in each subsequent round, all previous investors have participated. This is demonstrative of the constant support from investors and Samunnati's ability to attract new investors. The key investors include Elevar M - III,



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Accel India V (Mauritius) Ltd, and responsAbility Agriculture I, SLP, TIAA who have extended capital support to the company in the past. During the month of May 2019, the company received fresh funds infusion of ~Rs.305 crore. The net worth of Samunnati increased to Rs.509.38 crore as on March 31, 2020 (Rs.194.51 crore as on March 31, 2019) which results into decline in gearing to 0.9 times as on March 31, 2020 (1.9 times in March 31, 2019). Capital adequacy ratio (Tier II-NIL) and Tier I stood at 53.54% as on March, 2020 as against 33.61% as on March 31, 2019. Present level of capitalisation is adequate to meet the business growth envisaged for the next two years.

Key Rating Weaknesses

Limited track record of operations with geographical concentration:

Being in the initial stage of operations, the company lacks track record. The company commenced full-fledged operations in fiscal 2016-17 and substantially scaled up its portfolio in fiscal 2019 and 2020. Given this, seasoning is limited and asset quality performance would need to be monitored over a longer period. While Samunnati is one of the early entrants in this space, the ability to significantly scale up the portfolio while managing credit costs and operating expenses will be a key monitorable.

Samunnati operated in only eight states in fiscal 2017 and has currently scaled up its operations spanning across 19 states as on March 31, 2020. Nevertheless, the company's exposure to a single state i.e. Tamil Nadu continues to be high at 40.23% although the same has come down from ~55% two years back as on March 31, 2018. Sustainability of the asset quality across newer territories while growing at the current level will be a key monitorable.

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



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management team's knowledge on its target customer segments and selection of customers whose produce may not be 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.

Increase in delinquencies in softer buckets

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-FY20) stood at ~82%. The company's gross NPA and net NPA stood at 3.67% and 2.70% respectively as on March 31, 2020 (PY:1.6% and 1.2% respectively). During FY20, the delinquencies in all DPD buckets have been increased. Increase in delinquencies during FY20 can be partly attributed to seasonality associated with its customer segments especially, agri-enterprise loans, agri-receivable financing and input/output loans has increased substantially in FY2020.. 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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Financial Institutions/NBFCs.

Financial Ratios & Interpretation (Financial Sector)

Liquidity: Adequate

The liquidity profile of the company remains adequate with positive cumulative mismatches across buckets as per ALM statement as on 31st March, 2020, due to favourable asset maturity profile. Further, SFISPL's working capital utilization remained low at 25.11% for the last twelve months period ended March 2020 with unutilized cash credit facilities of above Rs.13.00 crore. Over the next six months, the company expects repayment from loan book of Rs.390.00 crore while its debt and interest payment will be around Rs.154.9 crore. Also,



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the company maintains surplus liquidity all times to cover debt and interest payments as Samunnati has cash and liquid investments of about Rs. 163.78 crore and sanctioned but unavailed term loans of about Rs. 102 crore as of March 2020 while it has repayment obligations of about Rs. 154.9 crore over a six-month period (April to September 2020).

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.

Samunnati focuses on five broad segments of agriculture—fresh fruits, vegetables and flowers; dairy, poultry and fishery; post-harvest food processing industry; agri inputs such as seeds, fertilizers, agrochemicals, machinery and farm equipment, small and micro-irrigation; and field crops and horticulture commodities.

As on March 31, 2020, Samunnati operates across 27 offices in 19 states with total AUM of Rs. 713.51 crore (PY: Rs.463.82 crore in FY2019). 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 from FY19 onwards, on account of higher delinquencies in this segment and is focusing more on ARF and CBO/FPO.

Financials (Standalone):

For the year ended*	(Rs. In Crore)	
	31-03-2019	31-03-2020
	Audited	Provisional
Total Income	85.57	135.15
PAT	9.46	20.45
Tangible Net worth	194.51	509.38
Total Assets	577.45	1,000.59
ROTA (%)	2.03%	2.59%



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For the year ended*	31-03-2019	31-03-2020
Gross NPA (%)	1.6%	3.67%
Net NPA (%)	1.2%	2.7%

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Bank Facilities	Long Term	200.00	IVR A- (Stable: Outlook)	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Ravi Prakash	Name: Mr. Avik Podder
Tel: (011) 24655636	Tel: (033) 46022266
Email: rprakash@infomerics.com	Email: apodder@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Bank Facilities- Long Term (Proposed)	-	-	-	200.00	IVR A-/Stable Outlook