



Press Release

Sustainable Agro-Commercial Finance Limited
May 26, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Bank Facilities- Fund Based Long Term	130.90	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus Under credit watch with developing implications)	Assigned
2	Proposed Long Term Bank Facilities	69.10	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus Under credit watch with developing implications)	Assigned
	Total	200.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Sustainable Agro-Commercial Finance Limited (SAFL) derives comfort from its experienced management team, diverse borrowing profile, adequate credit policy norms, IT systems, and good knowledge of the target customer segment, moderately leveraged capital structure, relatively moderate scale of operations with moderately diversified operations. However, these rating strengths are partially offset by financial stress of major shareholder; however the presence of marquee investors adds credit comfort. The rating also considers its declining operating performance and increase in delinquencies in softer buckets. The credit watch with developing implications is to track the evolution of gross and net NPAs.



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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, and maintaining the track record of comfortable capitalization and earnings profile.

Downward Factors

Pressure on the company's rating could arise if there is deterioration in the asset quality on sustained basis, which could affect its profitability. Also, significant deterioration in company's CAR along with stretch in its liquidity profile could also exert pressure on the company's rating.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced management team

SAFL is promoted by Jain Irrigation Systems Limited (JISL); International Finance Corporation (IFC) Washington is an anchor shareholder. IFC is a member of the World Bank Group. Mandala Capital AG Ltd has also become a shareholder effective 31st March 2015. Mr. Ashok B Jain is the Executive Chairman of Jain Irrigation Systems Ltd.

Diverse borrowing profile

SAFL enjoys good financial flexibility, as the company has associations with 9 banks as on March 31, 2020. Going forward, the ability of the company to diversify its resource profile and raise funds at competitive interest rates would remain critical for the profitability of the company.

Adequate credit policy norms, IT systems, and good knowledge of the target customer segment

SAFL has developed its in-house team covering all the facets starting from business sourcing, process, audit & recovery and collection teams. SAFL is operating on a hub and spoke model where all operations such as credit, sanctions, legal documentation,



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disbursements and loan account maintenance, funds management, IT are centered at Head Office/ Zonal offices. Branches / Satellite offices are actual business centers. The Branch / satellite office staff will be responsible only for business origination maintaining a close liaison with Dealers and later on, the recovery processes. SAFL follows a similar process like any other public commercial bank in India for sanction of term loans to farmers for purchasing micro irrigation systems (MIS) which includes drip irrigation and / or sprinkler systems.

Moderately Leveraged capital structure

The company has a moderately leveraged capital structure mainly on account of its modest net worth base of Rs.162.60 crore as on March 31, 2019. The overall gearing ratio of the company marginally moderated and stood at 1.20x as on Mar.31, 2019 vis-a-vis 1.13x as on March 31, 2018. Capital adequacy ratio stood at 52.10% as of March 31, 2019 as against 51.27% as on March 31, 2018. Present level of capitalisation is adequate to meet the business growth envisaged for the next two years.

Relatively moderate scale of operations with moderately diversified operations

The company's loan book remains moderate in size at Rs.306.11 crore as on March 31, 2019 and Rs.314.61 crore as on Dec 31, 2019. SAFL operates its business in three states that are Maharashtra, Karnataka and Madhya Pradesh. With such scale of operations it is healthier for the company to focus on the business in existing boundaries. However, the company is planning to expand its business in other states in near future.

Key Rating Weaknesses

Financial stress of major shareholder; however the presence of marquee investors adds credit comfort

Jain Irrigation System Limited (JISL) is the major shareholder and holds 49% stake in SAFL. JISL is facing financial stress leading to delay in meeting debt servicing obligations driven by delays in payment from state governments. Mandala Capital a private equity firm holds 20% stake whereas IFC – a member of the World Bank Group holds 10% stake in SAFL.



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Declining operating performance

SAFL's return on net worth (excluding deferred tax) stood at 2.62% as on March 31, 2019 (PY: 4.54%) and return on total asset stood at 1.58% as on March 31, 2019 (PY: 2.43%) are modest. The decrease in profitability in FY19 was mainly due to an increase in operating costs. Cost to income ratio increased to 81.58% in FY19 from 71.24% in FY18.

Increase in delinquencies in softer buckets;

The company's gross NPA and net NPA stood at 2.96% and 2.26% respectively as on March 31, 2019 (PY: 2.89% and 2.18%). During FY19, the delinquencies in all DPD buckets have increased. It is critical for SAFL 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 Non-Banking Finance companies
Financial ratios and Interpretation (Financial Sector)

Liquidity: Adequate

The liquidity profile of the company remains adequate with positive cumulative cash across buckets as per ALM statement as on 31st March, 2020, due to favourable asset maturity profile. Further, SAFL's working capital utilization remained high at 94.91% for the last twelve months period ended April 2020. Over the next six months, the company expects repayment from loan book of Rs.92.03 crore while its debt and interest payment will be around Rs. 24.57 crore. Also, the company maintains surplus liquidity all times to cover debt and interest payments as SAFL has cash and liquid investments of about Rs. 40.03 crore as on March 2019 while it has repayment obligations of about Rs. 24.57 crore over a six-month period (April to September 2020).

About the Company

Sustainable Agro-Commercial Finance Limited (SAFL) is the first NBFC in India providing Agri- loans with a wide and diverse range of financing options for almost every need of agricultural activity. SAFL only finances products which results in increased farm productivity



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and improvement in the lifestyle of farmers. The lending is in the nature of Asset Financing and only the equipment/asset financed would generally be held as Security.

SAFL is promoted by Jain Irrigation Systems Ltd (JISL), Jalgaon with IFC -Washington and Mandala Capital Ltd as an anchor investor.

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	53.41	57.38
PAT	7.53	5.49
Tangible Net worth	157.18	162.60
Total Assets	343.87	314.44
Return on Total Assets (ROTA) (%)	2.43	1.58
Gross NPA (%)	2.89	2.96
Net NPA (%)	2.18	2.26

*classification as per Infomerics standard

Status of non-cooperation with previous CRA: Nil

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.	Cash Credit	Long Term	15.00	IVR BBB- /Credit watch with developing implications (IVR Triple B Minus Under credit watch with developing implications)	-	-	-
2.	Term Loan	Long Term	115.90	IVR BBB- /Credit	-	-	-



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				watch with developing implications (IVR Triple B Minus Under credit watch with developing implications)			
3.	Proposed Term Loan/NCD	Long Term	69.10	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus Under credit watch with developing implications)	-	-	-

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.

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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



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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
Long Term Bank Facilities- Cash Credit	-	-	-	15.00	IVR BBB- /Credit watch with developing implications
Long Term Bank Facilities – Term Loan	-	-	-	115.90	IVR BBB- /Credit watch with developing implications
Proposed Term Loan/ NCD	-	-	-	69.10	IVR BBB- /Credit watch with developing implications