



## Press Release

### **Samunnati Financial Intermediation & Services Private Limited**

**August 07, 2021**

#### **Ratings**

| <b>Instrument / Facility</b>         | <b>Amount (Rs. crore)</b>                             | <b>Ratings</b>  | <b>Rating Action</b>  |
|--------------------------------------|---|---|---|
| Long term Bank Facilities (Proposed) | 200.00  | IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook) | Revised from IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook) |
| <b>Total</b>                         | <b>200.00</b><br><b>(INR Two Hundred Crores Only)</b> |   |   |

**Details of Facilities are in Annexure 1**

#### **Detailed Rationale**

The revision in the long-term rating of Samunnati Financial Intermediation & Services Private Limited (SFISPL or the company) reflects the weakening in the profitability and asset quality indicators in FY2021. On standalone basis, SFISP's net profit remains weak at Rs.0.38 crore in fiscal 2021 from losses in fiscal 2020 due to higher credit cost including one-time write-off of Rs.20.68 crore for exposure to Sambandh, which defaulted in October 2020 in payments to lenders. Consequently, in fiscal 2021, return on total assets (RoTA) stood at 2.88% (before provision and write offs) and 0.03% (after provision and write offs). Samunnati has undertaken restructuring of about Rs 45 crore in March 2021. Samunnati also witnessed an increase in the softer bucket delinquencies with 30+ and 60+ dpd and stood at 5.14% and 11.37%, respectively, as of March, 2021 (5.01% and 2.42%, respectively, as of March 2020). Overall asset quality moderated on account of the pandemic, and 90+ dpd had increased to 4.79% as of March 31, 2021 from 3.67% as of March 2020 as the cashflows of the target borrower segment were impacted due to the pandemic. Given the risks associated in the agriculture financing business and since it commenced operations in fiscal 2017. The asset quality deteriorated moderately in the current fiscal; gross non-performing assets (GNPA) stood at 4.79% and NNPA is at 3.17% as on March 31, 2021 as against gross non-performing assets (GNPA) at 3.67% and NNPA is at 2.70% as on March 31, 2020, compared to GNPA at 1.6% and NNPA at 1.2% as on March 31, 2019. IVR notes that the company has taken steps to cushion the incremental slippages by making provisions including write offs of Rs.32.25 crore in FY2021 as against Rs.23.99 crore in FY2020.



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IVR notes that the company's efforts in strengthening its collection efficiencies, resulting in an improvement in the overdue recoveries till June, 2021. The ratings continue to factor in the company's adequate liquidity position, comfortable capitalisation with a gearing of 1.5x as on March 31, 2021 with Capital adequacy ratio (Tier II- 0.32%) and Tier I stood at 40.25% as on March 31, 2021 as against 53.54% as on March 31, 2020 and its demonstrated ability to raise funds. Present level of capitalization is adequate to meet the business growth envisaged in near term. Furthermore, the rating derives comfort from Company's 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 ratings also consider Samunnati's limited track record of operations, the risks associated with a moderate borrower profile and high portfolio vulnerability on account of marginal income profile borrowers in retail and CBO/FPO. Going forward, Samunnati's ability to scale up its operations while controlling the asset quality, improving its earnings profile, and maintaining comfortable capitalisation would be a key monitorable from a rating perspective.

### **Key Rating Sensitivities:**

#### **Upward revision factors:**

Infomerics could upgrade the rating if the company scales up its loan book significantly with diversification in its borrowing profile, while maintaining GNPA of less than 3.00% on sustained basis and maintaining the track record of comfortable capitalization and earnings profile.

#### **Downward revision factors:**

Pressure on the company's rating could arise if there is deterioration in the asset quality with Gross NPAs of more than 5.00% on sustained basis, which could affect its profitability. Also, significant increase in company's gearing 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***



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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 onboarding and sanction process.

### ***Diverse borrowing profile***

Samunnati Financial Intermediation & Services Private Limited enjoys good financial flexibility, as the company has associations with more than 25 financial institutions/banks as on June 30, 2021. 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 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. Samunnati uses mobile based Loan management



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system (Artoo) for maintaining customer database where the details of every customer is entered by the business team and validated by credit team. The company uses Encore, developed by Sersei 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.

### ***Strong capitalization supported by regular 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, Accel India V (Mauritius) Ltd, and responsibility 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. On standalone basis, the tangible net worth of Samunnati increased to Rs.508.9 crore as on March 31, 2021 (Rs.505.68 crore as on March 31, 2020 & Rs.194.51 crore as on March 31, 2019) which results into comfortable in gearing to 1.51 times as on March 31, 2021 (0.95 times in March 31, 2020). Capital adequacy ratio (Tier II- 0.32%) and Tier I stood at 40.25% as on March 31, 2021 as against Tier I capital of 53.54% as on March 31, 2020. Present level of capitalization is adequate to meet the business growth envisaged for near term.

### **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 2017 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. The company's business model is to cater to the farmers' financing requirement through agricultural enterprises, farmer producer organisation/company, self-help groups, and non-governmental organisations. Hence, evaluating the credit risk profiles of these clients is very critical. The model is refined



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continuously based on the performance of the portfolio and feedback from the collections and credit teams. However, this kind of agriculture financing model is at the very initial stage in India. 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 with 34 branches as on March 31, 2021. Nevertheless, the company's exposure to a single state i.e. In FY21, Loan asset portfolio of the company is concentrated to Tamil Nadu which stands at ~31% of the total loan book followed by Karnataka at 12% and remaining 57% of the total loan book is distributed among other 17 states. 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 management team's knowledge on its target customer segments and selection of customers whose produce may not 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 with rise in NPA levels due to Covid-19 impact;***

Limited seasoning of loan portfolio Samunnati commenced its operations during fiscal 2017; the loan portfolio is characterized by limited seasoning due to significant growth of operations in a short period. The asset quality deteriorated slightly in the current fiscal; gross non-performing assets (GNPA) stood at 4.79% and NNPA is at 3.17% as on March 31, 2021 as against gross non-performing assets (GNPA) at 3.67% and NNPA is at 2.70% as on March





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31, 2020, & GNPA at 1.6% and NNPA at 1.2% as on March 31, 2019. However, NPAs have under control with Gross NPAs at below 5%. This is largely because of the continuously improving lending policies placed by the company management and downsizing of its retail financing portfolio during FY19, on account of higher delinquencies in this segment and is focusing more on ARF and CBO/FPO. The 90+ dpd had increased to 4.79% as of March 31, 2021 from 3.67% as of March 2020 as the cashflows of the target borrower segment were impacted due to the pandemic. Samunnati also witnessed an increase in the softer bucket delinquencies with 30+ and 60+ dpd and stood at 5.14% and 11.37%, respectively, as of March, 2021 (5.01% and 2.42%, respectively, as of March 2020). The collection efficiency (present demand with prepayment) improved to ~89% in June, 2021 compared to ~73% in June, 2020. It is critical for Samunnati to keep its asset quality indicators under control with the envisaged growth plans, improve collection efficiency, increasing average ticket sizes and moderate borrower profiles in certain segments.

### **Subdued profitability with increase in credit cost:**

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. On a consolidated basis, Samunnati reported net loss FY2021 as the margins contracted due to increase in the credit costs in Samunnati and the provision created for the receivables in the subsidiary impacted the earnings in FY2021 with Sambandh exposure of Rs. 20.68 crore was written off during FY2021 along with higher finance cost, lower disbursements in first half of FY2021 due to Covid lockdowns in Samfin, with Loan Loss Provision/ ECL, with Ind AS transitioning impact has also impacted the margins.

During FY21 (Ind-AS) standalone basis, Samunnati reported a PAT of Rs.0.4 crore on a total income of Rs.167.7 crore and ROTA during FY2021 stood at 0.03% due to one-time write-offs of Rs.20.68 crore with increased provisioning and higher finance cost during FY2021. Going forward, the company's ability to keep the credit costs under control would be crucial from an earnings perspective.



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**Analytical Approach:** Consolidated ( Samunnati Financial Intermediation & Services Pvt Ltd + Samunnati Agro Solutions Pvt Ltd).

**Applicable Criteria:**

Rating Methodology for Non-Banking Finance companies.

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 31<sup>st</sup> March, 2021, due to favorable asset maturity profile. Further, SFISPL's working capital utilization remained low for the last twelve months period ended June 2021 with unutilized cash credit facilities of above Rs.24.3 crore. Over the next six months, the company expects payment from loan book of Rs.678.00 crore while its debt repayment will be around Rs.515.15 crore. Also, the company maintains surplus liquidity all times to cover debt and interest payments as Samunnati has cash and liquid investments of about Rs.121.3 crore and sanctioned but unavailed working capital lines of about Rs. 24.3 crore as of July 15, 2021, while it has repayment obligations of about Rs. 94.00 crore in next two months.

**About the Company**

**Samunnati Financial Intermediation & Services Pvt Ltd:**

Samunnati Finance was incorporated in November 2014, and is registered as a non-deposit accepting, non-banking financial company, offering financial services to the agricultural value chain. It started its operations by offering financing through retail loans to the dairy value chain. In December 2015, the company gave its first loan to a farmer-producer organisation, and in January 2016, it provided its first loan to an agricultural enterprise. Finally, in October 2016, the company established three verticals i.e. retail, community-based organisations, and agricultural enterprise. The company has discontinued the retail loan book and it is only the outstanding portfolio that is running down, with no fresh disbursements made since the second



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half of fiscal 2019. It has a B2B2C (business to business to consumer) model, which does not engage in direct dealing with retail loans.

**About Samunnati Agro Solutions Private Limited:** In September 2016, Samunnati Agro was incorporated as a wholly owned subsidiary of Samunnati Finance. The company trades in agricultural produce, including fruits and vegetables. It enables small farmers to receive optimal value for their produce by providing market linkages between farmer-producer organisations, farmers, local mandis and modern retailer, corporates, and traders. It caters to a large base of almost 300 clients and deals in over 300 commodities.

### Financials (Consolidated):

| For the year ended*                | 31-03-2020<br>(IGAAP) | 31-03-2021<br>(Ind-As) |
|------------------------------------|-----------------------|------------------------|
|                                    | <b>Audited</b>        | <b>Provisional</b>     |
| Total Income                       | 726.63                | 921.56                 |
| PAT                                | 11.94                 | (6.61)                 |
| Tangible Net worth                 | 492.57                | 480.96                 |
| Total assets^                      | 995.34                | 1276.7                 |
| Return on Total Assets (ROTA) (%)^ | 1.33                  | 0.03                   |
| Overall Gearing Ratio (x)          | 1.05x                 | 1.83x                  |
| Gross NPA (%)^                     | 3.67%                 | 4.79%                  |
| Net NPA (%)^                       | 2.7%                  | 3.17%                  |

\* Classification as per Infomerics standards, ^ Standalone basis

**Status of non-cooperation with previous CRA:** None

**Any other information:** None

### Rating History for last three years:

| Sr. No. | Name of Instrument/Facilities | Current Ratings (Year 2021-22) |                                |        | Rating History for the past 3 years                      |   |   |
|---------|-------------------------------|--------------------------------|--------------------------------|--------|--|---|---|
|         |                               | Type                           | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2020-21<br>May 08, 2020) | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 |
|         |                               |                                |                                |        |  |   |   |





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|   |                                      |           |     |                 |               |    |    |
|---|--------------------------------------|-----------|-----|-----------------|---------------|----|----|
| 1 | Long term Bank Facilities (Proposed) | Long Term | 200 | IVR BBB+/Stable | IVR A-/Stable | -- | -- |
|---|--------------------------------------|-----------|-----|-----------------|---------------|----|----|

**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](http://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 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.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.



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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 |
|------------------|------------------|------------------|---------------|------------------------------|--------------------------|
| Proposed         | --               | --               | --            | 200.00                       | IVR BBB+/ Stable Outlook |

### Annexure 2: List of companies considered for consolidated analysis:

| Sl. No | Name of the company                      | Relation         | Consideration      |
|--------|--|------------------|--------------------|
| 1.     | Samunnati Agro Solutions Private Limited | Common Promoters | Full consideration |

**Annexure 3: Facility wise lender details** <https://www.infomerics.com/admin/prfiles/07-08-21-SFI-Lender.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable**

### Annexure 5: Complexity level of the rated Instruments/Facilities

| Sr No. | Instrument | Complexity Indicator |
|--------|------------|----------------------|
| 1.     | Term Loan  | Simple               |

**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](http://www.infomerics.com).