Press Release

Save Microfinance Private Limited

March 13, 2021

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long term facilities – Term Loan	39.88	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)	Assigned
Long Term Facilities- Term loan (Proposed)	60.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)	Assigned
Total	**99.88**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the long-term facilities of Save Microfinance Private Limited ("SMPL") derives comfort from its experienced promoters and management team, supports from parent company in the form of management and finances, Sound capital structure to support future growth plans. However, the rating strengths are partially offset by nascent stage of operation and shorter vintage of portfolio.

Key Rating Sensitivities

Upward factors:

Significant scaling up the business operations while maintaining the asset quality and profitability indicators.

Downward factors

Significant deterioration in leverage indicators, asset quality and/or profitability metrics in order to improve the lending operations.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Support from promoters and experienced board of members:

SMPL is supported by experienced promoters and board members. Governance is vested with a Board of Directors comprising 4 directors who are well qualified with experience, adequate knowledge of finance, banking, accounting, administration, technology and in corporate governance and management. Company's management team led by Mr. Ajeet Kumar Singh; (Managing Director & CEO) has 15+ years of extensive experience in financial services & banking sector across rural & urban areas. He has vast experience in rural marketing and responsible for the overall strategic control, co-ordination & policy formulation of the SAVE Group including SMPL. Other Promoter Directors Mr. Pankaj Kumar & Mr. Ajay Sinha have over 15 years of experience in operations, Compliances & HR of Financial Services Industry.

Parent support in the term of management, and finances:

SAVE Microfinance Private Limited (SMPL) is a wholly owned subsidiary of Save Solutions Pvt. Ltd (SSPL). SMPL receives managerial support from SAVE Solutions by leveraging its wide network of CSPs (Customer Service Points) to provide both cash in & cash out at the doorstep for women micro entrepreneurs. SAVE Solution Pvt Ltd is a corporate business correspondent of the country and is currently operating with 6 major banks namely State Bank of India, Bank of India, Bank of Baroda, Baroda UP Gramin Bank, Uttarakhand Gramin Bank and Jharkhand Rajya Gramin Bank.

SMPL draws strong operational leverage from SAVE Group which is present with a workforce of 785 dedicated & experienced personnel to manage the operations of Business Correspondents at over 9400 CSPs. On the account of synergy in business operations and similar customers base, the personnel of SAVE Group are well equipped to support the expanding business operations of the Company.

Recently, SSPL (parent company) has introduced fund of approx. Rs.75.00 Crs against the allotment of fresh equity shares in SMPL. For this allotment, all the necessary approvals are in place and the company is in process to convert into equity by end of current fiscal.

Sound Capital structure to support future growth plans:

The Company commenced its lending operations in November 2018 after receiving its NBFC-MFI registration and since then has expanded its loan portfolio to INR 119.25 crore (includes own portfolio of Rs.108.98 Crore) as on December 31st, 2020, as against Rs. 106.47 Crore as on March 31st, 2020 (own portfolio of Rs.74.81 Crores). The growth in the loan portfolio has been through capital support from the promoters/group and the average liability in the form of external debt. The Company's Capital Adequacy Ratio (CAR%) stood at 78.51% as on December 31st, 2020, and 20.51% as on March 31st,, 2020. SMPL had debts of Rs. 22.46 Crore as against the Net Worth of Rs.93.58 Crore as on December 31st, 2020. On the account of healthy tangible net worth level and lower borrowings, gearing ratio of the company remains adequate at 0.24x as on December 31st, 2020 as against 4.47x as on March 31st, 2020. Furthermore, adequate level of overall gearing ratio will give sufficient headroom for leveraging for growth in the loan book going further.

Key Rating Weaknesses

- ***Ability to maintain asset quality, profitability given the nascent stage of business operations:***

  SMPL forayed into the JLG model lending since November 2018 with tenure of loans ranging 12 to 27 months. The outstanding loan portfolio stood moderate at INR 119.25 crore (own portfolio of Rs.108.98 Crore) as on 31st December 2020 as against Rs. 106.47 Crore (own portfolio of Rs.74.81 Crores) as on March 31st, 2020. The Company has been able to maintain its asset quality with the gross NPA of nil in FY2020 and 1.67% as on December 31, 2020, largely due to the high portion of unseasoned portfolio and thus the ability to maintain the asset quality across a loan cycle is yet to be demonstrated.

  SMPL started its initial business operations from Bihar. As on December 31, 2020, the company has expanded to 49 branches at present in Bihar, Chhattisgarh, Jharkhand, Uttar Pradesh, Haryana, and Rajasthan. Nearly 90% of SAVE's portfolio is concentrated in Bihar during FY2020. However, the company has now entered Jharkhand, Uttar Pradesh and other states. The key risk from geographically concentrated borrowers is that the cash flows of the borrowers are dependent on the level of economic activity in the region.

  Given the initial stages of lending operations, the Company's ability to maintain healthy profitability metrics will be necessary. Till the loan book starts to generate optimal level of business, moderate profitability margins are to be expected.

Exposed to States in India that are on the lower rung of the economic ladder:

The company is largely exposed to state in India that have a long way to go in terms of economic development. These states are characterised by higher poverty and larger proportion of migrant labour which may lead to higher delinquencies in the portfolio of MFIs.

Challenging operating environment for NBFIs:

Currently, the NBFIs in India, are facing liquidity and funding challenges, resulting in subdued growth/degrowth and potential ALM mismatches in the short term. This is also expected to adversely affect the borrowing profile and profitability of NBFIs. During FY2020-21, the COVID-19 pandemic has aggravated the liquidity issues of NBFIs, with the loan moratorium announced by the RBI affecting their collection efficiencies and the resultant impact on asset quality and profitability.

Furthermore, SMPL operates in a highly competitive microfinance space, thereby its ability to demonstrate profitable growth while maintaining asset quality will be critical.

Analytical Approach: Standalone

Applicable Criteria:

Rating methodology for Financial Institutions/NBFCs

Financial ratios and Interpretation (Financial Sector)

<u>Liquidity: Adequate</u>

The Company had adequately matched asset liability profile as on December 31st, 2020 with no negative cumulative mismatches in any of the time buckets up to 5 years. Most of the loans are of up to 18 months tenure, while the borrowings are up to tenure of up 27 months, leading to positive mismatches over the near to medium term. Also, recent equity infusion of approx. Rs. 75.00 Crs in the company will led to keep gearing level adequate in medium term. Furthermore, the company has liquid cash & Bank balance position remains moderate at Rs.13.10 Crore as on March 31st, 2020 along with undisbursed line of Rs.24.00 crore in hand as on December 31, 2020 against the debt repayments of Rs.20.28 crore. The promoter’s ability to raise resources for further business expansion while keeping a cap on the gearing levels shall be a key rating factor.

About the Company

Incorporated in August, 2016, SAVE Microfinance Private Limited (SMPL) is an NBFC-MFI based in Bihar (headquartered in Gaya). SAVE received its NBFC license in October 2017 and commenced lending in November 2018. SAVE Microfinance Private Limited is a wholly owned subsidiary of Save Solutions Pvt. Ltd.

It is a tech savvy microfinance institution which operates through income- generating group loan (IGL) using the joint liability group lending (JLG) model. Joint liability Groups (JLGs) lending methodology and provides micro credit services/finances exclusively to women entrepreneurs and further finances are given exclusively for Income generating activities such as small business, handicrafts, trade and services, agricultural etc. SAVE provides Income Generation and Agriculture and Allied Services loans using the joint liability group (JLG) lending model loans of ticket size Rs.10,000-40,000 with a tenure of 12-27 months. As on December 31, 2020, the company was operating in 06 states in India through a network of 49 branches catering to 68+ thousand borrowers. SAVE operates out of six states, namely Bihar, Chhattisgarh, Haryana, Jharkhand, Rajasthan Uttar Pradesh and Uttar Pradesh, through a network of 49 branches.

As on December 31, 2020, SMPL's own AUM stood at Rs. 108.98 Crs with a customer base of 68+ thousand.

Financials (Standalone Basis)

(Rs. crore)

For the year ended / As On*	**31-03-2019 (Audited)**	**31-03-2020 (Audited)**
Total Operating Income	1.13	14.54
Interest Expenses	0.13	6.66
PAT	0.02	0.26
Total Debt	27.60	69.48
Tangible Networth	15.23	15.53
Total Loan Assets (Own)	22.93	74.81
PAT Margin (%)	1.96%	1.79%
Overall Gearing Ratio (x)	1.81x	4.47x
Gross NPA (%)	Nil	Nil
Net NPA (%)	Nil	Nil

CAR (%)	63.95%	20.51%

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: N.A

Rating History for last three years:

S. 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.	Fund based – Term Loans	Long Term	39.88	IVR BBB/Stable Outlook	-	-	-
2.	Fund Based Bank Facilities (Proposed)	Long Term	60.00	IVR BBB/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.

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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.

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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
Term Loan	-	-	Multiple	39.88	IVR BBB/Stable Outlook
Proposed	-	-	N.A	60.00	IVR BBB/Stable Outlook

Annexure 2: Facility wise lender details

https://www.infomerics.com/admin/prfiles/lender-Save-Microfinance-Private-Limited-13-march-21-.pdf