Press Release

Samavesh Finserve Private Limited

February 28, 2024

Ratings

Instrument/ Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	50.00 (including proposed limit of 0.85)	IVR BB+/ Stable (IVR Double B Plus with Stable outlook)	Upgraded from IVR BB/ Stable (IVR Double B with Stable Outlook)	Simple
Total	**50.00 (Rs. Fifty crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The upgrade of the rating assigned to the bank facilities of Samavesh Finserve Private Limited (SFPL) takes into account the substantial growth in scale of operation during FY23 and further in H1FY24 marked by increase in AUM and total income coupled with improvement in profitability. Further, the rating also continue to derive comfort from its experienced and professional management team with adequate systems and processes, comfortable capital adequacy ratio, stable asset quality and comfortable liquidity profile. These rating strengths are partially offset by short track record with monoline nature of operations; relatively risky target segment, small scale of operations, thin profitability, limited geographical presence and leveraged capital structure.

Rating Sensitivities

Upward factors

- Improvement in scale of operations with AUM of own portfolio exceeding Rs.100 crore
- Diversification in resource profile with decline in average cost of borrowings with improvement in the capital structure
- Ability of the company to raise equity and debt capital in a timely manner to maintain a prudent capitalisation profile
- Improvement in profitability by maintaining the credit costs and operating overheads on a sustainable basis, as the operations expand

Downward Factors

- Moderation in scale of operations with sharp decline in asset under management and moderation in profitability
- Moderation in the capital structure with deterioration in CAR to below 20%
- Weakening of the profitability profile on account of higher operating overheads and higher credit costs, leading to a decline in ROTA to less than 0.50% may pressurise the company's rating.
- Deterioration in the asset quality

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced and professional management team with adequate systems and processes**

SFPL is managed by a five-directors board headed by Mr. Shiv Kumar Agrawal (MD). All the directors are well versed with the intricacies of the business operation of microfinance and NBFC. The day-to-day affairs is handled by Mr. Shiv Kumar Agrawal along with Mr Rajesh Mishra (Director & CEO), having around three decades of experience in the Audit, Banking and MFI sector. Besides, all the governing body members are well versed with the intricacies of the business operation of microfinance and NBFC. SFPL has installed good tracking and MIS systems, which are adequate to support future growth expansion. Further, the company has installed monitoring systems to ensure credit bureau checks and loan utilisation checks being conducted in all cases. This enabled SFPL to report good asset quality. It has invested significantly in technology to ensure the real-time availability of collection data, e-verification of customer details and cashless disbursements. Internal audits are conducted regularly, and the scope and coverage are in line with industry practices.

- **Comfortable capital adequacy ratio**

SFPL has maintained a healthy capital adequacy ratio (CAR) over the years, which has ended at 51.86% as on March 31, 2022 and with the increase of its portfolio the same was at 29.21% as on March 31, 2023. In Infomeric's opinion, SFPL would require additional equity capital to grow at the envisaged pace while maintaining prudent capitalisation levels.

- **Growth in operation in FY23 and further in H1FY24**

During FY23, the company has increased its branch strength to 33 and further ended at 50 branches by H1FY24 and was able to increase its number of borrowers proportionately. Further, since H2FY22 the demand of loans has increased attributable to rise in economic activities driven by gradual reduction in impact of covid pandemic. Rise in loan disbursement and rise in own loan portfolio coupled with increase of BC activities, resulted in steady Y-O-Y growth of AUM to Rs.60.21 crore as on March 31,2023 from Rs.31.94 crore as on March 31,2023 and further to Rs.75.57 crore as on September 30, 2023, driven by rise in own loan portfolio from Rs.25.30 crore as on March 31,2022 to Rs.48.22 crore as on March 31,2023 and further to Rs.56.06 as on September 30, 2023.

- **Stable asset quality**

SFPL has managed to keep its recovery rate around 99% during end of FY23 and H1FY24. SFPL though remain exposed to risks associated with the MFI business able to maintain a stable asset quality backed by its strong loan monitoring and adequate credit appraisal process. The GNPA and NNPA was remained around 0.36% as on March 31, 2023, improved from NNPA of 0.83% as on March 31, 2022. The portfolio at risk greater than 30 days (PAR>30 days), has improved in FY23 at 0.38% (from 0.75% as on March, 31, 2022) as on March, 31, 2023. The company's ability to maintain the asset quality in the new originations and maintain field discipline will be important from a credit perspective.

- **Comfortable liquidity profile**

Liquidity position of SFPL, as on March 31, 2023, has been comfortable with positive cumulative mismatches in the short term (upto 1 year) bucket. This is mainly due to by-weekly collections followed by SFPL and the tenure of loan given being two year as against major liabilities being term loans availed.

Key Rating Weaknesses

- **Short track record with monoline nature of operations; relatively risky target segment**

The company started its operation from February 2020, thus having only over two years of operational track record. Owing to its short track record, the company suffers from lower seasoning of its loan portfolio. Further, SFPL's product diversification remains low being concentrated only in the microfinance segment. Further, unsecured lending to the marginal borrower profile and the political & operational risks associated with microfinance lending may result in high volatility in the asset quality indicators. SFPL's ability to maintain the asset quality indicators through economic cycles remains a key rating monitorable.

- **Small scale of operations**

The scale of operations of SFPL, though remained small, has increased the AUM to Rs.60.21 crore as on March 31, 2023 (Own Rs.48.22 cr + BC Rs.11.99 cr) from Rs.31.94 crore as on March 31, 2023. The same has further increase to Rs.75.57 crore. With the spreading of pandemic and lockdown, MFI sector was badly hit during FY21, However, since Q2FY22, post pandemic scenario, demand of microfinance has increased in India.

- **Thin profitability**

Though the profit margin has improved in FY23 with the increase in scale, the same remains low over the years on account of high dependency of borrowed fund from NBFCs and high operating expense ratio. The ROTA has improved to 0.74% in FY23 from 0.68% in FY22.

- **Limited geographical presence**

SFPL is now working with 50 branches spread over 24 districts in only six states like Uttar Pradesh, Bihar and Jharkhand, where they are providing services to more than 29,000 clients. Covering of less number of states provides moderate of diversified geographical presence.

- **Leveraged capital structure**

The company had a gearing at 1.63x as on March 31, 2022, which has further deteriorated to 2.78x as on March 31, 2023 on account of increase in borrowing from banks and FIs to increase the lending operation, which resulted in, the capital structure continued to remain leveraged impacting financial flexibility. In a relatively steady operating environment, the company has demonstrated significant fundraising ability from various banks and financial institutions. However, given the current economic situation, the leveraged capital structure is likely to limit SFPL's ability to raise further funds from FIs/Banks.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Financial institution/NBFCs

Criteria of assigning rating outlook

Liquidity: Adequate

The company had adequate liquidity in the form of unencumbered cash and liquid balances of Rs.5.08 crore as on March 31, 2023. As the advances comprise relatively shorter-tenure microfinance loans compared to the tenure of the borrowed funds, the asset liability maturity profile remains adequate. While Infomerics expects the company to meet its debt obligations in a timely manner, given the cash-in-hand and expected inflow from loan repayments, it would be important for SFPL to maintain its collection efficiency while ensuring the regular flow of funds to meet its internal growth projections.

About the Company

Samavesh Finserve Private Limited (SFPL) is a Non-Banking Financial Company – Microfinance Institution (NBFC-MFI) registered under Reserve Bank of India (RBI). It started its microfinance on-lending operation in February 2020 with its head office in Varanasi, by providing small ticket size loan to the poor woman in rural and semi-urban area through Joint Liability Group (JLG) based system. SFPL is now working with 50 branches spread over 24 districts in 6 like Uttar Pradesh, Bihar, Jharkhand etc, where they are providing services to more than 29,000 members. Beside direct lending, the company also entered-into Business Correspondence (BC) business model with three NBFCs. As on March 31, 2023, SFPL is managing a total loan portfolio of Rs.60.21 crore (including managed portfolio under Business correspondence model from various FIs), which has further increased to Rs.75.57 crore as on September 30, 2023.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31-03-2022	31-03-2023
	Audited	Audited
Total Income	5.08	9.64
PAT	0.17	0.28
Tangible Net worth	14.10	14.45
Total Asset	37.76	56.17
Ratios		
ROTA (%)	0.68	0.74
Interest Coverage (times)	1.07	1.00
Total CAR (%)	51.86%	29.21%
Gross NPA (%)	0.99%	0.36%
Net NPA (%)	0.83%	0.36%

*Classification as per Infomerics' standards

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 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Dec 30, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1	Term Loan (including proposed of Rs. 0.85 cr)	Long Term	50.00	IVR BB+/ Stable	IVR BB / Stable	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com

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 1	-	-	Apr-24	0.24	IVR BB+/Stable
Term Loan 2	-	-	Apr-24	0.24	IVR BB+/Stable
Term Loan 3	-	-	Mar-25	3.39	IVR BB+/Stable
Term Loan 4	-	-	Aug-24	0.85	IVR BB+/Stable
Term Loan 5	-	-	Mar-24	0.12	IVR BB+/Stable
Term Loan 6	-	-	Apr-24	0.18	IVR BB+/Stable
Term Loan 7	-	-	Nov-25	6.67	IVR BB+/Stable
Term Loan 8	-	-	Jun-24	0.67	IVR BB+/Stable
Term Loan 9	-	-	Oct-24	0.88	IVR BB+/Stable
Term Loan 10	-	-	Jan-26	0.71	IVR BB+/Stable
Term Loan 11	-	-	Mar-25	1.75	IVR BB+/Stable
Term Loan 12	-	-	Feb-25	0.53	IVR BB+/Stable
Term Loan 13	-	-	Nov-24	1.11	IVR BB+/Stable
Term Loan 14	-	-	Apr-25	1.21	IVR BB+/Stable
Term Loan 15	-	-	Nov-24	0.52	IVR BB+/Stable
Term Loan 16	-	-	Feb-25	0.52	IVR BB+/Stable
Term Loan 17	-	-	Jul-26	0.86	IVR BB+/Stable
Term Loan 18	-	-	Aug-25	1.54	IVR BB+/Stable
Term Loan 19	-	-	Mar-25	1.56	IVR BB+/Stable
Term Loan 20	-	-	May-25	3.57	IVR BB+/Stable
Term Loan 21	-	-	Apr-25	1.59	IVR BB+/Stable
Term Loan 22	-	-	Dec-25	9.58	IVR BB+/Stable
Term Loan 23	-	-	May-25	1.27	IVR BB+/Stable
Term Loan 24	-	-	May-25	1.69	IVR BB+/Stable
Term Loan 25	-	-	Jun-25	4.51	IVR BB+/Stable
Term Loan 26	-	-	Jul-25	1.89	IVR BB+/Stable

Term Loan 27	-	-	Nov-25	1.50	IVR BB+/Stable
Proposed Term Loan	-	-	-	0.85	IVR BB+/Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-Samavesh-feb24.pdf

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

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.