Press Release

Samavesh Finserve Private Limited

December 30, 2022

Rating

Facility/Instrument	Amount (Rs. Crore)	Rating	Rating Action	Complexity Indicator
Long Term Bank Facilities	50.00	IVR BB/ Stable (IVR Double B with Stable Outlook)	Assigned	Simple
	50.00 (Rs. Fifty crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Samavesh Finserve Private Limited (SFPL) derives comfort from its experienced and professional management team with adequate systems and processes, comfortable capital adequacy ratio, growth in operation in FY22 and in H1FY23, stable asset quality and comfortable liquidity profile. However, these rating strengths are partially offset by short track record of the company with monoline nature of operations; relatively risky target segment, small scale of operations with thin profitability, leveraged capital structure, limited diversity in funding profile and limited geographical presence.

Key Rating Sensitivities:

Upward factors

- Improvement in scale of operations and asset under management with increase in geographical reach
- 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%
- Deterioration in the asset quality

List of Key Rating Drivers with Detailed Description

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. 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 further was at 38.59% as on September 30, 2022.

- **Growth in operation in FY22 and further in H1FY23**

During FY22, the company has increased its branch strength to 21 and further to 26 branches during H1FY23 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 initiation of BC activities, resulted in steady Y-O-Y growth of AUM to Rs.31.94 crore as on March 31,2022 from Rs.21.34 crore as on March

31,2021 and further to Rs.43.98 crore as on September 30, 2022, driven by rise in own loan portfolio from Rs.21.10 crore as on March 31,2021 to Rs.25.30 crore as on March 31,2022 and further to Rs.36.40 as on September 30, 2022.

- **Stable asset quality**

SFPL has managed to keep its recovery rate around 99% during end of FY22 and H1FY23 despite spread of pandemic and thereby lockdown coupled with turmoil in the domestic MFI sector in FY22. 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 was remained ~ 0.99%, while NNPA was ~0.83% as on March 31, 2022. The portfolio at risk greater than 30 days (PAR>30 days), has improved in FY22 at 0.75% (from 1.08% as on March, 31, 2021) as on March, 31, 2022. 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, 2022, 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.

<u>Key Rating Weaknesses</u>

- **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 and leveraged capital structure**

The scale of operations of SFPL, though remained small, has increased with AUM of Rs.31.94 crore as on March 31, 2022 (Own Rs.25.30 cr + BC Rs.6.63 cr) to Rs.43.98 crore as on September 30, 2022 (Own Rs.36.40 cr & BC Rs.7.58 cr). 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. The company had an overall gearing at 1.63x as on March 31, 2022.

- **Thin profitability**

Though the profit margin has improved in FY22 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 0.68% in FY22 from 0.24% in FY21. However, most of the growth in loan portfolio was came during H2FY22, hence the benefit of loan growth was not fully reflected in the profitability.

- **Limited diversity in funding profile**

While the company has been able to raise funding for expanding its on book portfolio, the company would need to expand its resource profile and increase share of banks in overall funding mix. SFPL had relationships with 2 Banks and around 10 NBFCs and small finance bank and financial institutions (FIs), however, there is dependence of BC portfolio with three lender of BC together account for sizeable outstanding portfolio of the company. The ability of the company to diversify its funding profile and BC partners and tie-up funds on a timely basis will remain important for supporting business growth. Further, SFPL's ability to reduce its average cost of borrowing is a key rating monitorable.

- **Limited geographical presence**

SFPL is now working with 26 branches spread over 13 districts in only Three states like Uttar Pradesh, Bihar and Jharkhand, where they are providing services to more than 18,000 clients. Covering of limited number of states provides limited of diversified geographical presence.

- **Leveraged capital structure**

The company had a gearing at 0.70x as on March 31, 2021, which has further deteriorated to 1.63x as on March 31, 2022 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.9.84 crore as on March 31, 2022. 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 26 branches spread over 13 districts in 3 states like Uttar Pradesh, Bihar and Jharkhand, where they are providing services to more than 18,437 members. In November 29, 2022, the company has started a branch in Rajasthan. Beside direct lending, the company also entered-into Business Correspondence (BC) business model with three NBFCs. As on March 31, 2022, SFPL is managing a total loan portfolio of Rs.31.94 crore (including managed portfolio under Business correspondence model from various FIs aggregating to Rs.6.63 crore), which has further increased to Rs.43.98 crore as on September 30, 2022.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	2.55	5.08

For the year ended* / As on	31-03-2021	31-03-2022
PAT	0.03	0.17
Tangible Net worth	13.88	14.10
Total Asset	24.18	37.76
Ratios		
ROTA (%)	0.24	0.68
Interest Coverage (times)	0.55	1.07
Total CAR (%)	61.34%	51.86%
Gross NPA (%)	0.37%	0.99%
Net NPA (%)	0.37%	0.83%

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

(Rs. Crore)

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan (including proposed of Rs. 17.85 cr)	Long Term	50.00	IVR BB/ Stable	-	-	-

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.
Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.
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. Cr)	Rating Assigned/ Outlook
LT FB Limits – Term Loan	-	-	Apr-2024	2.51	IVR BB/ Stable
LT FB Limits – Term Loan	-	-	Apr-2024	2.05	IVR BB/ Stable
LT FB Limits – Term Loan	-	-	Sept-2023	1.74	IVR BB/ Stable
LT FB Limits – Term Loan	-	-	Feb-2024	1.79	IVR BB/ Stable
LT FB Limits – Term Loan	-	-	Mar-2023	0.33	IVR BB/ Stable
LT FB Limits – Term Loan	-	-	Mar-2025	6.79	IVR BB/ Stable
LT FB Limits – Term Loan	-	-	Aug-2024	0.89	IVR BB/ Stable
LT FB Limits – Term Loan	-	-	Mar-2024	1.80	IVR BB/ Stable
LT FB Limits – Term Loan	-	-	Feb-2024	0.83	IVR BB/ Stable
LT FB Limits – Term Loan	-	-	Nov-2023	2.00	IVR BB/ Stable
LT FB Limits – Term Loan	-	-	Apr-2024	1.42	IVR BB/ Stable
LT FB Limits – Term Loan	-	-	Nov-2025	10.00	IVR BB/ Stable
LT FB Limits– Term Loan (proposed)	-	-	-	17.85	IVR BB/ Stable

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Samavesh-Finserve-dec22.pdf

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Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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.