Save Microfinance Private Limited (SMPL)

Jan 07, 2025

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	549.20	IVR BBB / Negative (IVR Triple B; with Negative Outlook)	IVR BBB+/Stable (IVR Triple B Plus; with Stable Outlook)	Rating downgraded and outlook revised	**Simple**
Long Term Bank Facilities-Proposed	300.80	IVR BBB / Negative (IVR Triple B; with Negative Outlook)	IVR BBB+/Stable (IVR Triple B Plus; with Stable Outlook)	Rating downgraded and outlook revised	**Simple**
Total	**850.00 (Rupees Eight Hundred Fifty Crore Only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has downgraded the ratings assigned to the bank facilities of SMPL due to significant deterioration in profitability on account of significant stress in asset quality being in the MFI sector. The ratings continue to derive strength from adequate capitalisation, growth in income level coupled with healthy NIM, moderation in AUM growth, experienced management team & strategic investors and parent support in term of management and finances. However, the ratings are partially constrained by average asset quality, moderate profitability, geographical concentration risk and regulatory risks and socio-political risks inherent in the industry.

Infomerics Ratings has revised the outlook to negative from stable owing to lack of clarity on waiver of breach of covenants of debt instruments along with asset quality and profitability over FY25-FY27.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in scale of operations along with maintaining and/or improving capitalization levels & asset quality.

Downward Factors

- Substantial deterioration in the scale of operations
- Significant deterioration in capitalization levels, asset quality and/or profitability metrics from the current levels.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

Adequate capitalisation:

SMPL's capitalisation levels are adequate with total CRAR of 28.11% as on 30th September 2024 (FY23: 15.79%, FY24: 21.41%) which is well above the regulatory requirement supported by infusion from the promoters. Going forward, SMPL's capitalisation levels are expected to remain adequate on the back of expected equity infusion through primary sources during FY25.

Growth in income level coupled with healthy NIM:

SMPL's total income has grown y-o-y by ~22% to Rs. 208.73 crore in FY24 (refers to period 1st April 2023 to 31st March 2024) on back of growth in other operating income which stood at Rs. ~53 crore in FY24 (FY23: Rs. 29.36 crore) which primarily consists of income through the means of co-lending and direct assignment along with processing fees and interest income from FDRs. Additionally, SMPL's NIM continues to remain healthy considering its asset size however declined to 9.02% in FY24 from 10.10% in FY23 on back of lower net spread. Going forward, SMPL's earnings profile will remain key rating monitorable due to moderation in AUM growth due to signs of distress in the MFI borrower segment.

Moderation in AUM growth:

SMPL has adopted a conservative approach in terms of loan disbursements in FY24 (refers to period 1st April 2023 to 31st March 2024) which has led to its on-book portfolio declining y-o-y by ~24% to Rs. 642.35 crore in FY24 (FY23: Rs. 850.18 crore) however its off-book portfolio has grown significantly by ~294% to Rs. 537.18 crore (FY23: Rs.136.45 crore). The same is reflected in H1FY25 numbers with total AUM (on book as well as off book) declining to Rs. 1148.45 crore. SMPL has adopted this approach due to signs of distress in the MFI borrower segment particularly in states like Bihar and Uttar Pradesh where its portfolio is majorly concentrated. Going forward, SMPL's ability to grow its AUM amidst maintaining credit costs will be a key rating monitorable.

Experienced management team and strategic investors:

SMPL is currently led by Mr. Ajit Kumar Singh (Managing Director) who along with the four directors have more than 15 years of experience in banking and NBFC sector. They are ably supported by qualified and well experienced management team. SMPL is promoted by Save Solutions Private Limited (SSPL) with 99.99% stake as on 30th September 2024, a Gaya-based NBFC, which operates as a business correspondent for State Bank of India, Bank of Baroda, Bank of India and Punjab National Bank across the country and has developed a network of CSPs in rural geographies. SMPL has received periodic equity infusion from its parent to support its lending operations, while the equity infusion in SSPL has been led by a number of foreign investors including Incofin, Maj Invest (Denmark based) and Symbiotic (Singapore based).

Parent support in term of management and finances:

SMPL is a wholly owned subsidiary of Save Solutions Private Limited (SSPL). It receives financial and managerial support from SSPL leverages on its wide network of CSPs (Customer Service Points) to provide both cash in cash out at the doorstep of these women micro entrepreneurs. SSPL is a corporate business correspondent of the country and is currently operating with 7 major banks namely State Bank of India, Bank of India, Bank of Baroda, Baroda UP Gramin Bank, Uttarakhand Gramin Bank, Jharkhand Rajya Gramin Bank and Punjab National Bank. SMPL draws strong operational leverage from SAVE group team which at present is a strong force of 1615 dedicated and experienced personnel to manage the operations of business correspondents at over 12500 CSPs. Because of synergy in business operations, similar customers base and availability of CSPs, the personnel of SAVE group are well equipped to support the expanding business operations of the company.

Key Rating Weaknesses:

Poor asset quality:

SMPL's asset quality deteriorated with GNPA and NNPA increasing to 2.09% & 0.69% respectively in FY24 (FY23: 1.00% & 0.05%) and further to 4.00% & 0.91% respectively in H1FY25. This deterioration in asset quality is on account of overleveraging of MFI segment borrowers coupled with factors like heatwaves, general elections, and political initiatives like the loan waivers. Going forward, SMPL's ability to maintain healthy asset quality by improving its collection efficiency will remain a key rating monitorable.

Decline in profitability:

SMPL's profitability shown decline marked by PAT in absolute terms which decreased to Rs. 12.18 crore in FY24 (FY23: Rs. 17.14 crore) which led to ROTA declining to 1.39% in FY24 (FY23: 2.25%). This is primarily on account of its high cost to income which has increased to 0.84x in FY24 (FY23: 0.72x) due to its high operating as well as interest expenses. Moreover, SMPL has experienced losses in H1FY25 with a loss of Rs. 5.90 crore due to uptick credit costs on account of deterioration in the asset quality. Going forward, SMPL's profitability amidst elevated credit costs will be a key rating monitorable.

Geographic concentration risk:

SMPL currently operates in Bihar, Jharkhand, Uttar Pradesh, Haryana, Chhattisgarh, Rajasthan, Karnataka, West Bengal and Punjab, through a network of 227 branches. SMPL remains exposed to geographical concentration risk with a majority of the portfolio from Bihar (37.30%), Uttar Pradesh (15.20%), Rajasthan (11.72%) and Jharkhand (7.15%). Any change in microeconomic as well as the regulatory environment in these states might negatively impact the overall business profile of SMPL.

Regulatory risks and socio-political risks inherent in the industry:

MFIs industry is highly prone to regulatory risks & socio-political risks mainly on account of its unique collateral free debt nature. Earlier events like demonetization have affected the industry to a great extent where the collection efficiency of the MFI's has got impacted. However, given the market potential due to demand of micro loans in rural segments, the sector is likely to maintain its high growth.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Financial Institutions/NBFCs

Financial Ratios & Interpretation (Financial Sector)

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Liquidity –Adequate

Considering its scale of operations, SMPL's total CRAR remains adequate at 28.11% as on 30th September 2024 which is well above the minimum regulatory requirement. Also, it has adequately matched asset liability profile as on 30th September 2024, across all the buckets. Moreover, Cash and cash equivalents stood at a healthy Rs. 71.80 crore as on 30 September 2024.

About the Company:

SMPL was incorporated in August 2016 as a NBFC-MFI based in Bihar (headquartered in Gaya). It received its NBFC license in October 2017 and commenced lending in November 2018. It is a new generation tech savvy microfinance institution which operates through income- generating group loan (IGL) using the joint liability group lending (JLG) model.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31-03-2023	31-03-2024
	Audited	Audited
Total Income	171.50	208.73
PAT	17.14	12.18
Tangible Net worth	168.16	178.62
Total Loan Assets (on book as well as off book)	986.63	1,179.61
Ratios		
NIM (%)	10.10	9.02
ROTA (%)	2.25	1.39
Interest Coverage (times)	1.30	1.16
Total CAR (%)	15.79	21.41
Gross NPA [Stage III] (%)	1.00	2.09
Net NPA [Stage III] (%)	0.05	0.69

* *Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (2024 - 25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023 -24	Date(s) & Rating(s) assigned in 2022 -23	Date(s) & Rating(s) assigned in in 2021 -22
					Dec 27, 2023	Nov 07, 2022	Feb 14, 2022
1.	Long Term Bank Facilities	Long Term	549.20	IVR BBB / Negative	IVR BBB+/Stable	IVR BBB+ /Stable	IVR BBB /Stable
2.	Long Term Bank Facilities- Proposed	Long Term	300.80	IVR BBB / Negative	IVR BBB+/Stable	IVR BBB+ /Stable	IVR BBB /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 and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details :

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	November 2023	0.17	IVR BBB / Negative
Term Loan	-	-	-	February 2024	0.84	IVR BBB / Negative

Term Loan	-	-	-	March 2024	9.18	IVR BBB / Negative
Term Loan	-	-	-	May 2024	4.74	IVR BBB / Negative
Term Loan	-	-	-	June 2024	21.65	IVR BBB / Negative
Term Loan	-	-	-	July 2024	6.14	IVR BBB / Negative
Term Loan	-	-	-	August 2024	18.32	IVR BBB / Negative
Term Loan	-	-	-	September 2024	18.33	IVR BBB / Negative
Term Loan	-	-	-	October 2024	72.06	IVR BBB / Negative
Term Loan	-	-	-	November 2024	33.51	IVR BBB / Negative
Term Loan	-	-	-	December 2024	48.10	IVR BBB / Negative
Term Loan	-	-	-	January 2025	41.25	IVR BBB / Negative
Term Loan	-	-	-	February 2025	45.93	IVR BBB / Negative
Term Loan	-	-	-	March 2025	32.69	IVR BBB / Negative
Term Loan	-	-	-	April 2025	15.00	IVR BBB / Negative
Term Loan	-	-	-	June 2025	33.06	IVR BBB / Negative
Term Loan	-	-	-	July 2025	34.67	IVR BBB / Negative
Term Loan	-	-	-	August 2025	18.43	IVR BBB / Negative
Term Loan	-	-	-	October 2025	37.51	IVR BBB / Negative
Term Loan	-	-	-	April 2026	25.00	IVR BBB / Negative

Term Loan	-	-	-	February 2026	7.62	IVR BBB / Negative
Term Loan	-	-	-	September 2026	25.00	IVR BBB / Negative
Term Loan-Proposed	-	-	-	-	300.80	IVR BBB / Negative

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-Save-Microfinance-jan25.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: 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.