Save Microfinance Private Limited

November 07, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	530.93	IVR BBB/Stable (IVR Triple B; with Stable Outlook)	IVR BBB+/Stable (IVR Triple B Plus; with Stable Outlook)	Upgraded	Simple
Long Term Bank Facilities-Proposed	319.07	IVR BBB/Stable (IVR Triple B; with Stable Outlook)	IVR BBB+/Stable (IVR Triple B Plus; with Stable Outlook)	Upgraded	Simple
Total	**850.00**	**Rupees Eight Hundred Fifty Crore Only**			

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuation and Rating Private Limited (IVR) has upgraded long-term rating to IVR BBB+ with a Stable outlook for the bank loan facilities of Save Microfinance Private Limited (SMPL).

The rating continues to draw comfort from the experienced management and strategic investors, parent support in term of management and finances, growing scale of operations and operating profit, comfortable collection efficiency and low levels of GNPA's. However, these strengths are partially offset by decline in gearing and capital adequacy ratio, geographic concentration risk, exposed to states in India that are on the lower rung of the economic ladder and regulatory risks and socio-political risks inherent in the industry.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. IVR believes SMPL's will continue benefit from its operational track record in the business, controlled NPA level, continuous growth in AUM, availability of fund for further growth and higher acceptability of the company in the market.

IVR has principally relied on the standalone audited financial results of SMPL upto 31 March 2022, H1FY2023 provisional results and projected financials for FY23, FY24 and FY25, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations with TI above Rs. 300 crore, profitability and CAR
- Maintain strong asset quality
- Sustenance of the overall gearing below 3.00x

Downward Factors

- Deterioration in overall gearing
- Substantial rise in slippages to NPA's
- Continuous deterioration in the asset quality and earning profile of the company

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced management team and strategic investors:**
  The company is currently managed by four directors Mr. Ajeet Kumar Singh, Mr. Siva Vadivelazhagan, Mr. Ajay Kumar Sinha and Mr. Pankaj Kumar, who have more than 15 years of experience in banking and NBFC sector. The promoters/investors and independent directors extend strategic support to the company. The directors are ably supported by qualified and well experienced management team. The management is aware of the risks associated with the segment and has put in place an elaborate credit policy for on boarding and sanction process. SMPL is promoted by Save Solutions Private Limited (SSPL) with 99.99% stake as on 30th September 2022, 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.

- **Growing scale of operations and operating profit:**
  The total income (TI) has improved by 157.04% in FY2022 to Rs. 61.33 crore from Rs. 23.86 crore mainly due to increase in loan disbursements in FY2022 which in turn increased interest income and fee income which resulted in increase in total income. The assets under management (AUM) has grown by ~154.60% to Rs 512.98 crore in FY2022 from Rs. 201.48 crore in FY2021. The operating profit has improved to Rs. 3.42 crore in FY2022 from Rs. 0.28 crore in FY2021 mainly due to increase in scale of operations. Going forward, company's continued ability to diversify their resource profile and raise funds at competitive interest rates would add to the profitability of the company. In H1FY23 it achieved TI of Rs. 67.10 crore with a PAT of Rs. 7.62 crore. In H1FY23 the AUM stood at Rs. 760.19 crore.

- **Comfortable collection efficiency and low levels of GNPA's:**
  The collection efficiency has remained at comfortable levels around ~97.60% during past 12 months ending September 2022. SMPL has edge over the other MFIs because of its collection through the customers service points (CSPs) of SAVE Solution Private Limited. The gross and net NPAs improved to 1.34% and 0.32%, respectively in FY2022 from 2.14% and 0.64%, respectively in FY2021. In FY2022, SMPL's 98.33% (FY2021: ~93.75%) of the total portfolio falls within 0DPD bucket, 0.33% (FY2021: ~4.09%) of the total portfolio falls within 1DPD-89DPD bucket and remaining 1.34% (FY2021: 2.16%), are declared as NPA against the total loan portfolio in FY2022 due to better recovery process and quality customers.

Key Rating Weaknesses

- **Geographic concentration risk:**
  The company currently operates in Bihar, Jharkhand, Uttar Pradesh, Haryana, Chhattisgarh, Rajasthan and Punjab, through a network of 215 branches. The company remains exposed to geographical concentration risk with a majority of the portfolio from Bihar (56.28%), Uttar Pradesh (15.21%) and Jharkhand (13.60%). The company's ability to neutralise this with an increase in exposure from other states over the medium term shall be monitorable.

- **Decline in gearing and capital adequacy ratio:**
  The overall gearing has declined to 3.71x in FY2022 from 1.13x in FY2021 due to increase in overall debt levels. The capital adequacy ratio (CAR) declined to 22.00% in FY2022 from 53.90% in FY2021 mainly due to increase in loan book size. However, it is still in a comfortable position vis-a-vis regulatory requirement of 15%.

- **Exposed to states in India that are on the lower rung of the economic ladder:**
  The company is largely exposed to states 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.

- **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: For arriving at the ratings, IVR has analysed SMPL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

Rating Methodology for Financial Institutions/NBFC's
Financial Ratios & Interpretation (Financial Sector)
Criteria for Assigning Rating Outlook

Liquidity – Adequate

The liquidity profile of the company remains adequate with did not have cumulative mismatches in its asset-liability management profile as on March 31, 2022, due to favourable asset maturity profile. Further, SMPLs has a liquidity cushion of Rs. 28.21 crore in the form of unencumbered cash and cash equivalents as on September 30, 2022. Also, the company maintains surplus liquidity to cover 8-12 weeks to its debt obligations and operating expenses. IVR does not foresee any liquidity risk in the near term, given SMPL's adequate liquidity position and its ability to raise funds.

About the Company

Save Microfinance Private Limited (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. SMPL is a wholly owned subsidiary of Save Solutions Private Limited (SSPL).

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. 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.
SMPL leverages on its group wide network of CSPs (Customer Service Points) to provide both cash in cash out at the doorstep of these women micro entrepreneurs. As on September 30, 2022, the company was operating in 7 states in India through a network of 215 branches catering to 2.96 lakh borrowers.

Financials (Standalone):

(Rs. crore)

For the year ended as on	31-03-2021	31-03-2022
	Audited	Audited
Total Income	23.86	61.33
PAT	0.50	3.54
Total Debt	127.50	430.74
Tangible Networth	112.60	116.11
Total loan assets/AUM	201.48	512.98
Overall Gearing Ratio (x)	1.13	3.71
Return on Total Assets (%)	1.01	1.31
Gross NPA (%)	2.14	1.26
Net NPA (%)	0.63	0.26

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Type of Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Tenure	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (14 February 2022)	Date(s) & Rating(s) assigned in 2020-21 (13 March 2021)	Date(s) & Rating(s) assigned in 2019-20
1.	Fund Based	Long Term	850.00	IVR BBB+/Stable (Upgraded)	IVR BBB/Stable	IVR BBB/Stable	-

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About Infomerics:

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. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	December 2022	0.62	IVR BBB+/Stable
Term Loan	-	-	March 2023	19.23	IVR BBB+/Stable

Term Loan	-	-	June 2023	3.76	IVR BBB+/Stable
Term Loan	-	-	July 2023	19.58	IVR BBB+/Stable
Term Loan	-	-	September 2023	15.00	IVR BBB+/Stable
Term Loan	-	-	November 2023	2.33	IVR BBB+/Stable
Term Loan	-	-	February 2024	4.98	IVR BBB+/Stable
Term Loan	-	-	March 2024	29.28	IVR BBB+/Stable
Term Loan	-	-	May 2024	11.57	IVR BBB+/Stable
Term Loan	-	-	June 2024	51.96	IVR BBB+/Stable
Term Loan	-	-	July 2024	14.75	IVR BBB+/Stable
Term Loan	-	-	August 2024	58.03	IVR BBB+/Stable
Term Loan	-	-	September 2024	42.03	IVR BBB+/Stable
Term Loan	-	-	October 2024	89.03	IVR BBB+/Stable
Term Loan	-	-	November 2024	18.31	IVR BBB+/Stable
Term Loan	-	-	December 2024	39.76	IVR BBB+/Stable
Term Loan	-	-	March 2025	24.30	IVR BBB+/Stable
Term Loan	-	-	January 2025	25.35	IVR BBB+/Stable
Term Loan	-	-	February 2025	31.25	IVR BBB+/Stable

Term Loan	-	-	July 2025	19.81	IVR BBB+/Stable
Term Loan	-	-	October 2025	10.00	IVR BBB+/Stable
Term Loan-Proposed	-	-	-	319.07	IVR BBB+/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-Save-microfinance-nov22.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 Complexity Level of Rated Instruments/Facilities.