

# India Ratings Assigns Satya MicroCapital's Additional NCDs 'IND BBB+/Positive; Affirms Existing Ratings

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India Ratings and Research (Ind-Ra) taken the following rating actions on Satya MicroCapital Limited's (SML) debt instruments:

## Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Non-convertible debentures*	-	-	-	INR1,000	IND BBB+/Positive	Assigned
Non-convertible debentures#	-	-	-	INR3,100	IND BBB+/Positive	Affirmed
Bank loan*	-	-	-	INR1,500	IND BBB+/Positive	Affirmed

# Details in Annexure

\*yet to be issued

## Analytical Approach

Ind-Ra continues to take a standalone view of SML to arrive at the ratings.

## Detailed Rationale of the Rating Action

The Positive Outlook continues to factor in an improvement in SML's profitability in FY24 supported by higher yields following the removal of prescriptive interest rate caps from March 2022 and the significant planned equity infusion during FY25. The Positive Outlook also factors in the considerable increase in the scale of operations during FY24. The ratings are supported by SML's operating track record that demonstrates the company's ability to manage asset quality in multiple business cycles impacted by disruptive events such as the pandemic and demonetisation.

The ratings continue to reflect SML's demonstrated ability to raise capital, resulting in adequate capitalisation, the extensive experience of the promoter in the microfinance business, and the company's geographical diversification. The ratings, however, are constrained by the company's risk associated with the unsecured micro-finance lending, given the credit risk profile of the borrowers and high operating expenses.

## List of Key Rating Drivers

## Strengths

- Adequate capital buffers backed by investors
- Experienced promoter and management team
- Improved profitability post COVID-19
- Diversified funding sources
- Above-industry growth leading to improved geographical presence
- Stable Outlook on NBFC-MFIs

## Weaknesses

- Short-term volatility in asset quality remains monitorable

# Detailed Description of Key Rating Drivers

**Adequate Capital Buffers Backed by Investors:** SML is backed by investors such as Gojo & Company, Inc (holds 65% stake). The tangible net worth stood at INR10,155 million at FYE24 (FYE23: INR8,393 million, FYE22: INR5,458 million). Furthermore, the company is in the advanced stages of significant capital infusion, which will increase the capital base and bring the leverage below 4.0x. The capital adequacy ratio and tier 1 ratio stood at 22.3% at FYE24 (FYE23: 19.2%; FYE22: 22.9%) and 16.75% (17.7%, 19.5%), respectively. Given the growth plans, SML would need to look for equity in the medium term. The leverage (debt/equity) stood at 4.6x in FY24 (FY23: 4.4x; FY22: 4.2x), and with growth in the company, there would be utilisation of capital; however, as per the management, the leverage would remain below 4.5x over the medium term. The company expects a significant capital infusion during FY25, which will help to reduce its leverage below 4.5x. SML has been able to raise equity at periodic intervals to expand and diversify geographically, with its key investor, Gojo & Company, infusing INR3,348 million in SML over FY21-FY22 and INR2,014 million through compulsorily convertible preference shares (CCPS) in FY23. Given the unsecured nature of the business, Ind-Ra expects SML to maintain reasonable capital buffers and leverage over the near-to-medium term.

**Experienced Promoter and Management Team:** Established in 2017, the company is headed by a managing director who has over two decades of experience in the microfinance industry. Prior to SML, he had worked with Satin Creditcare Network Limited for eight years. Furthermore, SML has seen limited churn in its senior management and most of them have seen the company navigate through major credit events such as demonetisation and the COVID-19 outbreak. Several members of SML's management team have experience of over 15 years in their functional domains. The company's overall operations are governed by the board, which consists of eight directors, including one promoter director and his brother, four independent directors and two nominee directors, with varied and relevant experience.

**Improved Profitability post COVID-19:** The company reported a profit after tax of INR1,309 million in FY24 (FY23: INR530 million; FY22: INR325 million), resulting in return on assets of 2.47% (1.41%; 1.46%). The company's profitability improved with an increase in its yield (FY24: 23.4%; FY23: 19%) after the removal of interest rate caps, with the net interest margins rising to 9.24% in FY24 (FY23: 7.41%).

Ind-Ra expects the company's operating cost to remain elevated (FY24: 8.30% to average loan assets) because of more branch expansion. However, the agency expects SML to maintain adequate profitability for the next two years, supported by higher yield and stable cost of funds.

**Diversified Funding Sources:** The company has a diversified funding profile, encompassing term loans from banks and financial institutions (around 71%), non-convertible debentures (about 21%) and subordinated debt (8%). As of March 2024, the company also had a diversified borrowing profile, with relationships with more than 67 lenders.

Although the cost of borrowings has increased (9MFY24: 12.2%, FY23: 10.82%, FY22: 11.4%), SML has been able to pass them on, given the removal of lending caps in FY22. The adequate capitalisation and the backing of investors have played a vital role in leveraging its balance sheet at a fairly competitive cost of funds compared to its peers.

**Above-industry Growth Leading to Improved Geographical Presence:** SML's assets under management (AUM) grew at a robust pace over FY20-FY24, rising to around INR60,000 million as on 31 March 2024 from INR10,000 million as on 31 March 2020, reporting a CAGR of 56.5%. The company has been expanding its presence across the country, thereby reducing its

concentration risk; as on 31 March 2024, SML was spread across 25 states, with 591 branches. Uttar Pradesh and Bihar remain the top states, with a 46% share. SML plans to open more branches in FY25, which will further help in enhancing its loan book growth over the next two-to-three years. The management plans to grow its book to INR100,000 million by FY25.

**Stable Outlook on NBFC-MFIs:** Ind-Ra has maintained a neutral outlook on the microfinance sector while keeping the rating Outlook at Stable for FY25. Ind-Ra expects the participants to maintain growth momentum at similar levels of FY24. Delinquency levels continue to improve on a yoy basis. The slight uptick in 3QFY24 was mainly due to the stress in Punjab and Haryana amid the ongoing farmer protest in the region and a mild increase in early delinquencies in some of the districts of Tamil Nadu due to floods. The agency opines this will only have a moderate impact on delinquencies for one or two quarters. Thus, Ind-Ra expects continued normalised delinquencies in FY25, in the absence of any major negative event playing out. There were no major disruptions in operations in FY24, despite some of the major state facing elections during the year. However, Ind-Ra remains cautious of the ongoing farmer protest in Punjab and the cascading effect of that in other states till the general elections.

**Short-term Volatility in Asset Quality Remains Monitorable:** The early delinquencies (0+days past due; dpd) increased to 4% in FY24 (FY23: 2%), with 90+dpd at 2% (1%). The gross non-performing assets and net non-performing assets stood at 2.15% and 1%, respectively, in FY24 (FY23: 1.30% and 0.44%, respectively). One-year lagged non-performing assets were comfortable at 2.8% in FY24 (FY23: 2.1%). SML has seen an increase in delinquencies in Punjab (FY24 90+dpd: 9%; FY23: 5%). The company has stopped disbursements in certain areas of Punjab that have been affected by political issues. Punjab accounted 5% of its AUM at end-March 2024 (FYE23: 8%).

SML has seen an improvement in the collections, which reached 97% in FY24 (FY23: 93%). The company has made adequate provisions for its stage 3 book, with net stage 3 assets of 1% at FYE24 (FYE23: 0.44%; FYE22: 2.52%). The outstanding restructured loan assets also reduced to INR10.4 million in FY24 (FY24: 0.10%; FY23: INR55.6 million, 0.20 %; FY22: INR1,614 million: 5.6%) due to the sale of restructured portfolios worth INR1,180 million to an asset reconstruction company during FY22-FY23. The company wrote off INR500 million in FY24, which was mostly related to the covid-impacted portfolio. Given the aggressive growth in the last few years, the portfolio performance in the key geographies of Bihar and Uttar Pradesh would remain key monitorables over the near-to-medium term. SML's asset quality benefits from its cashless transactions (over 80% collections happen digitally) through own applications, common payment applications and partnerships with fin-techs for payments and the transaction space, which further helps in reducing fraud risk. The company has been proactively educating and training its customers to choose the digital platform for repayments during the onboarding process.

## Liquidity

**Adequate:** As per the structural liquidity statement, SML had a cumulative surplus (as a percentage of its total assets) of 23.27% in the less-than-one-year bucket at end-March 2024, largely because the average asset tenure is 18-24 months and the average liability tenure is around 30 months. At end-May 2024, SML had a debt obligation of INR4737.60 million for the subsequent two months; against this, the company had unencumbered cash and fixed deposit equivalents of INR4,960.49 million. This, along with the advance inflow provides adequate liquidity cover.

## Rating Sensitivities

**Positive:** A positive rating action could result from the equity infusion as per its planned schedule and quantum, expansion of franchise with demonstrated steady state operational performance with control on asset quality, and substantial deepening of the relationships with the lenders.

**Negative:** A consistent deterioration in the asset quality (90+dpd exceeding 5% on sustained basis) and profitability, capital impairment and inability to raise adequate funding for growth and dilution of liquidity buffers, could lead to a negative rating action.

## About the Company

Promoted by Vivek Tiwari, SML is a Delhi-based non-banking finance company-microfinance institution registered with the Reserve Bank of India. The company, which started its operations in 2017, provides microcredit to the women borrowers via the joint liability group model and caters to more than 1.7 million borrowers through a network of 591 branches across 327 districts in

25 states while managing a portfolio of INR60,099.29 million.

## Key Financials Indicators

Particulars	FY24	FY23
Total assets (INR million)	59,482	46,619
Loans and advances	48,477	37,906
Tangible net worth (INR million)	10,155	8,393
Net income (INR million)	1,309	551
Return on average assets (%)	2.4	1.5
Leverage (x)	4.6	4.4
Capital adequacy ratio (%)	22.3	19.24
Source: SML, Ind-Ra		

## Status of Non-Cooperation with previous rating agency

Not applicable

## Rating History

Instrument Type	Current Rating/Outlook				Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	15 May 2024	16 May 2023	13 March 2023	14 October 2022
Non-convertible debentures	Long-term	INR4,100	IND BBB+/Positive	IND BBB+/Positive	IND BBB+/Stable	IND BBB+/Stable	IND BBB+/Stable
Bank loans	Bank Loan	INR1,500	IND BBB+/Positive	IND BBB+/Positive	IND BBB+/Stable	-	-

## Bank wise Facilities Details

Click here to see the details

## Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Non-convertible debentures	Low
Bank Loan	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity- indicators>.

## Annexure

ISIN	Date of Issuance	Coupon rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
INE982X07358	27 February 2023	12	26 February 2025	INR700	IND BBB+/Positive
INE982X07366	28 February 2023	12	27 February 2025	INR300	IND BBB+/Positive
INE982X07408	11 December 2023	13	25 September 2027	INR150	IND BBB+/Positive
INE982X07390	20 October 2023	12	19 October 2025	INR800	IND BBB+/Positive
			Total unutilised	INR1,150	

Source: NSDL, Company

APPLICABLE CRITERIA

- Non-Bank Finance Companies Criteria
- Evaluating Corporate Governance
- The Rating Process
- Financial Institutions Rating Criteria

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