Rating Rationale

February 07, 2024 | Mumbai

Satya Microcapital Limited

'CRISIL BBB+/Stable' assigned to Subordinated Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.300 Crore**
Long Term Rating	**CRISIL BBB+/Stable (Reaffirmed)**

Rs.100 Crore Subordinated Debt	**CRISIL BBB+/Stable (Assigned)**
Rs.50 Crore Subordinated Debt	**CRISIL BBB+/Stable (Reaffirmed)**
Rs.72 Crore Non Convertible Debentures	**CRISIL BBB+/Stable (Reaffirmed)**
Rs.50 Crore Non Convertible Debentures	**CRISIL BBB+/Stable (Reaffirmed)**
Rs.31 Crore Non Convertible Debentures	**CRISIL BBB+/Stable (Reaffirmed)**
Rs.30 Crore Non Convertible Debentures	**CRISIL BBB+/Stable (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited’s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **‘CRISIL BBB+/Stable’** rating to Rs 100 crore of Subordinated Debt of Satya Microcapital Limited (Satya). The rating on the bank facilities and debt instruments has been reaffirmed at ‘CRISIL BBB+/Stable’.

The rating continues to reflect its adequate capital position, extensive experience of the promoters and management in the microfinance industry, its improving earnings profile and geographically diversified portfolio.

Satya’s capital position has been supported by continuous equity raise; during last 3 years company has raised equity of around Rs 565 crore and maintained gearing in range of 4.5 to 5.0 times during same period. Going forward, the company proposes to raise another Rs 300 crore during current fiscal to support growth and would operate at similar gearing levels. The capital position is also supported by accretions as reflected in its improving earnings profile. With the revised regulatory framework (de-regulation of net interest margin), the company has raised their interest yields by about 200 to 300 bps on the incremental disbursements done during Q2 and Q3 of fiscal 2023. With the revision in the interest rates, resultant increase in net interest margin and controlled credit costs, the return on managed assets (RoMA) is expected to be higher than 2.0% in fiscal 2024.

On the asset quality front, the collection efficiency has remained strong with low delinquencies for loans originated in the last 12-18 months. As a result, the delinquency level has improved with 90+ dpd being at 1.2% as of March 31, 2023, as against 4.3% as of September 30, 2022. CRISIL Ratings notes that the company sold around Rs 210 crore worth of NPAs to asset reconstruction company (ARC) during fiscal 2023. If we include security receipts, the 90+ dpd would be around 3.9% as of March 31, 2023. During nine months fiscal 2024, the company witnessed a slight increase in delinquencies mainly in its agri-related portfolio in northern states like Punjab and Haryana. The 90+ dpd stood at around 2.16% as of December 2023. Nevertheless, with these 2 states accounting for less than 7% of overall AUM, the overall delinquency position is expected to remain low over the medium term. CRISIL Ratings, overall believes considering the pace at which Satya has been growing its portfolio, their ability to maintain portfolio quality will remain key rating sensitivity factor.

The above strengths are partially offset by average asset quality and susceptibility of the microfinance sector to regulatory and legislative risks.

Analytical Approach

CRISIL Ratings has evaluated the business and financial risk profile of Satya on standalone basis.

Key Rating Drivers & Detailed Description

Strengths:

- **Adequate capitalisation supported by regular equity infusion**
  Satya's capital position, reflected in networth of Rs 933 crore as of December 2023 as compared to Rs 837 crore on standalone basis as on March 31, 2023, supported by regular capital infusion. The company has witnessed continuous capital infusion in the past 6 years and has raised Rs 740 crores since January 2017 from investors post change in management from TFC Finvest Limited to Satya. Of the total capital infusion, Satya has raised about Rs 627 crore infused by the financial investor Gojo & Company Inc. of which Rs 201 crore was infused in fiscal 2023 itself. With this infusion, Gojo & Company Inc. holds the largest equity shareholding in the company with 62.9% as of March 31, 2023. As of

December 2023, gearing stood at 5.0 times as compared to 4.1 times in March 2022. Besides, the company plans to raise additional equity capital of around Rs 300 crore by the fiscal 2024 to fund future growth and maintain adequate capitalisation.

- **Extensive experience of the promoter in the microfinance industry further supported by experienced board and senior management**
  Satya is promoted by Mr Vivek Tiwari, who has over 20 years of experience in the microfinance industry before he started Satya in 2016. Besides the promoter's robust understanding of financial product requirements for the customers in the microfinance space, the company also benefits from the experienced board which has a mix of executive and non-executive directors including independent directors The leadership team comprises professionals with average experience of over a decade in the fields of microfinance, audit, operations, banking people management, and information technology (IT). Given its focus on digital integration of operations, processes are carried out through an e-platform. Besides online generation of granular credit quality report for the entire portfolio, the company has distinct portals for business (Br.Net) and collections (Trucell) for better functional boundaries. While 100% disbursements are done cashless, the management is focused on attaining 100% cashless collections.

- **Geographically diversified portfolio**
  In fiscal 2023, disbursements were impacted in Q1 2023 owing to revision in regulatory framework. However, it picked up from Q2 2023 onwards and stood at Rs 4,191 crore in fiscal 2023 with Rs 1,182 crore of disbursement done in March 2023 itself. With sharp rise in disbursements, company reported an AUM of Rs 4,684 crore as of March 2023 registering Y-o-Y growth of 62%. During nine months fiscal 2024, the company has disbursed Rs 3282 crore and reported an AUM of Rs 5422 crore as of December 2023. Portfolio growth has come with focus on maintaining overall geographic diversity to mitigate the impact of localised issues in any particular region. As on December 31, 2023, Satya was present in 25 states (as against 7 states as on March 31, 2018). The company has opened over 100 new branches over the last one year; as on December 31, 2023, the company had close to 600 branches. In terms of state-wise concentration, the highest exposure to a single state (Uttar Pradesh) was 25% and to top five states was 62.5% - Uttar Pradesh (25%), Bihar (19.3%), Punjab (6.3%), Rajasthan (5.1%), and Karnataka (6.8%). Moreover, the top five districts accounted for 7.5% of AUM as on December 31, 2023. Along with geographical diversification, the robust growth is supported by adequate monitoring of operational parameters, such as calibrated AUM exposure per branch, per district, amongst others. While the company continues to further reduce geographical concentration, the ability to diversify while maintaining stable systems and processes to avoid any pressure on asset quality will remain critical.

- **Improving earnings profile**
  In fiscal 2023, Satya reported a profit after tax of Rs 53 crore translating in RoMA of 1.2% as compared to net profit of Rs 32 crore and RoMA of 1.2% in fiscal 2022. Besides high operating costs, high provisioning made in fiscal 2022 and fiscal 2023 acted as a constraint. In fiscal 2023, Satya's operating expense ratio stood at 6.4% (6.5% in March 2022). In terms of credit cost, company reported credit cost of Rs 72 crore (1.6% as a percentage of managed assets) as compared to Rs 17.1 crore (0.8% as a percentage of managed assets) in fiscal 2022. With the revised regulatory framework, the company has increased its interest rate by 200 to 300 bps for select markets and customers in fiscal 2023. The company has shown improvement in profitability in 9M 2024 with net profit of Rs 96 crore and RoMA of 2.1% (annualized) owing to improvement in the average yield on the incremental disbursement, income from the off-book portfolio and controlled credit cost. With stabilizing collections and asset quality performance and ability to implement risk-based pricing under the revised guidelines for MFIs, the company's operating profitability is expected to strengthen further. Over the medium term, the company's ability to maintain the quality of books created post pandemic will remain a crucial factor from an earnings perspective.

Weaknesses:

- **Average asset quality**
  Satya's asset quality saw substantial improvement owing to collection efficiency remaining strong with low delinquencies for loans originated in the last 12-18 months. The delinquency level has improved with 90+ dpd being at 1.2% as of March 31, 2023, as against 4.3% as of September 30, 2022. CRISIL Ratings also noted that the company sold around Rs 210 crore worth of NPAs to asset reconstruction company (ARC) during fiscal 2023. In case the security receipts are included, the 90+ dpd would be around 3.9% as of March 31, 2023. During current fiscal, the company witnessed a slight increase in delinquencies during latter half of Q2 and Q3 fiscal 2024. The delinquencies are mainly pertaining to its agri-related portfolio originated in northern states like Punjab and Haryana. The 90+ dpd stood at around 2.16% as of December 2023. Nevertheless, with these 2 states accounting for less than 7% of overall AUM, the overall delinquency position is expected to remain low over the medium term. CRISIL Ratings, overall believes considering the pace at which Satya has been growing its portfolio, their ability to maintain and achieve portfolio quality of pre-pandemic level will remain key rating sensitivity factor.

- **Susceptibility to potential risk from socio-political issues in the microfinance sector and inherently modest credit profile of the borrowers**
  The microfinance sector witnessed two major disruptive events in the past decade. The first was the crisis promulgated by the ordinance passed by the government of Andhra Pradesh in 2010 and the second was demonetisation in 2016. Promulgation of the ordinance on MFIs by the government of Andhra Pradesh in 2010 demonstrated their vulnerability to regulatory and legislative risks. The ordinance triggered a chain of events that adversely affected the business models of MFIs by impairing their growth, asset quality, profitability and solvency. The sector witnessed high levels of delinquencies post demonetisation and subsequent socio-political events. The MFI Bill, 2020 passed recently by the Assam Assembly may increase asset-quality challenges for MFIs. Additionally, any loan waivers announced will make matters worse due to their impact on repayment discipline. In addition, the sector remains susceptible to issues such as local elections, natural calamities and borrower protests among others, which may result in momentary spurt in delinquencies. This indicates the fragility of the business model to external risks. As the business involves lending to the poor and downtrodden sections of

society, MFIs will remain exposed to socially sensitive factors, including high interest rates, tighter regulations and legislation.

The company started operation in November 2016, just around the time of demonetisation and hence did not get impacted. In the third quarter of fiscal 2020, hard bucket delinquencies increased due to the outbreak of protest against the new citizenship bill in Assam. Additionally, a significant portion of the portfolio comprises loans given to individuals under the JLG mechanism. Customers generally have below-average credit risk profiles with lack of access to formal credit and high seasonality in income. The income flow of this segment of customers is volatile and dependent on the local economy. With slowdown in economic activity after the pandemic, there may be pressure on the borrowers' cash flows, thereby affecting their repayment capability. However, the company's ability to reinstate repayment discipline among customers (such that pre-Covid levels of periodic collections are achieved) will be monitorable.

Liquidity: Adequate
The company's business model provides an inherently positive asset-liability maturity profile, driven by the shorter tenure of advances over liabilities, thereby keeping liquidity adequate. As a philosophy for liquidity management post Covid-19, the company maintains around two months of liquidity cover (on a steady state basis. Liquidity (excluding sanctioned term loan and securitisation lines) stood at Rs 707 crore (assuming nil collections) as on December 31, 2023, against debt obligation (including operating expense) of around Rs 1,141 crore for the next two months. Liquidity is also supported by steady collections of over Rs 300 crore monthly average reported in the past 2-3 months. Further, the liquidity also remains supported by need-based and timely funding support from the parent and investors.

Outlook: Stable
Satya will continue benefit from its well diversified portfolio and the extensive experience of the promoter and management team.

Rating Sensitivity factors
Upward factors
- Improvement in earnings with RoMA being maintained at over 2.5% on consistent basis
- Increase in scale of operations while maintaining asset quality
- Improvement in capital position

Downward factors
- Weakening in asset quality with 90+ dpd reaching over 5%, resulting in stressed profitability and capital position
- Inability to maintain adjusted gearing below 6 times on a steady-state basis

About the Company
Satya MicroCapital Limited (formerly known as TFC Invest Limited) is a Delhi based, RBI-registered "NBFC - MFI". It commenced microfinance operations in November 2016. Within a span of seven years, the company has expanded its presence to 25 states and Union Territories, namely, Assam, Bihar, Chandigarh, Chhattisgarh, Delhi, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Odisha, Puducherry, Punjab, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh, Uttarakhand, West Bengal, Andhra Pradesh, Telangana and Goa, through a network of more than 51,664 villages in 580 branches as of December 31,2023.

The company largely extends JLG up to Rs 50,000 and individual loans are up to ticket size of Rs 80,000. The company lends at interest rates of 23-25% for the JLG loans and 23% for individual loans. In December 2023, the company reported AUM of Rs. 5422 crore and profit after tax (PAT) of Rs. 96 crore.

Key Financial Indicators

	Unit	Dec 2023/ 9M 2024	Mar 23	Mar 22	Mar-21	Mar-20
Total managed assets #	Rs crore	6634	5,670	3,477	1,720	1,198
Total income	Rs crore	905	738	402	267	209
PAT	Rs crore	96	53	32.5	10.2	7.5
Return on managed assets	%	2.1	1.2	1.25	0.7	0.7
GNPA (90+ dpd)	%	2.2	1.2	2.8	1.0	0.7
Gearing	Times	5.0	4.4	4.1	2.8	3.7

Note: #including off-books assets

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Cr)	Complexity Level	Rating outstanding with outlook

NA	Subordinated Debt*	NA	NA	NA	100	Complex	CRISIL BBB+/Stable
NA	Non Convertible Debentures*	NA	NA	NA	0.3	Simple	CRISIL BBB+/Stable
INE982X07291	Non Convertible Debentures	15-Jun-2022	11.42%	15-Dec-2025	46.7	Simple	CRISIL BBB+/Stable
INE982X07176	Non Convertible Debentures	12-Aug-2021	11.70%	12-Aug-2027	80	Simple	CRISIL BBB+/Stable
INE982X07127	Non Convertible Debentures	22-Feb-2021	11.63%	22-Feb-2026	26	Simple	CRISIL BBB+/Stable
NA	Subordinated Debt*	NA	NA	NA	1	Complex	CRISIL BBB+/Stable
INE982X08091	Subordinated Debt	30-Nov-2023	14.20%	30-Apr-2029	25	Complex	CRISIL BBB+/Stable
INE982X08091	Subordinated Debt	21-Dec-2023	14.20%	30-Apr-2029	24	Complex	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	5-Dec-2025	16.67	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	31-Oct-2024	79.13	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	31-May-2024	29.16	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	2-Nov-2024	57.29	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	25-Feb-2024	35.6	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	27-Jan-2025	8.58	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	31-Mar-2026	20.5	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	20-Oct-2024	6.06	NA	CRISIL BBB+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	47.01	NA	CRISIL BBB+/Stable

Yet to be issued

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund Based Facilities	LT	300.0	CRISIL BBB+/Stable	29-01-24	CRISIL BBB+/Stable	23-11-23	CRISIL BBB+/Stable	21-10-22	CRISIL BBB/Stable		--	--
			--		--	01-11-23	CRISIL BBB+/Stable	26-07-22	CRISIL BBB/Stable		--	--
			--		--	09-08-23	CRISIL BBB+/Stable	03-06-22	CRISIL BBB/Stable		--	--
			--		--	31-05-23	CRISIL BBB+/Stable	13-04-22	CRISIL BBB/Stable		--	--
			--		--	24-01-23	CRISIL BBB/Stable	13-01-22	CRISIL BBB/Stable		--	--
			--		--		--	06-01-22	CRISIL BBB/Stable		--	--
Non Convertible Debentures	LT	183.0	CRISIL BBB+/Stable	29-01-24	CRISIL BBB+/Stable	23-11-23	CRISIL BBB+/Stable	21-10-22	CRISIL BBB/Stable	27-08-21	CRISIL BBB/Stable	--
			--		--	01-11-23	CRISIL BBB+/Stable	26-07-22	CRISIL BBB/Stable	30-07-21	CRISIL BBB/Stable	--
			--		--	09-08-23	CRISIL BBB+/Stable	03-06-22	CRISIL BBB/Stable	27-07-21	CRISIL BBB/Stable	--
			--		--	31-05-23	CRISIL BBB+/Stable	13-04-22	CRISIL BBB/Stable	05-02-21	CRISIL BBB/Stable	--
			--		--	24-01-23	CRISIL BBB/Stable	13-01-22	CRISIL BBB/Stable		--	--
			--		--		--	06-01-22	CRISIL BBB/Stable		--	--
Subordinated Debt	LT	150.0	CRISIL BBB+/Stable	29-01-24	CRISIL BBB+/Stable	23-11-23	CRISIL BBB+/Stable		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating

Proposed Long Term Bank Loan Facility	47.01	Not Applicable	CRISIL BBB+/Stable
Term Loan	8.58	Fincare Small Finance Bank Limited	CRISIL BBB+/Stable
Term Loan	20.5	Bank of Baroda	CRISIL BBB+/Stable
Term Loan	35.6	Utkarsh Small Finance Bank Limited	CRISIL BBB+/Stable
Term Loan	6.06	Bank of India	CRISIL BBB+/Stable
Term Loan	16.67	Dhanlaxmi Bank Limited	CRISIL BBB+/Stable
Term Loan	79.13	ICICI Bank Limited	CRISIL BBB+/Stable
Term Loan	29.16	SBM Bank (India) Limited	CRISIL BBB+/Stable
Term Loan	57.29	DBS Bank India Limited	CRISIL BBB+/Stable

Criteria Details

Links to related criteria
Rating Criteria for Finance Companies
CRISILs Bank Loan Ratings - process, scale and default recognition

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