

October 26, 2022

Swarnodhayam Credits Private Limited: Rating upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	6.80	30.00	[ICRA]BB (Stable); upgraded from [ICRA]BB- (Stable)
Long-term fund based – Unallocated	13.20	-	-
Total	20.00	30.00	

*Instrument details are provided in Annexure I

Rationale

The rating action factors in the recent improvement in Swarnodhayam Credits Private Limited's (SCPL) scale of operations with its assets under management (AUM) increasing to Rs. 35.9 crore as of September 30, 2022 from Rs. 21.1 crore as of March 31, 2021. SCPL's operations had been adversely impacted during the Covid-19 pandemic, which had resulted in a decline in the AUM in FY2021. However, with its operations back to normal, ICRA expects the company to continue scaling up the same at a cumulative annual growth rate (CAGR) of 75% over the next three years. The rating also takes into consideration the improvement in the liquidity and financing position of the company. SCPL reported positive cumulative asset-liability mismatches across various buckets with its borrowings incrementally having a tenor of 1-5 years compared to the average tenor of its portfolio of less than 2 years. In addition, the company has been able to increase its banking relationships to six lenders as on date from one in June 2021.

The rating continues to consider the promoter's experience in the microfinance business and SCPL's adequate capital profile characterised by an adjusted gearing¹ of 2.2x as of March 2022. The rating also factors in the asset quality indicators, which have been under control, with the 90+ days past due (dpd) at 1.0% as of March 31, 2022 (0.7% and 2.7% as of March 31, 2021 and March 31, 2020, respectively), supported by the improved collection efficiency, post the second wave of the pandemic. Also, the commensurate internal controls and the weekly collection model for all products, except loan against property (LAP), have helped maintain the asset quality.

The rating factors in the company's subdued profitability profile with its net profitability {profit after tax (PAT)/average managed assets (AMA)} remaining at 0.3% during FY2020-FY2022 compared to the three-year average of 2.2% during FY2017-FY2019. This was due to the decline in the AUM from FY2020, which resulted in an adverse operating expenses ratio. The rating also factors in the geographically concentrated nature of SCPL's operations, the inherent risks associated with unsecured lending, and the political and operational risks associated with the microfinance sector.

Key rating drivers and their description

Credit strengths

Promoter's experience in microfinance operations – SCPL is a non-banking financial company (NBFC) headquartered in Tiruchirapalli. It was started as Pallava Credits in 1991 and was acquired in 2009 by the promoters of erstwhile Grama Vidiyal Microfinance Ltd (GVMFL). SCPL obtained an NBFC licence in 2010. The promoter, Mr. S Devaraj, has more than two decades of experience in the microfinance business. This is expected to aid SCPL's business in its current area of operations. The

¹ Adjusted gearing – net worth adjusted for first loss default guarantee (FLDG) towards the business correspondent (BC) book

company extends unsecured business loans with a maximum ticket size of Rs. 0.5 lakh and LAP with a maximum loan size of Rs. 5 lakh. It also acts as a business correspondent (BC) for originating microfinance loans.

Adequate capital profile – The capital profile is characterised by a net worth and adjusted² gearing of Rs. 10.6 crore and 2.2x, respectively, as of March 31, 2022. The adjusted gearing increased from 0.6x as of March 2020 due to low internal capital generation and portfolio growth in FY2022. SCPL had raised Rs. 3.1 core of equity during December 2021- September 2022 to support its growth plans. ICRA does not envisage any significant external capital requirement over the near term considering the growth requirements.

Asset quality under control – The 90+ dpd increased and stood at 1.7% as of June 30, 2022 compared to 1.5% as of June 30, 2021 (2.7% as of March 31, 2020). However, the shorter bucket delinquencies had improved with a 0+ dpd of 1.9% as of June 2022 (6.8% as of June 2021) due to the sustained improvement in the collection efficiency from Q2 FY2023. The company has a conservative lending process and a weekly collection mechanism for its products, except LAP, wherein a monthly collection model is followed. SCPL has commensurate internal control systems and management bandwidth for its current scale of operations.

The loan appraisal system is adequate as a detailed cash flow statement is computed for all the borrowers to assess their repayment capability. The microfinance loans in the BC portfolio are given for income-generation purpose and under the joint liability group (JLG) model. The final approval for all loans is given by the Credit Committee after assessing the cash flow of the borrower. The loans are disbursed at the branches while collections are made at the centre meetings in cash. SCPL has upgraded its technology platform to BR.Net, which was implemented from FY2022 and is commensurate with the current scale of operations.

Credit challenges

Modest scale and geographically concentrated operations, notwithstanding recent growth – The company had a modest scale of operations with an AUM of Rs. 35.9 crore as of September 30, 2022 (Rs. 21.1 crore as of March 31, 2021). Though its operations were impacted by the pandemic in Q1 FY2022, disbursements increased by 86% on a year-on-year (YoY) basis and stood at Rs. 39.7 crore in FY2022. Further, disbursements stood at Rs. 9.3 crore in Q1 FY2023. SCPL serves as a BC partner for originating microfinance loans, which accounted for 34% of the total managed portfolio as of June 2022. Business loans stood at 54%, followed by LAP at 6% and multi-purpose and gold loans (the balance). The company is currently operating through 14 branches across 6 districts of Tamil Nadu. ICRA expects the operations to remain concentrated in Tamil Nadu and in a few districts over the near to medium term.

Subdued profitability – The company's net profitability was largely stable at 0.3% during FY2020-FY2022, but remained low compared to the three-year average of 2.2% during FY2017-FY2019. This was due to the decline in the share of the own book and the overall AUM and the increase in the operating expenses from FY2020. The share of the own book had returned to its previous level of 66% as of March 2022 compared to 65% as of March 2019. However, interest expense had increased to 3.0% in FY2022 from 1.6% in FY2021 as the leverage had increased to 2.1x as of March 2022 from 0.9x as of March 2021. The income from BC operations comprised 14% of the total income in FY2022 (17% in FY2021). Going forward, it would be crucial for SCPL to scale up its operations, improve its operating efficiency and contain the credit costs for incremental profitability.

Ability to manage political, communal and other risks in microfinance sector – The microfinance sector is vulnerable to socio-political and operational risks, which could negatively impact the operations and the financial position of entities with exposure to this sector. The industry risks are further accentuated by the company's geographically concentrated portfolio. SCPL's ability to navigate through the prolonged economic adversity and manage the impact on business growth, client retention and asset quality would remain critical from a rating perspective.

² Net worth adjusted for FLDG

Liquidity position: Adequate

The asset-liability management profile reflected positive cumulative mismatches across buckets as of March 2022. SCPL had a cash and bank balance of Rs. 0.61 crore as of September 30, 2022 against debt repayment obligations of Rs. 1.07 crore during October-November 2022. ICRA notes that the collection efficiency (collections including arrears/demand for the month) improved to 113-116% in Q1 FY2023, supporting the liquidity profile. As of September 30, 2022, SCPL had relationships with six lenders and served as a BC partner for two lenders. Going forward, it would be crucial for the company to maintain collections and secure funds in a timely manner and at competitive rates to support its liquidity profile and to drive business growth.

Rating sensitivities

Positive factors – ICRA could change the outlook or upgrade the rating if SCPL is able to scale up its operations and earnings profile on a sustained basis while maintaining an adequate liquidity profile.

Negative factors – ICRA could revise the outlook or downgrade the rating in case of a weakening in the asset quality or a deterioration in the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Swarnodhayam Credits Private Limited (SCPL) is a non-deposit taking, non-systemically important NBFC that extends business loans, LAP and gold loans to women members for income-generation purposes. The company, which was started as Pallava Credits in 1991, was acquired in 2009 by the promoters of erstwhile Grama Vidiyal Microfinance Ltd (GVMFL) and was registered as an NBFC in 2010. It was extending gold loans to GVMFL's members with a ticket size of around Rs. 5,000-10,000. In FY2013, SCPL started running down its gold loan portfolio and started providing small business loans in FY2015. It has a BC arrangement with two lenders for the origination of microfinance loans. As of June 30, 2022, the company was operating through 14 branches in the six districts of Tiruchirappalli, Tanjore, Namakkal, Karur, Salem and Erode with a member base of 14,835. SCPL had an AUM of Rs. 35.9 crore as of September 2022.

Key financial indicators (audited)

SCPL	FY2020	FY2021	FY2022
Total income	4.1	3.9	5.3
Profit after tax	0.1	0.1	0.1
Net worth	8.3	8.5	10.6
Assets under management	19.4	21.1	32.9
Total managed assets	28.1	28.1	44.2
Return on managed assets	0.3%	0.3%	0.3%
Return on net worth	1.1%	1.1%	1.2%
Gross gearing (times)	0.5	0.9	2.1
90+ dpd	2.7%	0.7%	1.0%
Net NPA [#]	1.8%	0.2%	1.8%
CRAR	92.8%	63.0%	37.9%

Source: SCPL, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; [#]NPAs of own loan book

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Oct 26, 2022	Sep 16, 2021	Jun 30, 2020	-
1 Long-term fund based – Term loan	Long term	30.00	30.00	[ICRA]BB (Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-
2 Long-term unallocated	Long term	0.00	0.00	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan-1	Mar-2022	-	FY2027	1.90	[ICRA]BB (Stable)
-	Term loan-2	Aug-2021	-	FY2022	7.96	[ICRA]BB (Stable)
-	Term loan-3	Jun-2021	-	FY2025	0.50	[ICRA]BB (Stable)
-	Term loan-4	Dec-2021	-	FY2025	7.88	[ICRA]BB (Stable)
-	Term loan-5	Sep-2022	-	FY2025	2.00	[ICRA]BB (Stable)
-	Term loan-Unallocated	NA	NA	NA	9.76	[ICRA]BB (Stable)

Source: SCPL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – NA

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Branches



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