Suryoday Micro Finance Private Limited

Instrument	Amount	Rating Action
Non Convertible Debenture Programme	Rs. 25 crore	[ICRA]A- (stable) assigned
Non Convertible Debenture Programme	Rs. 25 crore	

ICRA has assigned the rating of [ICRA]A- (stable) to Rs 50 cr Non Convertible Debentures Programme of Suryoday Micro Finance Private Limited. ICRA also has [ICRA]A- (stable) rating on Rs. 500 crore bank lines, Rs. 25 crore Subordinated debt programme and Rs. 223.50 crore Non Convertible Debenture Programme of Suryoday Micro Finance Limited. The ratings were upgraded from [ICRA]BBB+ (stable) to [ICRA]A- (stable) in August 2016.

The rating upgrade takes into account the expected improvement in Suryoday's business risk profile after it gets converted into a small finance bank (SFB) and the progress made towards this transition, including broad basing the management team, identification of Information Technology partners as well as tying up equity funding. ICRA notes that Suryoday has been able to bring down its foreign shareholding below the mandated 49%. However, ICRA also notes that post conversion to SFB, Suryoday's funding requirements would increase by around 20-25% owing to CRR and SLR requirements. In the short term, the company would remain dependent on refinance from SIDBI, NABARD, MUDRA; fund raising through capital market instruments, inter-bank participation certificates, borrowings from banks and NBFCs and to a smaller extent securitization (less than 10% of the resources profile) for meeting its funding requirements. In the initial phase of conversion, deposit mobilization is expected to be low and not expected to be a significant funding resource. Thus, Suryoday's ability to develop a deposit franchise over the medium term would be a critical determinant of its liquidity position going forward. In ICRA's opinion, Suryoday would be able to offer additional loan products, offer fee based products as well as develop a retail deposit franchise over the medium term given its large active customer base which would support its liability profile and funding costs over the medium term. Overall, the ability of the company to diversify its product mix, develop a good retail deposit franchise and maintain asset quality indicators while managing the high pace of projected growth as well as meet the transition related challenges would be important from a credit perspective.[1]

Company Profile

Suryoday Micro Finance Limited (Suryoday) was set up in Oct-08 as an NBFC with the concept of providing loans to women in urban and semi-urban areas under the Grameen Bank Joint Lending Model. Suryoday commenced full-fledged operations from May-09. The company had received equity funds from Aavishkaar Goodwell and Lok Capital in the early stages of its operations. Subsequently in Sep-12, the company also received equity funds of Rs. 7 crore from HDFC Holdings and HDFC standard Life. The company has been able to receive continued equity support from the promoters and existing investors, who have brought in equity of Rs. 20 crore in FY 2013. Further in Sep-13, the company received equity infusion of Rs 15 crore from individual domestic investors. In May-14, the company received Rs. 27 crore of capital, of which Rs. 15 crore was contributed by a new investor, International Finance Corporation (IFC), while Rs. 12 crore from the existing investors of the company viz. Avishkaar Goodwell and Lok Capital. In Jan-15, a new investor viz. DWM came on board by acquiring 9.95% stake from Aavishkaar Goodwell. In July 2015, the company received equity capital of Rs. 33 crore from its existing investors, thus further strengthening the networth of the company and further Rs 5 crore was infused by the promoter in December 2015. In the latest round of capital infusion (July 2016) the company received Rs. 131 crores of fresh equity from domestic investors viz. IDFC Bank Ltd and ASK Wealth Advisors Pvt. Ltd. which has increased total domestic shareholding to 51.24%. Also, foreign investors viz. Avishkaar Goodwell and Lok Capital LLC have completely exited. The equity infusion of Rs.131 crore includes funding of Rs.31.5 crore from promoters and Rs.99.5 crore from existing and new domestic investors.

[1] For detailed rationale, please refer to rationale released on August 26, 2016.

As of June 2016, Suryoday has operations across 8 states viz. Maharashtra, Tamil Nadu, Gujarat, Odisha, Karnataka, Rajasthan, Madhya Pradesh and Puducherry with about 38% of its portfolio in Maharashtra, and about 25% in Tamil Nadu. For FY2016, Suryoday reported PAT of Rs. 27.44 crore, which is roughly 2.68% of Average Managed Assets (AMA) vis-a-vis PAT of Rs 16.85 crore for FY2015 (2.72% of AMA). The capitalisation for Suryoday was comfortable with reported CRAR of 35.03% (Tier-1 being 31.38%) as on June 2016.

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For further details please contact:
Analyst Contacts:
Mr. Kalpesh Gada (Tel. No. +91 22 6114 3445)
Head- Structured Finance
kalpesh@icraindia.com

Saumya Aggarwal (Tel. No. +91 22 6114 3425)
saumya.aggarwal@icraindia.com

Chhanda Barman (Tel. No. +91 22 6114 3429)
chhanda.barman@icraindia.com

Relationship Contacts:
Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	