October 21, 2022

IIFL Samasta Finance Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank lines	400	-	[ICRA]A+ (Stable); reaffirmed & withdrawn
NCD programme	125	125	[ICRA]A+ (Stable); reaffirmed
CP programme	550	550	[ICRA]A1+; reaffirmed
Total	**1,075**	**675**	

**Instrument details are provided in Annexure I*

Rationale

IIFL Samasta Finance Limited's (Samasta) ratings take into account the strong promoter profile, with IIFL Finance Limited (IIFL; rated [ICRA]AA (Stable)/[ICRA]A1+) holding a 99.41% stake in the company as on June 30, 2022. The ratings factor in the strategic importance of Samasta to IIFL and the existence of a shared brand name, which strengthens ICRA's expectation that Samasta is likely to receive timely and adequate support from IIFL. The ratings also factors in Samasta's established track record in the microfinance space and its experienced management team. The company's gross assets under management (AUM) grew 50% year-on-year (YoY) to Rs. 6,685 crore as on June 30, 2022 with improved geographical diversification (Samasta had operations in 17 states through a network of 946 branches across 303 districts). The ratings also consider the company's adequate capitalisation profile, supported by regular capital infusions, which helped it scale up its operations. Given the growth plans, with microfinance being a key segment for IIFL, Samasta would require additional capital on a regular basis over the next 2-3 years.

The ratings remain constrained by the deterioration in the asset quality indicators after the onset of the Covid-19 pandemic. The disruptions caused by the pandemic have severely impacted the livelihood and cash flows of the borrowers, affecting the microfinance industry, including Samasta. This has led to higher credit costs, impacting the profitability. The company reported a net profit of Rs. 50.6 crore in FY2022 (Rs. 6.9 crore in Q1 FY2023) with a return on managed assets (RoMA) of 0.82% compared to Rs. 66.6 crore in FY2021 (1.48%). ICRA expects the credit costs to remain elevated, thereby impacting the profitability in FY2023. The ratings continue to factor in the risks associated with the unsecured nature of microfinance loans, the marginal borrower profile, which is susceptible to income shocks, and the political and operational risks inherent in the microfinance business.

The Stable outlook is driven by ICRA's expectation that the asset quality will improve as the impact of the pandemic on the asset quality and credit provisions wanes off, translating into improved internal capital generation. Moreover, adequate support on the capitalisation front is expected from IIFL.

ICRA has withdrawn the ratings assigned to the Rs. 400 crore long term bank lines programme of Samasta at the company's request and in accordance with ICRA's policy on the withdrawal and suspension of credit ratings. There is no amount outstanding against the instrument.

Key rating drivers and their description

Credit strengths

Support from IIFL; capitalisation supported by regular equity infusions – IIFL held a 99.41% stake in the company as of June 30, 2022. To scale up the operations of Samasta, IIFL has been infusing equity capital regularly into the company (Rs. 642.5 crore in the last 5 years) with the most recent being Rs. 100 crore in March 2022 (Rs. 75 crore by IIFL and Rs. 25 crore by IIFL Home Finance Limited; 100% subsidiary of IIFL). Given the regular equity infusions, the company's capitalisation profile remains adequate with a capital to risk weighted assets ratio (CRAR) of 17.62% (Tier I: 15.99%) as on June 30, 2022. The gearing (on managed book) stood at 5.78 times as on June 30, 2022 (6.29 times as on March 31, 2021). Given its growth plans, Samasta would require additional capital on a regular basis over the next 2-3 years. ICRA expects support from the parent to be forthcoming.

Improved scale of operations and geographical diversification – The company has been consistently growing its portfolio with a 3-year compound annual growth rate (CAGR) of 25%. As on June 30, 2022, Samasta was operating in 17 states through a network of 946 branches across 303 districts, catering to more than 17 lakh borrowers with a managed loan portfolio of Rs. 6,685 crore as of June 30, 2022 (Rs. 4,443 crore as on June 30, 2021). The growth has been supported by the company's experienced management team, adequate systems and processes, effective tracking and the management information system (MIS) for the scaling up and geographical diversification of the operations.

ICRA takes note of the improvement in the geographical diversification of operations with the top 3 states comprising 47% of the portfolio outstanding as on June 30, 2022 (50% as on March 31, 2021). Further, the top 10 districts comprised 16% of the portfolio outstanding (18% as on March 31, 2021). The diversification at the district level has been improving continuously and is likely to improve further as the company expands more in states with a lower share. As on June 30, 2022, only one district had a share of more than 2% in the AUM.

Credit challenges

Elevated pressure on asset quality and profitability – Given the Covid-19-induced disruptions, the company's asset quality has deteriorated with the gross stage 3 increasing to 3.07% as on March 31, 2022 and 2.83% as on June 30, 2022 from 1.82% as on March 31, 2021. Also, the company has standard restructured loans of Rs. 384 crore of the portfolio (5.7% of the AUM as of June 30, 2022). The increase in slippages in Q4 FY2022 and Q1 FY2023 was partly due to the slippages from the restructured portfolio. The headline asset quality numbers have been supported by the high write-offs undertaken by the company in FY2022 and Q1 FY2023. Cumulatively, Samasta wrote off loans amounting to Rs. 132 crore in FY2022 and Rs. 97 crore in Q1 FY2023 (4.8% of the AUM as of March 2021). ICRA notes the improvement in the collection efficiency in March 2022 to 105% from 80% in June 2021, though it declined to 94% in Q1 FY2023 with the exit of the restructured book from the moratorium at the beginning of the quarter.

With the asset quality issues, the company's credit costs have been elevated, thereby impacting the profitability. The credit costs increased to 3.74% of average managed assets (AMA) in FY2022 from 2.91% in FY2021. Samasta reported a net profit of Rs. 51 crore in FY2022, translating into a RoMA of 0.82% and a return on equity (RoE) of 6.14% (Rs. 67 crore, 1.48% and 11.50%, respectively, in FY2021).

With lower collections in Q1 FY2023, the credit costs continued to increase (6.31% (annualised) of AMA), resulting in a further reduction in the RoMA to 0.39% and the RoE to 2.76%. ICRA expects that slippages and credit costs are likely to remain elevated in FY2023, affecting the company's profitability, but are likely to normalise from FY2024.

Ability to manage political and operational risks, given the marginal borrower profile and limited product and revenue diversification – Microfinance remains susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations. Further, political and operational risks associated with microfinance may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political, climatic and operational risks, which could negatively impact Samasta's operations. Samasta's ability to onboard borrowers with a good credit history, recruit and retain employees and improve the geographical diversity of its operations would be the key factors for managing high growth rates.

Liquidity position: Adequate

As on September 30, 2022, Samasta had a cash and bank balance and liquid investments of Rs. 467 crore and unutilised bank lines of Rs. 340 crore from various bankers against scheduled debt obligations of Rs. 1,855 crore till March 31, 2023. As advances comprise relatively shorter-tenure microfinance loans compared to the tenure of the borrowed funds, the asset-liability maturity profile remains comfortable. Samasta's ability to maintain and improve its collection efficiency and raise fresh funds will be important for growth and liquidity. Further, ICRA expects support from the parent should the need arise.

Rating sensitivities

Positive factors – ICRA could revise the outlook or upgrade the rating if there is a sustained improvement in the company's profitability indicators with a RoMA of more than 3.5%, while significantly scaling up the operations. Samasta's ability to raise equity and debt capital to support the envisaged growth while maintaining a prudent capitalisation profile could positively impact the rating.

Negative factors – The company's ratings could be under pressure in case of a material change in the ownership structure or a decline in support from the promoters or a deterioration in the credit profile of the parent. A deterioration in the managed gearing[1] to more than 6 times on a sustained basis will also affect the ratings. Moreover, a deterioration in the capitalisation profile or asset quality on a sustained basis could negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating ICRA's Policy on Withdrawal of Credit Ratings
Parent/Group support	Parent – IIFL Finance Limited (IIFL) The ratings factor in the high likelihood of financial support from the parent, IIFL, given the strategic importance evidenced by the majority ownership, regular capital infusions and board supervision. ICRA expects financial support from the parent to be forthcoming if required.
Consolidation/Standalone	Standalone

[1] *Adjusted gearing = (On-book borrowings + direct assignment)/net worth*

About the company

Bengaluru, Karnataka-based IIFL Samasta Finance Limited (erstwhile Samasta Microfinance Limited) is a non-deposit accepting non-banking financial company (NBFC). The company began its microfinance operations in 2008 and was managing a portfolio of Rs. 6,685 crore as on June 30, 2022. As on June 30, 2022, Samasta had a presence in 17 states, catering to more than 17.9 lakh customers through a network of 946 branches spread across 303 districts.

Key financial indicators (audited)

IIFL Samasta Finance Limited	FY2021	FY2022	Q1 FY2023*
Total income	690	1,011	368
Profit after tax	67	51	7
Net worth	650	999	1,007
Loan book	4,118	5,773	5,589
Total assets	4,408	6,394	6,221
Return on managed assets	1.48%	0.82%	0.39%
Return on net worth	11.50%	6.14%	2.76%
Gross gearing (times)	5.50	5.27	5.04
Gross NPA	1.82%	3.07%	2.83%
Net NPA	-	0.86%	1.28%
Gross stage 3	1.82%	3.07%	2.83%
Net stage 3	-	0.82%	1.22%
Solvency (Net stage 3/Net worth)	-	4.74%	6.76%
CRAR	18.56%	17.83%	17.62%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Oct 21, 2022	Oct 06, 2021	Nov 27, 2020	Aug 30, 2019
1	Long-term bank lines	Long term	400	-	[ICRA]A+ (Stable); reaffirmed & withdrawn	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	NCD programme	Long term	125	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	CP programme	Short term	550	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term bank lines	Simple
NCD programme	Very Simple
CP programme	Very 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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Not placed	**Non-convertible debentures programme**	-	-	-	125	[ICRA]A+ (Stable)
NA	**Long-term bank lines**	NA	NA	NA	400	[ICRA]A+ (Stable); reaffirmed & withdrawn
Not placed	**Commercial paper programme**	-	-	-	550	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@icraindia.com

Jui J. Kulkarni
+91 22 6114 3427
jui.kulkarni@icraindia.com

Harsh Mange
+91 22 6114 3400
harsh.mange@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches