January 30, 2023

# Svatantra Microfin Private Limited: Rating upgraded

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Subordinated debt | 75.00 | 75.00 | [ICRA]A+ (Stable); upgraded from [ICRA]A (Stable) |
| **Total** | **75.00** | **75.00** | |

**Instrument details are provided in Annexure I*

## Rationale

The rating upgrade factors in the continued capital support and strong financial flexibility enjoyed by Svatantra Microfin Private Limited (Svatantra), given that it is wholly owned by the Birla family and the holding/investment company of Aditya Birla Group as on December 31, 2022. The promoters have continued to support the company through board supervision and regular capital infusions, the most recent being ~Rs. 100 crore in December 2022 (~Rs. 250 crore in FY2022), which aided the healthy increase in the scale of operations. Svatantra reported an annualised growth of 42% in the portfolio in H1 FY2023, supported by a 37% (annualised) increase in the borrower base. Its financial flexibility remains strong with a diversified borrowing profile and a low cost of funds. The rating also continues to factor in Svatantra's experienced management team, prudent lending policies and good systems and processes.

With the healthy scaling up of operations, the operating efficiency has been improving. Also, with the revised microfinance regulations, the company has been able to improve its net interest margins. While the overall profitability improved in H1 FY2023, with Svatantra reporting a net profit of Rs. 42 crore in H1 FY2023, translating into a return of 1.2% on average managed assets (AMA) and 9.5% on average net worth (Rs. 47 crore, 0.9% and 6.6%, respectively, in FY2022), it remains subdued owing to elevated credit costs. The gross non-performing assets (NPAs) increased to 5.1% as on September 30, 2022 from 3.4% as on March 31, 2022 (2.1% as on March 31, 2021) in the wake of the Covid-19 pandemic. Additionally, it had a standard restructured portfolio of 1.1% as on September 30, 2022 (3.6% as on March 31, 2022; 2.0% as on March 31, 2021). Given the weakening of the asset quality indicators, the company incurred high credit costs in H1 FY2023. Svatantra's ability to arrest slippages and control its credit costs will remain important for improving its profitability. The rating continues to factor in the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that Svatantra will be able to maintain a healthy credit profile, aided by continued capital support from the promoters, its experienced management team, good systems and processes, strong financial flexibility, and diversified borrowing profile.

## Key rating drivers and their description

### Credit strengths

**Strong capital support and commitment of promoters; experienced management team** – Svatantra is owned by the promoters, i.e., the Birla family and the holding/investment company of Aditya Birla Group. The rating factors in the support received from the promoters in the form of regular capital infusions and board supervision. The most recent capital infusion was ~Rs. 100 crore in December 2022 (~Rs. 250 crore in FY2022). ICRA believes Svatantra will continue receiving regular capital support from its promoters to meet its envisaged growth. Further, Svatantra's senior management team comprises professionals with considerable experience across the microfinance, rural lending, and banking businesses, who have demonstrated healthy scaling up of operations while continuously refining the company's systems and processes.

**Healthy growth in scale of operations** – Svatantra's assets under management (AUM) grew 42% (annualised) in H1 FY2023 (53% in FY2022) to Rs. 6,595 crore as on September 30, 2022 (Rs. 5,447 crore as on March 31, 2022), supported by a 37% (annualised; 34% in FY2022) increase in the borrower base. The company has been augmenting its infrastructure to support the pace of growth. It added 118 branches while foraying into 38 new districts in H1 FY2023. The company was operating in 19 states through a network of 810 branches spread across 341 districts, catering to more than 19 lakh borrowers as on September 30, 2022. Further, the operations are fairly diversified geographically with no state comprising more than 20% of its AUM and the share of the top 10 districts remaining comfortable at 17% of the AUM as on September 30, 2022 (16% as on March 31, 2022). ICRA expects Svatantra to continue scaling up its AUM while maintaining a fairly diversified geographical presence.

**Strong financial flexibility, diversified borrowing profile and low cost of funds** – Svatantra has demonstrated strong financial flexibility and raised debt capital through term loans, debentures, and the securitisation route from different lenders. It raised Rs. 2,303 crore in H1 FY2023 from 23 different lenders. The borrowing profile comprised loans from banks and financial institutions (FIs; 59%), non-banking financial companies (NBFCs; 18%), subordinated debt (8%), non-convertible debentures (3%) and direct assignment (12%) as on September 30, 2022. While the cost of average interest-bearing funds increased to 10.0% in H1 FY2023 from 9.5% in FY2022 owing to the systemic hardening of interest rates, it remains competitive. The funding profile is fairly diversified with borrowings comprising a good mix of private and public sector banks and NBFCs as on September 30, 2022.

## Credit challenges

**Ability to control credit costs and further improve profitability** – The company's asset quality indicators deteriorated in the wake of the pandemic. The gross NPAs increased to 5.1% as on September 30, 2022 from 3.4% as on March 31, 2022 (2.1% as on March 31, 2021). Additionally, it had a standard restructured portfolio of 1.1% as on September 30, 2022 (3.6% as on March 31, 2022; 2.0% as on March 31, 2021). Given the weakening of the asset quality indicators, Svatantra incurred high credit costs in H1 FY2023. It reported credit costs of 4.6% of AMA in H1 FY2023 compared to 2.6% in FY2022.

However, the impact of the elevated credit costs was offset by the improvement in the net interest margins and operating efficiency. With the implementation of revised microfinance regulations, the company was able to increase its yield on loans. Consequently, its net interest margins increased to 9.8% of AMA in H1 FY2023 from 7.6% in FY2022. The operating efficiency improved as Svatantra continued to scale up its operations and the operating expenses declined to 4.2% (annualised) of AMA in H1 FY2023 from 4.5% in FY2022. As a result, the overall profitability improved in H1 FY2023, but remained subdued, with the company reporting a net profit of Rs. 42 crore in H1 FY2023, translating into a return of 1.2% on AMA and 9.5% on average net worth (Rs. 47 crore, 0.9% and 6.6%, respectively, in FY2022). The company's ability to arrest slippages and control its credit costs will remain important for improving its profitability.

**Ability to manage political, communal and other risks, given the marginal borrower profile** – 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 Svatantra's operations. The company's ability to onboard borrowers with a good credit history, recruit and retain employees and maintain a geographically diversified portfolio would be key for managing high growth rates.

## Liquidity position: Adequate

As on October 31, 2022, Svatantra had cash and bank balances and liquid investments of Rs. 340 crore and unutilised sanctioned funding lines in excess of Rs. 1,500 crore. Factoring in the expected collections from advances, the liquidity profile is adequate to meet the debt obligations in a timely manner as per ICRA's estimates as on October 31, 2022. However, given the company's growth plans, it would require additional funding to support the envisaged disbursements. Further, ICRA expects support from the promoters if required.

## Rating sensitivities

**Positive factors –** ICRA could revise the outlook or upgrade the rating if Svatantra continues to scale up its operations while maintaining a prudent capitalisation profile and demonstrating a sustained improvement in its asset quality and profitability indicators.

**Negative factors –** Pressure on the company's rating could arise in case of a material change in the ownership structure or support from the promoters. Also, a deterioration in the capitalisation profile or a stretch in the liquidity could exert pressure on the rating.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | [Rating Methodology for Non-banking Finance Companies](#)<br>[Rating Approach - Implicit Parent or Group Support](#) |
| **Parent/Group support** | Svatantra is owned by the promoters – the Birla family and the holding/investment company of Aditya Birla Group. It receives support in the form of regular capital infusions and board supervision |
| **Consolidation/Standalone** | Standalone |

## About the company

Svatantra Microfin Private Limited (Svatantra), promoted by Ms. Ananyashree Birla, was incorporated in 2012 and started microfinance operations in March 2013. It is registered with the Reserve Bank of India (RBI) as a non-banking financial company-microfinance institution (NBFC-MFI). It provides microcredit to women borrowers, for income-generating activities, under the joint liability group (JLG) lending model. The borrowers are organised in groups of 5-30 people with each member of the group providing a credit guarantee for the other members. Svatantra was operating in 19 states through a network of 810 branches, catering to more than 19 lakh borrowers with a managed loan portfolio of Rs. 6,595 crore as on September 30, 2022.

### Key financial indicators (audited)

| Svatantra Microfin Private Limited | FY2021 | FY2022 | H1 FY2023 |
|---|---|---|---|
| **As per** | **Ind-AS** | **Ind-AS** | **Ind-AS** |
| **Total income** | 560 | 831 | 617 |
| **Profit after tax** | 27 | 47 | 42 |
| **Net worth** | 572 | 869 | 912 |
| **Gross loan portfolio** | 3,564 | 5,447 | 6,595 |
| **Total managed assets (grossed up for provisions)** | 4,413 | 6,558 | 7,510 |
| **Return on average managed assets** | 0.7% | 0.9% | 1.2% |
| **Return on average net worth** | 6.0% | 6.6% | 9.5% |
| **Reported gearing (times)** | 5.4 | 5.6 | 5.8 |
| **Managed gearing (times)** | 6.3 | 6.2 | 6.7 |
| **Gross NPAs** | 2.1% | 3.4% | 5.1% |
| **Net NPAs** | 1.0% | 1.5% | 2.2% |
| **Solvency (Net NPAs /Net worth)** | 5.3% | 8.2% | 13.8% |
| **CRAR** | 21.9% | 25.6% | 20.7% |

*Managed gearing = (On-book borrowings + Securitised/assigned loan assets)/(Net worth)*
*Source: Company, ICRA Research; 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 of December 31, 2022* (Rs. crore) | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 | | Date & Rating in FY2020 | |
| | | | | | Jan 30, 2023 | Feb 04, 2022 | Feb 05, 2021 | Aug 17, 2020 | Aug 30, 2019 | May 20, 2019 |
| 1 | **Subordinated debt** | Long term | 75 | 75 | [ICRA]A+ (Stable) | [ICRA]A (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) |
| 2 | **Long-term bank facilities** | Long term | - | - | - | - | [ICRA]A- (Stable); reaffirmed and simultaneously withdrawn | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) |

**Source: Company*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Subordinated debt** | 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 / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **INE00MX08011** | **Subordinated debt** | May 31, 2018 | 11.70% p.a. | Nov 30, 2023 | 75.00 | [ICRA]A+ (Stable) |

*Source: Company*

## Annexure II: List of entities considered for consolidated analysis – Not Applicable

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## About ICRA Limited:

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