

April 02, 2024

SATYA MicroCapital Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities (LT – Fund based)	1,700.00	1,700.00	[ICRA]BBB+ (Stable); reaffirmed
NCD programme	433.54	433.54	[ICRA]BBB+ (Stable); reaffirmed
NCD programme	38.00	0.00	[ICRA]BBB+ (Stable); reaffirmed and simultaneously withdrawn
Tier II bonds programme	25.00	25.00	[ICRA]BBB+ (Stable); reaffirmed
Subordinated debt programme	105.00	105.00	[ICRA]BBB+ (Stable); reaffirmed
Market linked debenture (MLD)	20.00	20.00	PP-MLD [ICRA]BBB+ (Stable); reaffirmed
Total	2,321.54	2,283.54	

*Instrument details are provided in Annexure I

Rationale

The ratings factor in SATYA MicroCapital Ltd.'s (SML) track record in the microfinance business and its fairly diversified geographical presence. SML's consolidated assets under management (AUM) grew by ~23% (annualised) in 9M FY2024 to Rs. 5,498 crore as on December 31, 2023 (provisional), supported by the healthy increase in the borrower base. The company's funding profile is fairly diversified with more than 70 active lender relationships.

Given the high pace of growth vis-à-vis internal capital generation, SML's consolidated managed gearing¹ has been increasing and was reported at 6.0 times as on December 31, 2023. ICRA notes that the company is in the process of raising equity capital to maintain a prudent capitalisation profile while supporting its growth plans. Although SML has been able to raise equity capital regularly from its promoters and investors, a delay in its capital-raising plans could adversely impact its credit profile and the same shall remain a monitorable.

The ratings also consider SML's relatively moderate asset quality metrics. The company's standalone gross non-performing assets (GNPAs) stood at 2.2% as on December 31, 2023 (1.3% as on March 31, 2023). Further, it had security receipts (SRs) outstanding of around Rs. 96 crore (2.0% of its on-book portfolio) as on December 31, 2023, the recovery from which remains a monitorable. Its subsidiary, SATYA Micro Housing Finance Private Limited (SMHFPL), reported GNPA of 0.8% (provisional) as on December 31, 2023. As SMHFPL is in a nascent stage of operations with an unseasoned book, its asset quality shall remain monitorable. SML's consolidated profitability remains under pressure because of the relatively higher level of operating expenses and credit costs. The ratings factor in the risks associated with unsecured lending and the political and operational risks associated with microlending and affordable housing finance lending, which may lead to volatility in the asset quality indicators.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that SML shall maintain a steady credit profile, while expanding its scale of operations, supported by its demonstrated ability to raise debt funds and capital in a timely manner. Nevertheless, any delay in raising capital, which would constrain the capital structure, will adversely impact the credit profile. ICRA has reaffirmed and simultaneously withdrawn the rating on the Rs. 38-crore NCD as the same has been repaid by the company and there is no amount outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

¹ Managed gearing = (On-book debt + Off-book portfolio)/Net worth

Key rating drivers and their description

Credit strengths

Improvement in scale, driven by growth in borrower base and geographical expansion – SML's consolidated AUM increased by ~23% (annualised) in 9M FY2024 to Rs. 5,498 crore² as on December 31, 2023 from Rs. 4,717 crore as on March 31, 2023. This was supported by the annualised growth of ~30% in its borrower base to 16.6 lakh as on December 31, 2023 from 13.6 lakh as on March 31, 2023. The AUM is expected to increase at a compound annual growth rate (CAGR) of 25-30% during FY2025-FY2026, though it would be critical to raise commensurate equity capital, considering the moderate internal generation.

SML's operations are fairly diversified with a presence across 329 districts (standalone) in 25 states/Union Territories (UTs) as on December 31, 2023. It also offers affordable housing finance through its subsidiary – SMHFPL, which had a presence in 43 districts across 5 states as on December 31, 2023. ICRA takes note of the management's plan to continue expanding the company's footprint and enter new districts over the next few years. Uttar Pradesh (UP) accounted for the largest share of SML's standalone AUM at 25% as on December 31, 2023, followed by Bihar (19%), Karnataka (7%), Punjab (6%) and Rajasthan (5%) with the 20 other states/UTs accounting for the balance.

Fairly diversified funding profile – SML's funding mix is fairly diversified with the company having relationships with various lenders, including banks {public sector/private/small finance banks (SFBs)}. Funding from banks (including foreign banks and SFBs), in the form of term loans and subordinated debt, accounted for 39% of the borrowing mix as on December 31, 2023, while loans from non-banking financial companies (NBFCs)/financial institutions (FIs) accounted for 14%. Non-convertible debentures (NCDs; including market linked debentures, subordinated debt and Tier II bonds), securitisation (pass-through certificates (PTCs) from banks), external commercial borrowings (ECBs) and the off-book (direct assignment book and business correspondent book) constituted 22%, 1%, 8% and 16%, respectively.

Credit challenges

Moderate asset quality and earnings profile – SML reported a consolidated net profit of Rs. 90 crore in 9M FY2024, translating into a return on average managed assets (RoMA) of 1.9% and a return on average net worth (RoNW) of 13.6% vis-à-vis Rs. 63 crore, 1.4% and 9.2%, respectively, in FY2023. Operating expenses, with respect to the average managed assets, were relatively high at 7.0% in 9M FY2024 (6.5% in FY2023) as the Group continues to expand its scale and reach. This, along with the elevated credit costs, keeps SML's profitability profile at a moderate level. SML's standalone GNPA's increased in 9M FY2024 to 2.2% as on December 31, 2023 from 1.3% as on March 31, 2023. Delinquencies have increased in some districts of Punjab and Haryana, leading to an increase in the GNPA's. Further, SML wrote off Rs. 39 crore in 9M FY2024, constituting 0.8% of the loan book as on December 31, 2023. The company's ability to improve its operating efficiency and control the credit costs at a consolidated level shall remain a monitorable.

Increasing leverage, given high pace of growth – Given the high pace of growth vis-à-vis internal capital generation, the Group's managed gearing has been increasing and stood at 6.0 times as on December 31, 2023 compared to 5.6 times as on March 31, 2023 (5.1 times as on March 31, 2022). SML has been raising equity capital regularly from its promoters and investors to support its growth plans, with ~Rs. 230 crore raised in FY2023. ICRA notes that there has been a delay in raising equity capital from the previously stated plans of raising Rs. 300 crore in Q4 FY2024. However, the company has moderated its growth plans for FY2024 and is in the process of raising ~Rs. 55-crore equity capital from existing investors in March 2024 in order to maintain its capitalisation profile. ICRA notes that SML has planned to raise sizeable equity capital in FY2025. Any delay in raising capital could adversely impact its capital profile, considering its growth plans, and the same shall remain a monitorable.

Political, communal, and other risks, given the unsecured lending and marginal borrower profile – Given the high share of microfinance, the company remains susceptible to the risks associated with unsecured lending to marginal borrowers, given

² AUM value under IGAAP

their 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. However, SML’s geographically diversified portfolio mitigates these risks to some extent, as these issues are largely region-specific so far. The microfinance industry is prone to socio-political, climatic and operational risks, which could negatively impact its operations. SML’s ability to onboard borrowers with a good credit history, recruit and retain employees as well as maintain the geographical diversity of its operations would be a key rating sensitivity.

Liquidity position: Adequate

As on December 31, 2023, SML had an unencumbered cash and liquid balance of around Rs. 602 crore (standalone) along with unavailed sanctions of Rs. 233 crore. It had scheduled debt obligations of ~Rs. 2,700 crore over the next 12 months vis-à-vis collections due of ~Rs. 1,998 crore over the same time frame. Factoring in the estimated collections from advances, the liquidity profile is expected to remain adequate to meet the debt obligations in a timely manner. However, the company would require additional funding to support the envisaged disbursements, given its growth plans.

As on January 31, 2024, SMHFPL had an unencumbered cash and liquid balance of around Rs. 10 crore to cater to its scheduled debt obligations of ~Rs. 14 crore over the next 12 months vis-à-vis collections due of ~Rs. 7 crore over the same time frame. Further, it has an unavailed sanction of Rs. 25 crore available from SML.

Rating sensitivities

Positive factors – An improvement in the consolidated profitability with RoMA above 2.5% on a sustained basis while maintaining adequate asset quality could positively impact the credit ratings.

Negative factors – Pressure on SML’s ratings could arise if its consolidated managed gearing remains above 6.0 times on a sustained basis. Pressure could also be seen in case of a steady weakening of its liquidity profile or a significant deterioration in the asset quality, impacting the profitability.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA’s credit rating methodology for NBFCs ICRA’s policy on withdrawal of credit ratings
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidated

About the company

SATYA MicroCapital Ltd. is a Delhi-based NBFC-microfinance institution (NBFC-MFI), which was incorporated in 1995. It started its microfinance operations in FY2017 by adopting the joint liability group (JLG) model with fortnightly and monthly collection cycles. The company primarily offers JLG loans with ticket sizes in the median range of Rs. 25,000-75,000, and individual microloans with ticket sizes in the range of Rs. 45,000-80,000 at interest rates of 24-26%, along with a processing fee of 0.50-0.75% for JLG loans and 3% for individual loans. SML primarily focuses on lending to women (husbands/sons (above 18 years of age) act as nominees) who aim to initiate a new business or enhance their existing business. As on December 31, 2023, the standalone operations were spread in 329 districts across 25 states/UTs. The company also offers affordable housing finance through its subsidiary – SATYA Micro Housing Finance Private Limited.

SML reported a consolidated profit after tax (PAT) of ~Rs. 90 crore in 9M FY2024 against Rs. 53 crore in FY2023. Its consolidated assets under management (AUM) stood at Rs. 5,498 crore (provisional) as on December 31, 2023, registering an annualised growth of ~23% in 9M FY2024.

Key financial indicators (audited; consolidated)

SATYA MicroCapital Ltd.	FY2022	FY2023	9M FY2024*
Total income	402	738	912
PAT	32	53	90
Total managed assets	3,478	5,706	6,734
Return on managed assets	1.2%	1.4%	1.9%
Managed gearing (times)	5.1	5.6	6.0
Gross NPA	3.3%	1.3%	2.2%
CRAR^	23.0%	19.2%	21.7%

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

* Estimated based on standalone financial statements of SML and SMHFPL; ^Standalone

Status of non-cooperation with previous CRA: Not applicable
Any other information:

SML faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial, operating and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the ratings would face pressure.

Rating history for past three years

Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years																							
	Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024					Date & rating in FY2023					Date & rating in FY2022													
					Feb-21-2024	Feb-16-2024	Dec-14-2023	Nov-9-2023	May-25-2023	Feb-3-2023	Nov-2-2022	Jul-14-2022	May-17-2022	Apr-19-2022	Mar-28-2022	Mar-24-2022	Mar-7-2022	Jan-25-2022	Dec-09-2021	Nov-22-2021	Oct-20-2021	Jun-18-2021	Jun-11-2021	Apr-22-2021				
1	NCD program	Long term	40	40	[ICRA]B BB+ (Stable)	[ICRA]B BB+ (Stable)	[ICRA]B BB+ (Stable)	[ICRA]B BB+ (Stable)	[ICRA]B BB+ (Stable)	[ICRA]B BB+ (Stable)	[ICRA]B BB (Positive)	[ICRA]B BB (Positive)	[ICRA]B BB (Positive)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)								
2	CP program	Short term	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	[ICRA]A 3+; withdrawn	[ICRA]A 3+						
3	NCD program	Long term	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
4	Term loan	Long term	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
5	NCD program	Long term	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	[ICRA]B BB (Stable); withdrawn	[ICRA]B BB (Stable)						
6	NCD program	Long term	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	[ICRA]B BB (Stable); withdrawn	[ICRA]B BB (Stable)						
7	Bank facilities term loan	Long term	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	
8	Bank facilities CC	Long term	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	
9	Bank facilities others	Long term	1,700	1,671.23	[ICRA]B BB+ (Stable)	[ICRA]B BB+ (Stable)	[ICRA]B BB+ (Stable)	[ICRA]B BB+ (Stable)	[ICRA]B BB+ (Stable)	[ICRA]B BB+ (Stable)	[ICRA]B BB (Positive)	[ICRA]B BB (Positive)	[ICRA]B BB (Positive)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)	[ICRA]B BB (Stable)							
10	Market linked debentures (MLD) program	Long term	-	-	-	-	-	-	-	-	-	-	PP-MLD [ICRA]B BB (Positive); withdrawn	PP-MLD [ICRA]B BB (Stable)	PP-MLD [ICRA]B BB (Stable)	PP-MLD [ICRA]B BB (Stable)	PP-MLD [ICRA]B BB (Stable)	PP-MLD [ICRA]B BB (Stable)	PP-MLD [ICRA]B BB (Stable)	PP-MLD [ICRA]B BB (Stable)								

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank facilities (LT-fund based)	Simple
NCD programme	Simple
Tier II bonds programme	Very Simple
Subordinated debt programme	Very Simple
LT-market linked debt	Complex

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
INE982X07135	MLD programme	Jun-14-2021	SENSEX Linked	Sep-30-2024	20.00	PP-MLD[ICRA]BBB+ (Stable)
INE982X07150	NCD programme	Jun-30-2021	11.6778%	Jun-30-2027	22.10	[ICRA]BBB+ (Stable)
INE982X07168	NCD programme	Jul-02-2021	11.7229%	Jul-02-2027	16.10	[ICRA]BBB+ (Stable)
INE982X07143	NCD programme	Jul-05-2021	11.7229%	May-05-2026	16.10	[ICRA]BBB+ (Stable)
INE982X07218	NCD programme	Jan-14-2022	11.76%	Jan-14-2026	42.00	[ICRA]BBB+ (Stable)
INE982X07267	NCD programme	Sep-11-2018	12.70%	Dec-31-2026	40.00	[ICRA]BBB+ (Stable)
INE982X07424	NCD programme	Feb-28-2024	12.00%	Feb-28-2026	50.00	[ICRA]BBB+ (Stable)
INE982X08018	Sub-debt programme	Mar-29-2019	15.75%	May-30-2025	20.00	[ICRA]BBB+ (Stable)
INE982X08059	Sub-debt programme	Oct-22-2021	14.75%	May-21-2027	30.00	[ICRA]BBB+ (Stable)
INE982X08067	Sub-debt programme	Mar-14-2022	15.15%	Mar-15-2027	30.00	[ICRA]BBB+ (Stable)
INE982X08083	Sub-debt programme	Jun-27-2023	15.25%	Jul-03-2028	25.00	[ICRA]BBB+ (Stable)
INE982X08034	Tier II bonds programme	Jul-08-2019	14.27%	Jul-08-2026	10.00	[ICRA]BBB+ (Stable)
INE982X08042	Tier II bonds programme	Aug-01-2019	14.27%	Jul-08-2026	15.00	[ICRA]BBB+ (Stable)
INE982X07184	NCD programme	Aug-23-2019	12.65%	Nov-22-2027	28.50	[ICRA]BBB+ (Stable)
INE982X07093	NCD programme	Jul-24-2020	11.723%	Jul-24-2024	34.50	[ICRA]BBB+ (Stable)
INE982X07234	NCD programme	Mar-30-2022	11.7702%	Mar-30-2026	45.00	[ICRA]BBB+ (Stable)
INE982X07101	NCD programme	Jul-24-2020	11.723%	Jul-24-2026	38.00	[ICRA]BBB+ (Stable); withdrawn
INE982X07119	NCD programme	Dec-18-2020	13.75%	Dec-18-2023	25.00	[ICRA]BBB+ (Stable)
INE982X07283	NCD programme	May-31-2022	11.7702%	May-31-2026	37.50	[ICRA]BBB+ (Stable)
INE982X07226	NCD programme	Mar-30-2022	11.76%	Dec-30-2024	26.00	[ICRA]BBB+ (Stable)
INE982X07416	NCD programme	Feb-02-2024	12.50%	Feb-02-2026	25.00	[ICRA]BBB+ (Stable)
Not issued	NCD programme	NA	NA	NA	0.74	[ICRA]BBB+ (Stable)
Yet to be issued	NCD programme	NA	NA	NA	25.00	[ICRA]BBB+ (Stable)
Not applicable	Bank facilities	Sep 2021 to Dec 2023	9.25% to 15.25%	24 to 84 months	1,700.00	[ICRA]BBB+ (Stable)

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

Annexure II: List of entities considered for consolidated analysis

Company Name	SML Ownership	Consolidation Approach
SATYA Micro Housing Finance Private Limited	97.15%	Full Consolidation

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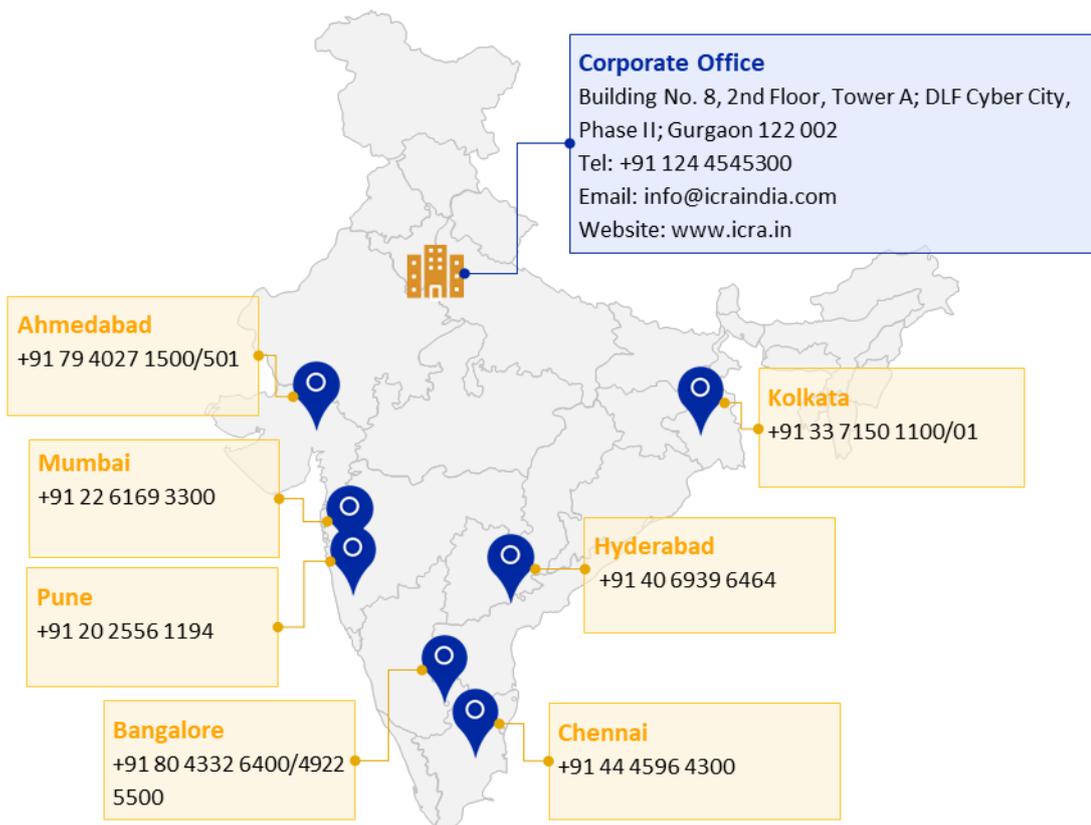
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