February 03, 2025

Sarvagram Fincare Private Limited: Ratings upgraded; rated amount enhanced and assigned ratings for NCD

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term/Short-term fund based – Bank facilities	300.00	400.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable) and assigned for enhanced amount [ICRA]A2; upgraded from [ICRA]A3+ and assigned for enhanced amount
NCD programme	150.00	150.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
	0.00	100.00	[ICRA]BBB+ (Stable); assigned
Total	**450.00**	**650.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating action takes into consideration the strengthened capital profile of Sarvagram Fincare Private Limited (SFPL) and Sarvagram Solutions Private Limited (SSPL), together referred to as the Sarvagram Group, on the back of the recently concluded capital raise. ICRA notes that the Group received an equity infusion of Rs. 550.0 crore from existing and new investors in November 2024 (Rs. 950.5-crore equity raised till date), improving its net worth[1] to ~Rs. 850 crore as of December 2024 from Rs. 339.2 crore as of March 2024. Accordingly, the Group's managed gearing[2] is expected to be less than 2.0 times by March 2025 vis-à-vis the level of 3.5 times as of September 2024 (2.4 times as of March 2024). The ratings also consider the Group's focus on rural finance with good growth potential, backed by the experience of the founders in this segment and the well-defined underwriting and risk management framework.

The ratings are, however, constrained by the inherently risky customer profile, which is susceptible to asset quality shocks, and the low seasoning of the portfolio as significant growth was witnessed over the last 18-24 months. Around 72% of the portfolio, as of September 2024, is secured by mortgage on residential/commercial/agricultural property, providing some comfort. The ratings also consider the Group's subdued earnings profile, characterised by net losses over the last two financial years and in H1 FY2025. Going forward, improving the operational efficiency while maintaining the asset quality and keeping the credit costs under control would be critical for enhancing the earnings profile on a sustained basis.

The Stable outlook factors in ICRA's outlook that the company would continue to maintain a comfortable capitalisation profile and improve its earnings profile in the near term, while sustaining its portfolio growth.

Key rating drivers and their description

Credit strengths

Strengthened capitalisation profile – The Group has maintained comfortable capitalisation metrics, supported by regular capital infusions. SSPL has raised equity of Rs. 950.5 crore till date (Rs. 550.0 crore in 9M FY2025, Rs. 15.0 crore in FY2024, Rs.

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[1] *Net of goodwill and inclusive of minority interest*

[2] *Managed gearing = (On-book borrowings + Total off-book exposure)/Net worth (net of goodwill and inclusive of minority interest)*

282.8 crore in FY2023, Rs. 76.9 crore in FY2021, Rs. 25.8 crore in FY2020) from private equity (PE) investors – Peak XV, Elevar Equity, Elevation Capital, Temasek and TVS Capital. Of this, SSPL has infused Rs. 703.0 crore into SFPL (Rs. 450.0 crore in 9M FY2025, Rs. 138.0 crore in FY2024, Rs. 37.0 crore in FY2023, and Rs. 78.0 crore during FY2020-FY2022) till date. The Group's net worth, after the equity infusion in November 2024, is estimated at Rs. 850.0 crore vis-à-vis Rs. 339.2 crore as of March 2024 (Rs. 357.6 crore as of March 2023). Accordingly, its managed gearing[3] is expected to be restricted to less than 2 times by March 2025 vis-à-vis the level of 3.5 times as of September 2024 (2.4 times as of March 2024). ICRA notes the impact of the recent Reserve Bank of India (RBI) circular {higher risk weights for consumption credit extended by non-banking financial companies (NBFCs)} on SFPL's capital adequacy, with personal loans accounting for about 25% of the overall assets under management (AUM) as of September 2024. SFPL's recent capital raise shall, however, support the capital profile. ICRA expects the managed gearing to be capped at 4 times over the medium term.

Focus on rural finance with good growth potential – The Group's target customers are rural households, a segment which has typically been underserved and offers good growth potential over the medium-to-long term. As of September 2024, the Group had an operational presence in 5 states (Rajasthan, Gujarat, Maharashtra, Karnataka and Telangana) through 144 branches. The AUM increased at a compound annual growth rate (CAGR) of 165% during FY2021 to FY2024, supported by branch expansion and the scaling up of operations in existing branches. Further, it had grown by 22% in H1 FY2025 and stood at Rs. 1,146 crore as of September 2024 (Rs. 942 crore as of March 2024). The Group's field presence, through its branch operations, is complemented by the digitally-enabled support processes, including for the onboarding of customers, the know your customer (KYC) process, credit underwriting and collections.

The founders have long-standing experience in rural finance. SSPL has a five-member board consisting of one independent director, two nominee directors representing the PE investors (Elevar Equity and Elevation Capital), and two co-founder directors. SFPL has a four-member board, consisting of two co-founder directors and two independent directors. Going forward, ICRA expects the experience of the founders and the well-defined credit underwriting and risk management processes to support the scaling up of operations.

Credit challenges

Modest customer segment; increasing delinquency trend – The Group's target customer profile is rural households, with sources of income from farm (dairy income, agricultural income, etc.), small businesses or salary. As of September 2024, around 38% of the exposures were towards customers with primary income from the farm/dairy segment. ICRA notes that this segment is inherently risky with uneven cash flows and susceptibility to asset quality shocks. The 90+ days past due (dpd) increased to 2.6% as of September 2024 from 1.7% as of March 2024 on account of macro-economic factors and challenges faced in specific geographies. However, the Group's well-defined underwriting and risk management practices would support the asset quality in the near-to-medium term.

The Group typically targets households with multiple income sources and with a credit history (new-to-credit segment accounted for only 6-7% of the portfolio as of September 2024). Around 72% of the portfolio, as of September 2024, is secured by mortgage on residential/commercial/agricultural property, further supporting the risk profile of the portfolio. Nevertheless, given the modest track record of operations, the portfolio lacks seasoning. Thus, the ability to manage the asset quality as the portfolio scales up is yet to be seen and would remain a key monitorable.

Subdued earnings profile – The Group has been undergoing significant scale-up of its operational infrastructure, including branches, technology and the employee base, over the last few years. This has resulted in elevated operating expenses and continued losses. Nevertheless, with the significant increase in the AUM over the last two years, operating cost/AMA[4] declined

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[3] *Managed gearing = (On-book borrowings + Total off-book exposure)/Net worth (net of goodwill and inclusive of minority interest)*

[4] *Operating cost/Average managed assets*

modestly to 12.1% in H1 FY2025 (provisional) and 12.8% in FY2024 from 14.6% in FY2023. SFPL's NIM/AMA[5] also increased to 10.5% in H1 FY2025 (provisional) from 8.9% in FY2024 with some improvement in yields and the cost of funds. Consequently, the losses declined to -0.9% of AMA in H1 FY2025 (provisional) and -2.0% in FY2024 from -6.9% in FY2023. Credit costs (as a percentage of AMA) have remained under control in the past (0.6% in H1 FY2025, 1.3% in FY2024 and 0.7% in FY2023). However, with the seasoning of the portfolio, performance will remain monitorable.

On a standalone basis, SFPL reported a profit of Rs. 10.6 crore in H1 FY2025 and Rs. 7.6 crore FY2024 vis-à-vis a loss of Rs. 19.2 crore in FY2023. Going forward, ICRA expects the profitability to improve with the planned scaling-up of the loan portfolio, supported by an improvement in the operational efficiency. However, it would be critical to keep the credit costs under control.

Liquidity position: Adequate

As on September 30, 2024, SFPL (standalone) was carrying unencumbered on-book liquidity of Rs. 157.1 crore against scheduled debt obligations of Rs. 238.0 crore from October 2024 to March 2025. The company also has scheduled collections of Rs. 287.0 crore during this period. Its asset-liability maturity (ALM) profile, as of September 2024, reflects no cumulative negative mismatches in the less than-one-year bucket. As on September 30, 2024, the Group had a cash and bank balance of Rs. 171.0 crore. The sizeable capital raise shall also uphold the Group's liquidity profile in the near term.

The funding mix comprises borrowings from NBFCs (constituting 60% in September 2024), banks (24%) and non-convertible debentures (NCDs; 16%). Going forward, the share of bank borrowings is expected to increase as the Group diversifies its borrowing profile.

Rating sensitivities

Positive factors – Significant improvement in the earnings profile, supported by enhanced operating efficiency and stable asset quality performance, would have a positive impact.

Negative factors – Deterioration in the asset quality, resulting in 90+ dpd of more than 5%, or a sustained increase in the managed gearing above 5 times could exert pressure on the ratings.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of Sarvagram Solutions Private Limited and its subsidiary, Sarvagram Fincare Private Limited

About the company

Sarvagram Fincare Private Limited (SFPL) is a non-deposit taking NBFC that focuses on providing credit products such as farm loans, business loans, housing loans, personal/consumer durable loans, and gold loans to households with multiple sources of income in rural India. It was incorporated in November 2018 and the corporate office is in Mumbai. SFPL is a 100% subsidiary of Sarvagram Solutions Private Limited (SSPL). SSPL provides non-lending financial services such as farm mechanisation solutions, insurance distribution, etc, in the same geographies catered to by SFPL through a network of individual franchisees (Sarvamitras). SSPL also provides a digital platform with technology solutions to SFPL.

[5] *Net interest margin/Average managed assets*

The Group reported a net loss of Rs. 5.5 crore in H1 FY2025 (provisional) on total managed assets of Rs. 1,246.6 crore (provisional) while it reported a net loss of Rs. 19.8 crore on total managed assets[6] of Rs. 1,190.0 crore in FY2024. On a standalone basis, SFPL reported a net profit of Rs. 10.6 crore in H1 FY2025 (provisional) on total managed assets of Rs. 1,379.2 crore (provisional) while it reported a net profit of Rs. 7.6 crore on total managed assets of Rs. 1,058.9 crore in FY2024.

Key financial indicators

SSPL (consolidated)	FY2023	FY2024	H1 FY2025*
Accounting as per	IGAAP	Ind-AS	IGAAP
Total income	79.1	181.0	127.1
Profit after tax	(34.1)	(19.8)	(5.5)
Total managed assets	744.5	1,190.0	1,246.6
Return on managed assets	-6.9%	-2.0%	-0.9%
Managed gearing (times)	1.3	2.4	3.5

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

SFPL (standalone)	FY2023	FY2024	H1 FY2025*
Accounting as per	IGAAP	IGAAP	IGAAP
Total income	70.3	157.6	122.4
Profit after tax	(19.2)	7.6	10.6
Total managed assets	491.5	1,058.9	1,379.2
Return on managed assets	-5.4%	1.0%	1.7%
Managed gearing (times)	5.9	3.8	4.1
Gross NPA/GS3#	1.0%	2.0%	2.9%
CRAR	18.8%	21.9%	22.6%

*Source: Company, ICRA Research; *Provisional numbers; # GNPA is based on 180+ dpd for FY2023 and on 90+ dpd for FY2024 and H1 FY2025*
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 (FY2025)					Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	February 03, 2025	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long-term/Short-term fund based – Others	Long term/ Short term	400.00	[ICRA]BBB+ (Stable)/ [ICRA]A2	Sep-04-2024	[ICRA]BBB (Stable)/ [ICRA]A3+	Jan-08-2024	[ICRA]BBB (Stable)	-	-	-	-
NCD programme	Long term	250.00	[ICRA]BBB+ (Stable)	Sep-04-2024	[ICRA]BBB (Stable)	Jan-08-2024	[ICRA]BBB (Stable)	-	-	-	-

[6] *Managed assets = Total assets (net of goodwill) + Total off-book portfolio*

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund based – Term loan	Simple
NCD programme	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
NA	Long-term fund based	Aug 23, 2021	-	Apr 30, 2030	280.11	[ICRA]BBB+ (Stable)
NA	Short-term fund based – Overdraft	-	-	-	0.50	[ICRA]A2
NA	Long-term/Short-term fund based – Others (unallocated)	-	-	-	119.39	[ICRA]BBB+ (Stable)/[ICRA]A2
INE0LEQ07103	NCD programme	Oct 16, 2024	12.87%	Oct 31, 2027	74.50	[ICRA]BBB+ (Stable)
INE0LEQ07079	NCD programme	Jun 29, 2024	13.00%	Jan 15, 2028	25.00	[ICRA]BBB+ (Stable)
INE0LEQ07087	NCD programme	Sep 17, 2024	12.00%	Sep 13, 2027	15.00	[ICRA]BBB+ (Stable)
INE0LEQ07095	NCD programme	Aug 30, 2024	12.95%	Aug 30, 2027	20.00	[ICRA]BBB+ (Stable)
INE0LEQ07061	NCD programme	Feb 29, 2024	13.00%	Sep 20, 2026	25.00	[ICRA]BBB+ (Stable)
INE0LEQ07053	NCD programme	Jan 31, 2024	13.00%	Sep 20, 2026	50.00	[ICRA]BBB+ (Stable)
Unallocated	NCD programme	-	-	-	40.50	[ICRA]BBB+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company name	Ownership	Consolidation approach
Sarvagram Solutions Private Limited	Parent	Full consolidation
Sarvagram Fincare Private Limited	100.0%*	Full consolidation

**Held by Sarvagram Solutions Private Limited*

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