August 16, 2021 Revised

Saija Finance Private Limited: Rating placed on Watch with Developing Implications; withdrawn for Rs. 23.50-crore NCD

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD programme	20.00	20.00	[ICRA]BB+&; Placed on Watch with Developing Implications
NCD programme	23.50	-	[ICRA]BB+ &; Placed on Watch with Developing Implications and simultaneously withdrawn
Total	**43.50**	**20.00**	

**Instrument details are provided in Annexure-1; & - On Watch with Developing Implications*

For the credit enhanced rating of the entity, refer to the rationales given in the structured finance section: Link1, Link2

Rationale

The outstanding rating on the Rs. 23.50-crore non-convertible debenture (NCD) programme of Saija Finance Private Limited (SFPL) has been withdrawn in accordance with ICRA's policy on the withdrawal and suspension of credit ratings and as requested by SFPL. The rated instrument was fully paid. A no dues certificate has been received from the debenture trustee and there is no amount outstanding against the rated instrument being withdrawn.

ICRA has placed the rating outstanding for SFPL's NCD programme on Watch with Developing Implications. The action follows the recent development wherein the company's promoters and investors have signed a share subscription and shareholding agreement (SSHA) with Dvara Kshetriya Gramin Financial Services Private Limited {Dvara; rated [ICRA]BBB(Stable)}. As per the SSHA, Dvara is expected to infuse capital of Rs. 7.57 crore in the first tranche in the near term and the entire operations of SFPL are expected to be merged with Dvara within 18 months, subject to regulatory approvals and the fulfilment of performance milestones. Further, as per the SSHA, Dvara is expected to provide managerial and financial support. Any material bottleneck leading to the cancellation/delay of the SSHA will have an adverse impact on SFPL's credit profile.

The rating continues to factor in SFPL's experienced promoters and board and its decade-long track record of operations in the industry. However, ICRA takes note of the decline in SFPL's scale of operations and the continuing high geographical concentration. The asset quality also deteriorated in FY2021 due to the Covid-19 pandemic. SFPL did not restructure any part of its loan book under the Reserve Bank of India's (RBI)s Covid Restructuring Framework 1.0. However, it restructured ~Rs. 36 crore in June 2021 under Framework 2.0, wherein borrowers were given a moratorium of 2 months. This helped the company contain a further deterioration to a great extent.

The deterioration in the asset quality has led to higher credit costs. The decline in operations has also impacted the operational efficiency and hence the operational expenses with respect to the average managed assets (AMA). This has weakened SFPL's profitability profile as it reported a net loss of around Rs. 33 crore, translating into a return on average managed assets (RoMA) of -10.7% and a return on average net worth (RoNW) of -65.0% in FY2021 against a profit of around Rs. 2 crore with RoMA of 0.5% and RoNW of 3.5% in FY2020. This led to a significant decline in SFPL's net worth to Rs. 33.6 crore in March 2021 from Rs. 66.4 crore in March 2020. This weakened the capitalisation profile with total CRAR of 20.45% and gearing of 5.2 times as on March 31, 2021 compared to 27.16% and 3.8 times, respectively, as on March 31, 2020.

The operational performance is expected to improve gradually on the execution of the above-mentioned SSHA agreement. Any material deviation in the proposed plan would have a negative impact on SFPL's credit profile.

Key rating drivers and their description

Credit strengths

Experienced promoters and board members – The promoters have experience in microfinance operations and have been running the company for more than a decade. The board members have experience in the fields of microlending, banking, financial services and insurance (BFSI) operations, social transformation and advisory. Though SFPL has reported a decline in its scale of operations, it is expected to witness a gradual improvement supported by the experienced management and additional managerial support from Dvara.

Credit challenges

Decline in scale of operations and high geographical concentration – SFPL reported gross assets under management (AUM) of Rs. 196 crore as on March 31, 2021 (excluding capitalised interest; including capitalised interest, the gross AUM was around Rs. 215 crore) against Rs. 305 crore as on March 31, 2020, registering a decline of ~36%. The decline was on account of issues in raising capital and debt funds in FY2021 to support growth.

SFPL's operations remain geographically concentrated with Bihar accounting for ~54% of the total AUM as on June 30, 2021, followed by Jharkhand (~16%) and Haryana (~11%) while Punjab and Uttar Pradesh (UP) accounted for the rest. The SSHA with Dvara is expected to support SFPL in gradually improving its operational profile.

Weakening of asset quality affecting profitability; further impact expected – SFPL reported weakened asset quality numbers on March 31, 2021 on account of the pandemic. It reported gross non-performing assets (GNPAs) of 19.1% and net NPAs (NNPAs) of 13.8% as on March 31, 2021 against 4.3% and 1.4%, respectively, as on March 31, 2020. This led to an increase in the credit cost to 10.7% with respect to the AMA in FY2021 from 2.1% in FY2020. The increase in the credit cost and the declining loan book impacted SFPL's overall profitability. SFPL reported a net loss of Rs. 33 crore in FY2021 against a profit of Rs. 2 crore in FY2020. This translated into RoMA of -10.7% and RoNW of -65.0% in FY2021 against 0.5% and 3.5%, respectively, in FY2020.

The company did not restructure any part of the loan book under the RBI's Covid Restructuring Framework 1.0. However, it restructured ~Rs. 36-crore loan book in June 2021 under Framework 2.0. This helped SFPL contain further slippages in Q1 FY2022 and hence the GNPA declined to Rs. 29.6 crore (provisional) as on June 30, 2021 from Rs. 32.8 crore on March 31, 2021.

Decline in net worth and weakening of capitalisation profile – SFPL reported a net worth of Rs. 33.6 crore as on March 31, 2021 against Rs. 66.4 crore as on March 31, 2020. The decline was on account of the net loss of ~Rs. 33 crore in FY2021, given the decline in the AUM and the increase in the credit cost. With the decline in the net worth, the total CRAR declined to 20.45% as on March 31, 2021 from 27.16% as on March 31, 2020. The on-book gearing also increased to 5.2 times on March 31, 2021 from 3.8 times on March 31, 2020.

Marginal borrower profile and ability to manage political, communal and other risks in microfinance sector – The rating factors in the risks associated with the marginal borrower profile, unsecured lending, increased risks from multiple lending and overleveraging, business and political risks, and high attrition. While access to credit bureaus and the regulatory ceiling on borrower indebtedness have reduced concerns on overleveraging and multiple lending, issues related to the policy of microfinance institutions (MFIs) regarding the inclusion of entities for calculating borrower leverage, multiple identity proof as well as gaps in the information available with the bureaus remain.

The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations and thus its financial position. However, a geographically-diversified portfolio would mitigate these risks to some extent as these issues are largely region specific, so far. SFPL's ability to on-board borrowers with a good credit history, recruit and retain employees and further improve its geographical diversity would be important for arresting the decline in its portfolio.

Liquidity position: Stretched

SFPL had a free cash and liquid balance of ~Rs. 24 crore as on June 30, 2021 to repay its debt obligations (excluding interest) of Rs. 76 crore over the 12-month period ending on June 30, 2022. The liquidity profile is stretched and the collection efficiency shall remain a monitorable. SFPL reported an adjusted collection efficiency[1] of ~88% in June 2021.

Rating sensitivities

Positive factors – The rating could be upgraded if the company displays a sustainable improvement in its scale and profitability, while maintaining its asset quality metrics and prudent capitalisation profile. In addition, support from Dvara and the completion of the planned merger with Dvara could alter the credit profile positively.

Negative factors – ICRA could downgrade the rating in case of a delay in equity infusion and/or lack of expected support from Dvara. Further, substantial weakening in the liquidity profile or further weakening of the profitability and capital profile could trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies ICRA policy on withdrawal and suspension of credit rating
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

SFPL's promoters, Mr. S.R. Sinha and Mrs. Rashmi Sinha, started microfinance operations in November 2007 as a programme under Saija Vikas, a society formed by them in July 2007. The current management acquired the non-banking financial company (NBFC), Saija Finance Private Limited, in April 2008. The NBFC was granted an NBFC-MFI licence in December 2013 by the Reserve Bank of India (RBI). The company follows the Grameen model of lending and offers loans under Saija Mahila Rin (group loans to women) and Saija Karobar Rin (loans for business).

As on June 30, 2021, the company reported a managed portfolio of Rs. 166 crore (excluding capitalised interest) spread across 61 districts in 5 states. In FY2021, SFPL reported a net loss of Rs. 32.73 crore against a net profit of Rs. 2.68 crore in FY2020.

[1] *Adjusted collection efficiency = (Current demand + overdue recoveries) / Current demand*

Key financial indicators (audited)

Saija Finance Private Limited (standalone)	FY2019	FY2020	FY2021
Accounting as per	Ind-As	Ind-As	Ind-As
Total income (Rs. crore)	111	95	59
Profit after tax (Rs. crore)	9.5	2.7	-32.7
Net worth (Rs. crore)	63.7	66.4	33.6
Gross AUM[2] (Rs. crore)	518	305	196
Total assets (Rs. crore)	520	331	252
Return on average managed assets (%)	1.8%	0.5%	-10.7%
Return on net worth (%)	16.0%	3.5%	-65.0%
Gross gearing (times)	6.8	3.8	5.2
Adjusted gearing[3] (times)	8.1	4.1	5.3
Gross NPA / gross advances (%)	3.4%	4.3%	19.1%
Net NPA / net advances (%)	0.6%	1.4%	13.8%
Solvency (net NPA/net worth)	4.4%	5.6%	66.3%
CRAR (%)	22.32%	27.16%	20.45%

Source: *Company, ICRA Research; All ratios and values as per ICRA calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[2] *Gross AUM not adjusted for capitalised interest*

[3] *Adjusted gearing = (On-book debt + off-book portfolio) / (Net worth – FLDG towards BC book)*

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021				Date & Rating in FY2020	Date & Rating in FY2019
					Aug-16-2021	Sep-14-2020	Aug-27-2020	Aug-17-2020	Apr-20-2020	Jan-31-2020	Dec-21-2018
1	NCD	Long Term	23.50	0.00	[ICRA]BB+ &; withdrawn	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	NCD	Long Term	20.00	13.33	[ICRA]BB+ &	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

& - Rating on Watch on Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	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-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE637O07100	NCD	Dec-22-2017	13.72%	Dec-22-2022	10.00	[ICRA]BB+ &
INE637O07118	NCD	Jul-30-2018	12.72%	Jul-30-2023	10.00	[ICRA]BB+ &
INE637O07092^	NCD	Nov-03-2016	14.25%	Nov-30-2020	23.50^	[ICRA]BB+ &; withdrawn

Source: *Company; ^ Withdrawn*

& - Rating on Watch with Developing Implications

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Corrigendum

Document dated August 16, 2021 has been corrected with revisions as detailed below:

Page	Location on page	Previous data	Revised data
1	Heading	Rating reaffirmed and placed on Watch with Developing Implications; withdrawn for Rs. 23.5-crore NCD	Rating placed on Watch with Developing Implications; withdrawn for Rs. 23.5-crore NCD

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