

April 11, 2022^{Revised}

Saija Finance Private Limited: Rating continues on Watch with Developing Implications

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+&; Continues on Watch with Developing Implications
Total	20.00	20.00	

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

Rationale

The rating factors in the steady progress in the parameters outlined in the share subscription and shareholding agreement (SSHA) between Saija Finance Private Limited (SFPL) and Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS), signed in July 2021. In line with the terms of the SSHA, Dvara KGFS infused equity of Rs. 7.57 crore in SFPL under tranche 1 in October 2021 for a 25.9% stake and has entered into a business correspondent (BC) arrangement with SFPL. Further, Dvara KGFS has provided managerial support by deputing personnel at senior-level positions at SFPL.

The rating remains on Watch with Developing Implications as the target date for the merger of SFPL and Dvara KGFS, as per the SSHA, is within 18 months from tranche 1 and the same is subject to regulatory/statutory approvals and the fulfilment of performance milestones. Any material bottleneck, leading to the cancellation/delay of the merger, 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 micro finance industry. The operational performance is expected to improve gradually with the increase in operational support from Dvara KGFS, though any material deviation in the same would have a negative impact on SFPL's operations.

The rating is, however, constrained by the decline in operations, which has impacted SFPL's operational efficiency and profitability. Operational expenses, with respect to the average managed assets (AMA), increased to 14.1% for 9M FY2022 from 9.2% for FY2021. Additionally, the yield on advances declined in 9M FY2022 on account of low income recognition on higher gross non-performing assets (GNPAs). This weakened SFPL's profitability profile as it reported a net loss of Rs. 21.4 crore, translating into a return on average managed assets (RoMA) of -14.2% and a return on average net worth (RoNW) of -106.2% in 9M FY2022 against a net loss of Rs. 32.5 crore with RoMA of -10.5% and RoNW of -65.0% in FY2021. This led to a significant decline in SFPL's net worth to Rs. 19.97 crore as of December 2021 from Rs. 33.6 crore as on March 31, 2021. This weakened the capitalisation profile with total CRAR of 16.30% and gearing of 5.4 times as on December 31, 2021 compared to 20.45% and 5.2 times, respectively, as on March 31, 2021.

The company witnessed an increase in its delinquencies owing to Covid-19-induced disruptions. As a result, portfolio of around Rs. 31 crore was written off in 9M FY2022. Consequently, the GNPAs and net NPAs (NNPAs) declined to 5.8% and 1.3%, respectively, from 19.1% and 13.8%, respectively, as on March 31, 2021.

ICRA has also taken note of the revision in the terms of the ICRA rated non-convertible debenture (NCD) with ISIN INE637007142 (earlier ISIN INE637007118), wherein the put option was partially exercised by the debenture holder on July 30, 2021 and Rs. 3.33 crore of principal was repaid by SFPL. The terms of this NCD were revised twice on October 27, 2021 and December 31, 2021, wherein a payment of Rs. 3.33 crore was made to the debenture holder on January 31, 2021 and the additional put/call option for the remaining amount was inserted, which can be exercised on April 30, 2022. However, the scheduled maturity remains as on July 30, 2023.

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. Also, key positions like Head of Business Operations and Head of Finance and Accounts were filled with executives from Dvara KGFS on deputation, who are reporting to SFPL's top management. 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 KGFS.

Operational and financial support from Dvara KGFS for business continuity – Dvara KGFS acquired a 25.9% stake in SFPL in October 2021 by infusing Rs. 7.57 crore of equity. ICRA notes that SFPL is expected to merge with Dvara KGFS, though the same is subject to regulatory/statutory approvals and fulfilment of performance milestones as per the SSHA. SFPL has also entered into a BC arrangement with Dvara KGFS for an initial sanctioned limit of Rs. 36 crore. Most of the disbursements made by SFPL in Q4 FY2022 were under this BC arrangement and SFPL plans to grow the BC book. Going forward, constant support from Dvara KGFS under the BC arrangement and/or any other mode would be crucial to improve the overall scale of operations.

Also, to improve its liquidity position, support in terms of additional equity infusions and securitisation transactions would be important from a credit perspective.

Credit challenges

Decline in scale of operations and high geographical concentration – SFPL reported gross assets under management (AUM) of Rs. 106 crore as on December 31, 2021 (excluding capitalised interest) against Rs. 196 crore as on March 31, 2021, registering a decline of ~56% (annualised). The decline was on account of issues in raising debt funds and delay in equity infusion to support growth. Also, write-offs of around Rs. 31 crore led to the decline in the AUM.

Further, SFPL's operations remain geographically concentrated with Bihar accounting for ~60% of the total AUM as on December 31, 2021, followed by Uttar Pradesh (~17%) and Jharkhand (~10%) while Haryana and Punjab accounted for the rest.

Weakening asset quality affecting profitability – The company witnessed an increase in its delinquencies owing to Covid-19-induced disruptions. The company decided to book the expected losses early and wrote-off around Rs. 31 crore of portfolio in 9M FY2022. Consequently, the reported GNPA's and NNPA's declined to 5.8% and 1.3%, respectively, as on December 31, 2021 from 19.1% and 13.8%, respectively, as on March 31, 2021, after peaking in 9M FY2022. However, this resulted in company reporting a net loss of Rs. 21.4 crore in 9M FY2022 compared to net loss of Rs. 32.5 crore in FY2021. This translated into RoMA of -14.2% and RoNW of -106.2% in 9M FY2022 against -10.5% and -65.0%, respectively, in FY2021. The loss was primarily on account of higher opex on the low AUM base, reduced disbursements and hence lower interest income. Additionally, the higher NPAs led to the non-recognition of accrued income and increased write-offs/provisioning.

Decline in net worth and increase in leverage – SFPL reported a net worth of Rs. 19.97 crore as on December 31, 2021 against Rs. 33.63 crore as on March 31, 2021. The decline was on account of the net loss of Rs. 21.4 crore in 9M FY2022, given the decline in the AUM. With the decline in the net worth, the total CRAR declined to 16.30% as on December 31, 2021 from 20.45% as on March 31, 2021. The on-book gearing also increased to 5.4 times on December 31, 2021 from 5.2 times on March 31, 2021.

Marginal borrower profile and ability to manage political, communal and other risks in microfinance sector – Microfinance remains susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising leverage levels of the borrowers. 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 SFPL’s operations. 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. 2.3 crore as on December 31, 2021. The repayment obligations falling due over the next three and six months would be Rs. 17.6 crore and Rs. 41.5 crore, respectively. The collections due over the next three and six months would be Rs. 29.3 crore and Rs. 49.9 crore, respectively. With the funds raised and securitisation deals done in Q4 FY2022, the liquidity position of SFPL has improved and the free cash and liquid balance as on March 31, 2022 increased to around Rs. 18 crore. However, the sustainability of funds raise in a timely manner remains to be seen and any challenges in the same would impact its liquidity profile.

Rating sensitivities

Positive factors/Negative factors – The rating watch will be resolved upon the emergence of more clarity on SFPL’s merger with Dvara KGFS, the integration of the operations and business profile, and the impact of the same on the earnings and asset quality of the consolidated loan book.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Credit Rating Methodology for Non-banking Finance Companies
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

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-microfinance institution (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 December 31, 2021, the company reported a managed portfolio of Rs. 106 crore spread across 61 districts in five states. SFPL reported a net loss of Rs. 21.4 crore in 9M FY2022 against a net loss of Rs. 32.5 crore in FY2021.

Key financial indicators (audited)

SFPL	FY2020	FY2021	9M FY2022*
Accounting	IndAS	IndAS	IndAS
Total income (Rs. crore)	95	59	18
Profit after tax (Rs. crore)	2.3	-32.5	-21.4
Net worth (Rs. crore)	66.4	33.6	19.97
Gross AUM ¹ (Rs. crore)	305	196	106
Total assets (Rs. crore)	345	252	141
Return on average managed assets (%)	0.5%	-10.5%	-14.2%
Return on net worth (%)	3.5%	-65.0%	-106.2%
Gross gearing (times)	3.8	5.2	5.4
Gross NPA / gross advances (%)	4.3%	19.1%	5.8%
Net NPA / net advances (%)	1.4%	13.8%	1.3%
Solvency (net NPA / net worth)	5.6%	66.3%	5.5%
CRAR (%)	27.16%	20.45%	16.30%

Source: Company, ICRA Research; * As per limited review 9M financials; All ratios are as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

¹ Gross AUM not adjusted for capitalised interest

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 Feb 28, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021				Date & Rating in FY2020	
					Apr-11-2022	Aug-16-2021	Sep-14-2020	Aug-27-2020	Aug-17-2020	Apr-20-2020	Jan-31-2020	
1	NCD	Long Term	20.00	13.33	[ICRA]BB+ &	[ICRA]BB+ &	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	

& - Rating on Watch with Developing Implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
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: www.icra.in

Annexure-1: Instrument details

ISIN	Name of instrument	Date of Issuance	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
INE637007100	NCD	Dec-22-2017	13.72%	Dec-22-2022	10.00	[ICRA]BB+ &
INE637007142*	NCD	Jul-30-2018	12.72%	Jul-30-2023	10.00	[ICRA]BB+ &

*Source: Company; *ISIN was changed to INE637007142 from INE637007118*

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

Corrigendum

Document dated April 11, 2022 has been corrected with revisions as detailed below:

Page	Location on page	Previous data	Revised data
1	Heading	Rating reaffirmed and continues on Watch with Developing Implications	Rating continues on Watch with Developing Implications

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