Saija Finance Private Limited

Instrument	Amount	Rating Action
Non Convertible Debenture (NCD) programme	Rs. 24 crore	[ICRA]BBB- (Stable) assigned

ICRA has assigned rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 24 crore[1] non convertible debenture of Saija Finance Private Limited (Saija)[2]. ICRA also has a rating outstanding of [ICRA]BBB- (pronounced ICRA triple B minus) for Rs. 100 crs. bank lines, Rs. 15 crore non convertible debenture and Rs. 20 crore senior unsecured NCD of Saija[2]. The outlook on the long term rating is Stable.

The rating factors in Saija's ability to scale up operations (portfolio of Rs. 243 crore[3] as on September 30, 2016), largely through expansion in client base (58% growth in H1FY17) and branch network (56% growth in H1FY17), while the average portfolio per member has declined by 11%. ICRA also notes Saija's financial flexibility with 16 lenders (as on Sep 30, 2016). Saija's asset quality remains comfortable, notwithstanding the deterioration (0+ delinquencies of 0.88% as on September 30, 2016 vs. 0.77% as on March 31, 2016, including death cases) and has been factored in while assigning the rating. The rating continues to factor in Saija' s experienced management team, good investor profile (Accion International holds 40.61% and Pragati India Fund Limited holds 34.28% stake in the company) and its good loan origination and monitoring systems.

Saija's rating is however constrained by high geographical concentration risks (73% of portfolio in Bihar and top 10 districts accounting for 76% of the portfolio as on Sep-16) and stretched capitalisation profile capitalisation indicators (managed gearing of 8.7 times as on September 30, 2016 (provisional) vs. 5.4 times as on March 31, 2015) as the pace of growth was higher than external capital infusion and internal capital generation. ICRA has noted that the company is in the process of tying up around Rs. 30-40 crore of capital which would help the company to grow for the next one year. Over the medium term, the company plans to grow at a CAGR of around 100% (owing to a moderate base as on March 31, 2016) and would need to raise additional equity capital of around Rs 180-220 crore over the next three years and tie up funding sources to meet its growth plans and keep managed gearing at 6.5 times. The company intends to reduce the concentration risk by bringing down the share of portfolio in Bihar to 65%-70% by March 31, 2017 by increasing presence in the states of Jharkhand and Eastern UP. The rating also factors in Saija's moderate profitability (RoE of 7.2% during FY16) indicators, dependence on wholesale and high cost funding sources and lack of diversity in earnings. ICRA has also noted Saija's high pace of growth (growth of 77% in FY2016 and 3 year CAGR of 107%) and relatively high attrition rates for the industry. In ICRA's opinion, ability of the company to manage growth given the rising competition and maintain asset quality while expanding into newer states as well as newer products (SME loans) and maintaining prudent leveraging levels would be critical from a rating perspective.

The rating also factors in the risks associated with unsecured lending business, political risks, and operational risks arising out of cash handling, along with challenges associated with high pace of growth and high attrition rates. While access to credit bureaus and regulatory ceiling on borrower indebtedness has reduced concerns on overleveraging and multiple lending, however, issues related to multiple identity proofs as well as gaps in information available with the bureaus (lack of data related to the SHG programme, non NBFC-MFIs, lending through business correspondent model) remain. Given the rising competition in this segment with various MFIs growing at a rapid pace as well as with new entrants especially through the Business Correspondent model, MFIs would need to carefully assess the debt repayment capacity of borrowers so as to limit the risk of overleveraging and the consequent threat to their portfolio credit quality. Nevertheless ICRA takes note of the efforts at an industry level to alleviate these concerns through standardization of KYC documents, digitization of SHG programme so as to assess the actual leveraging status of the borrower as well as the lower debt limit prescribed by MFIN.

[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications
[3] Including securitized/ assigned book

Though the company has diversified its funding mix, around 35%[4] of its funding was met through NBFCs/Financial Institutions at relatively higher cost of funds (around 15.5% - 16%). Saija would require larger lines from banks at competitive rates to reach the planned scale of operations. ICRA has also noted that the company has raised debt in the form of Non Convertible Debentures which include covenants linked to various financial parameters (such as portfolio quality, gearing, etc.) and breach of these could lead to accelerated repayment. Saija is committed to reduce the proportion of such borrowings to manageable levels over next 12 months; reduction in proportion of such debt would have critical bearing on the credit profile of Saija. The company plans to continue tapping other debt market funding sources (for long term funds). As for liquidity, Saija has a comfortable profile due to well matched maturity of assets and liabilities, however regular flow of funds would be crucial to grow its portfolio at the planned pace.

As for profitability, while the interest spreads of the company were around 10%, relatively high operating expenses (operating expenditure/ avg. managed advances at 9.0% during FY2016 vs. 11.2% during FY15), led to low profitability indicators for the company (ROE of 7.2% in FY16). However the company has witnessed improvement in financial indicators during Q1FY2017 with PAT/ AMA of 1.5%, supported by investment income and lower credit provisions. Saija has recently reduced its interest rates to 25.96% from 26.26% earlier, which could impact its profitability going forward. However, over the next 18 months, with the scale up of operations and implementation of hub and spoke model by the company where each branch would service 3-4 hub locations, breakeven of the new branches; operating expenses are likely to moderate to 8.5% – 8.75% and hence ICRA expects Saija to report ROEs of 7%-9% over that period.

Company Profile

The promoters of Saija – 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 NBFC, Saija Finance Private Limited in April 2008; the NBFC was granted the NBFC-MFI licence in December 2013 by the RBI.

The company follows the Grameen model of lending, and currently offers two types of joint liability group (JLG) loans — Saija Mahila Rin (group loans to women; ~94% of total portfolio as on June 30, 2016) and Saija Karobar Rin (group loans to men or women; ~5% of total portfolio as on June 30, 2016). Individual loans for solar lamps, fans and stoves accounted for less than 1% of the company's total portfolio.

Saija reported a net profit of Rs. 2.32 crore during FY2016 on a managed asset base of 320 crore vis-à-vis net profit of Rs. 1.0 crore on a managed asset base of Rs. 211 crore during FY2015. The company reported a CRAR of 21.40% (Tier I of 12.79%) as on March 31, 2016.

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[4] Only on balance sheet debt

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