

August 23, 2017

Samunnati Financial Intermediation Services Private Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore) ¹	Rating Action
Non-Convertible Debenture	35.00	[ICRA]BB+(stable); assigned
Total	35.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned an [ICRA]BB+ (pronounced ICRA double B plus)² rating with a stable outlook to the Rs. 35.00 crore non-convertible debenture (NCD) programme of Samunnati Financial Intermediation Services Private Limited (Samunnati).

Rationale

The rating considers the company's small scale, its limited track record and portfolio seasoning, risks emanating from the modest credit profile of the target borrower segment and significant share of unsecured loans. Samunnati's earnings profile is weak currently as it is in the initial growth phase and is faced with high establishment and set-up expenses. The rating also takes into account the geographic concentration of the company's current operations with Tamil Nadu (TN) accounting for 67% of total portfolio as on March 31, 2017, although comfort is derived from the expanding operations outside TN. The rating also factors in the senior management's experience in retail finance, commensurate risk management and monitoring process and the large untapped demand and favorable growth prospects for organized credit in agriculture and allied segment.

Over the period FY2018-FY2020, Samunnati aims to expand its network size to 144 branches (from the current 26 branches) and grow its portfolio to around Rs. 1,400.0 crore - Rs. 1,500.0 crore. The rating favorably factors in the company's plan to raise equity of about Rs.150.0 crore during Q3 FY2018 and the existing investors' intent to participate in the fund raise. The equity infusion is likely to support the company's medium-term envisaged portfolio growth while maintaining an adequate capitalization profile (stood at 1.5 times as on March 31, 2017). The company's ability to raise debt from diverse sources, demonstrate a profitable track record of operations and achieve good asset quality indicators would be crucial from a rating perspective.

Key rating drivers

Credit strengths

- **Experienced management team; broad-basing of senior and middle management team crucial for business expansion** – Samunnati has an experienced management team, which is commensurate for the current scale of operations. The company's founder and Managing Director Mr. Anil Kumar has more than two decades of experience in retail finance. The company's board includes five Directors, including the Managing Director, two nominee Directors from private equity investors and one Independent Director. Going forward, the company's ability to further broad-base the management team, set-up new branches and recruit and train employees will be critical, given the robust expansion plans.

¹Rs. 1 crore = Rs. 10 million = Rs. 100 lakh

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.

- **Diverse product range catering to retail and institutional borrowers** - Samunnati commenced operations as a business correspondent (BC) in FY2015 and commenced lending business in February 2016 post receipt of the NBFC license. Currently, the company focuses on direct lending to retail and institutional borrowers in the agriculture value chain. In the retail segment, the company provides loans to farmers and aggregators in the form of milk loans, tiny and small agri business loans; such loans accounted for 20% of the managed portfolio³ as on July 31, 2017. In the institutional space, Samunnati extends loans to a) agricultural enterprises and Farmer Producer Organization⁴ (FPO), for asset finance, working capital finance and for on-lending to farmers and b) Samunnati Agro Solutions Private Limited (Samunnati Agro; wholly-owned subsidiary) to support the latter's trading operation; institutional segment accounted for 80% of Samunnati' portfolio as on July31, 2017.
- **Commensurate internal controls and risk management systems** - Samunnati has commensurate loan origination, credit appraisal and technology systems. The company uses mobile application (app) to collect borrower and aggregator details on a real-time basis. The app facilitates the relationship officers to gather KYC details (Aadhaar and Voter id card) and financial statements and enables the officers to tag the GPS coordinates of the borrower's residential location and record cash collections. The company has a core banking solution software to support its loan management systems. Samunnati has a five-member internal audit workforce to audit the branches once in a quarter; the company also undertakes snap audits on a monthly basis. The scope of the internal audit is detailed with all aspect of the loan process being covered in the audit process.
- **Comfortable capitalisation; plans to raise capital to support growth** – The company's capitalisation is comfortable with a gearing and capital adequacy ratio of 1.53 times and 47.1% on March 31, 2017. The latest round of equity infusion occurred in March 2017 wherein the company raised Rs.30 crore via compulsorily convertible preference shares (CCPS). The company is expecting a capital infusion of about Rs.150 crore by Q3 FY2018 which will be critical in view of the robust portfolio expansion plans.

Credit challenges

- **Relatively small scale with geographical concentration; adequate scope to expand and diversify portfolio** - The company's managed portfolio increased from Rs. 19.8 crore as on March 31, 2016 to Rs. 78.9 crore as on March 31, 2017 supported by disbursements of Rs. 121.0 crore during the year. The portfolio includes loan (about Rs 12.9 crore as on March 31, 2017) extended to Samunnati Agro. Currently, Samunnati has presence in six states although TN accounted for 67% of total portfolio as on March 31, 2017. Going forward, the company's ability to expand into new territories and cater to its target segments remains critical to achieve a diversified loan portfolio.
- **Modest asset quality indicators; limited portfolio seasoning** - Samunnati's asset quality metrics are characterised with 90+dpd of 3.2% (including the provisions provided on the BC portfolio and write offs) as on June 30, 2017; the portfolio however is less seasoned. The company's net credit cost increased from 0.2% in FY2016 to 3.3% in FY2017 and remained at 3.3% in Q1 FY2018. The higher credit costs were on account of the provisions made on the BC portfolio originated in three branches in TN although the BC portfolio has run down and there is no outstanding as on July 31, 2017. Ability of the company to maintain good asset quality considering the aggressive growth plans and the unsecured nature of the portfolio would remain a key rating sensitivity.

³ Managed portfolio includes on-book portfolio and Direct originated portfolio

⁴ FPO's provide market linkage to the farmers

- **Earnings profile impacted by high set-up costs** - Samunnati incurred losses since inception on account of its high operating costs. The company's interest margin as % of AMA⁵ was also moderate at 8.0% during FY2017 on account of its high cost of funds. Further, the credit costs stood at 3.3% in FY2017 because of the increased provisions. ICRA notes that it is essential for the company to scale up its portfolio, secure funds at competitive rates and maintain a strict control over operating and credit costs to achieve an early breakeven.
- **Limited diversity in funding profile; high cost of borrowings** - Samunnati's borrowing profile is characterised by loans from NBFCs and the interest rates are in the range of 14.5%-15.5%. The company's asset liability profile is comfortable, supported by the short term nature of its loans and its low leverage. The company's ability to diversify its lender base and secure funding at competitive rates is crucial as portfolio expands.

Analytical approach: The rating takes into account the consolidated performance of Samunnati along with its subsidiary.

Links to applicable criteria

ICRA's Credit Rating Methodology for Non-Banking Finance Companies

About the company:

Incorporated in June 2014, Samunnati is a registered NBFC providing financial services in the agricultural value chain. As on July 31, 2017, the company had 26 branches spread across six states with a managed portfolio of Rs. 110.2 crore, which includes the Rs. 14.6 crore trade credit extended to Samunnati Agro. During FY2017, the company raised Rs.30.0 crore capital in the form of CCPS from external investors including Elevar Equity (Elevar) and Accel India (Mauritius) Limited (Accel).

Samunnati's wholly-owned subsidiary Samunnati Agro is engaged in trading of agricultural produce, mainly fruits and vegetables. While Samunnati provides financial services for the agricultural value chain, the subsidiary provides trade solutions, thus complementing the range of services offered.

In FY2017, Samunnati reported a net loss of Rs. 7.6 crore on a managed asset base of Rs. 103.2 crore, as compared to a net loss of Rs. 4.05 crore on a managed asset base of Rs. 38.3 crore in the previous year. On a consolidated basis, Samunnati reported a net loss of Rs. 7.8 crore on the managed asset base of Rs. 108.8 crore in FY2017 compared with a net loss of Rs. 4.8 crore on the managed asset base of Rs. 38.3 crore in FY2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

⁵ AMA – Average Managed Assets

Key financial ratios

	FY2016	FY2017
Total Income	1.3	8.7
PAT	-4.1	-7.6
Net worth	14.8	37.0
Total Portfolio	19.8	78.9
Total Assets	38.3	103.2
Return on Total Assets	-18.1%	-10.7%
Return on Net worth	-46.0%	-29.3%
Gearing	0.2	1.5
Gross NPA%	0.0%	0.4%
Net NPA%	0.0%	0.4%
CAR%	100%	47%

Amounts in Rs. Crore

Source: Samunnati and ICRA research

Rating history for last three years:

Table:

S. No	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	August 2017	FY2017	FY2016	FY2015
1	NCD	Long term	35.00	[ICRA]BB+(Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance /Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NCD-unallocated	-	-	-	35.00	[ICRA]BB+ (Stable)

Source: Samunnati

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About ICRA Limited:

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