

March 02, 2020

Sonata Finance Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank lines	500.00	500.00	[ICRA]BBB(Stable); reaffirmed
Non-convertible debenture programme	333.00	333.00	[ICRA]BBB(Stable); reaffirmed
Subordinated debt programme	15.00	15.00	[ICRA]BBB(Stable); reaffirmed
Non-convertible debenture programme	73.00	-	[ICRA]BBB(Stable); withdrawn
Total	921.00	848.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has reaffirmed the rating outstanding of [ICRA]BBB (pronounced as ICRA triple B) for Rs. 500 crore long-term bank lines, Rs. 333 crore non-convertible debenture programme and Rs. 15 crore subordinated debt programme of Sonata Finance Private Limited (SFPL). Outlook on the long-term rating is Stable. ICRA has also withdrawn the rating of [ICRA]BBB(Stable) for Rs. 73 crore non-convertible debenture programme of the company as there is no amount outstanding against the rated instrument. The rating withdrawal is in accordance with ICRA's policy on withdrawal and suspension of credit rating.

The rating factors in the experienced management team and board of directors of the company, who have rich experience in microlending, banking, financial services, and insurance (BFSI) operations, social transformation, advisory services and developmental funding. The rating also factors in the good systems and processes adopted by the company. The rating is supported by the adequate capitalisation profile of the company with a comfortable capital adequacy ratio of 26.03% (Tier I: 22.59%) and moderate adjusted gearing¹ of 4.15 times as on September 30, 2019 (25.95%, 22.51% and 4.13 times respectively as on March 31, 2019). In ICRA's opinion, the company would require additional capital to meet its envisaged growth plans while maintaining a prudent capitalisation profile. Company's ability to timely raise funds (debt and equity) would be important from a credit perspective. The rating also factors in the improved profitability profile of the company supported by lower credit costs. The company reported a 2.46% return on AMA and 13.37% return on average net worth in H1 FY2020 compared to 1.32% and 8.27% respectively in FY2019.

The rating is however constrained by the geographical concentrated operations as the company remains exposed to regional risks with high share of portfolio in the top-3 states of Uttar Pradesh (51%), Bihar (24%) and Madhya Pradesh (16%) as on December 31, 2019. Further, district level concentration in relation to net worth remains with the top-10 and top-20 districts as on December 31, 2019 representing 126% and 204%, respectively, of net worth as on September 30, 2019. While the overall asset quality indicators have improved with gross non-performing assets (NPA) of 1.62% and nil net NPA as on December 31, 2019 from 3.34% and 2.70% respectively as on March 31, 2019, company's ability to maintain asset quality indicators will be a key rating monitorable. The rating continues to factor in the risks associated with the unsecured nature of microfinance loans, the marginal borrower profile which is susceptible to income shocks, the rising borrower leverage levels owing to an increase in multiple lending, and the political, climate and operational risks inherent in the microfinance business.

¹(Total debt + pass through certificates / net worth less first loss default guarantee & cash collateral for managed portfolio)

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that SFPL will continue to benefit from its experience management team, good systems and processes, adequate capitalisation profile and improved earnings profile.

Key rating drivers and their description

Credit strengths

Experienced management team and board of directors - The senior management team has rich experience in microlending, banking, financial services, and insurance (BFSI) operations, social transformation and advisory services. The board comprises 11 directors including 4 independent and 6 nominee directors with all members having diverse experience in BFSI, social initiatives and developmental funding. The company's board has representatives of the investors, namely Creation Investments Social Ventures (Creation), Societe De Promotion Et De Participation Pour La Cooperation Economique (Proparco), Triodos Custody B.V. (Triodos), SIDBI and Caspian Impact Investments. The board comprises 11 directors including 4 independent and 6 nominee directors.

Good systems and processes – The company uses an integrated loan origination and management system, which integrates the core operations, accounting, human resources and learning and development modules. It has invested significantly in technology to ensure the real-time availability of data, verification of customer details and cashless disbursements. The company has deployed a separate team for appraisal of individual loans. The scope and frequency of internal audit is in line with industry. The company is following the code of responsible lending launched by self-regulatory organisations of the microfinance industry.

Adequate capitalisation profile - The capitalisation profile was adequate supported by regular capital infusions with the latest being Rs. 5.39 crore in H1 FY2020 (Rs. 76.95 crore in FY2019). The capital adequate ratio was comfortable at 26.03% (Tier I: 22.59%) as on September 30, 2019 (25.95% and 22.51% respectively as on March 31, 2019). The adjusted gearing was moderate at 4.15 times as on September 30, 2019 (4.13 times as on March 31, 2019). Given the company's growth plans and gearing target, it would be important for the company to timely raise capital to maintain its capitalisation profile.

Improved profitability - The net interest margin (NIM) of the company improved to 9.23% of average managed assets (AMA) in H1 FY2020 from 8.94% in FY2019 on account of improvement in yields. The operating expenses increased to 5.84% of AMA in H1 FY2020 from 5.58% in FY2019 due to active hiring and consequent increase in employee expenses. Credit costs moderated to 1.36% of AMA in H1 FY2020 from 2.47% in FY2019 owing to improved quality of newer originations. Supported by improvement in NIM and moderation in credit costs, the company reported a 2.46% return on AMA and 13.37% on average net worth in H1 FY2020 compared to 1.32% and 8.27% respectively in FY2019. The company's profitability indicators are also supported by a healthy fee income on account of its business correspondent (BC) operations and income from securitisation.

Credit challenges

Geographically concentrated operations - The company remains exposed to regional risks with high share of portfolio in the top-3 states of Uttar Pradesh (51%), Bihar (24%) and Madhya Pradesh (16%) as on December 31, 2019. Further, the top-10 and top-20 districts comprised 25% and 40%, respectively, of the portfolio outstanding as on December 31, 2019. The top-10 and top-20 districts as on December 31, 2019 represented 126% and 204%, respectively, of net worth as on September 30, 2019. ICRA notes the company's efforts to diversify its operations geographically at the state as well as district level and the same would be important from a credit perspective.

Ability to maintain asset quality indicators – The overall asset quality indicators have improved with gross NPA of 1.62% and nil net NPA as on December 31, 2019 from 3.34% and 2.70% respectively as on March 31, 2019 on account of write-

offs and recoveries. The delinquencies moderated with 0+ dpd and 90+ dpd reported at 3.38% and 1.03% respectively as on December 31, 2019 (5.61% and 1.53% respectively as on March 31, 2019). The company is not present in Assam where recent protests affected collections. Going forward, company's ability to maintain asset quality indicators will be a key rating monitorable.

Ability to manage political and communal risks, given the marginal borrower profile – The rating factors in the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations. 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, climate and operational risks, which could negatively impact the company's operations, and thus its financial position. Company's ability to on-board borrowers with good credit history, recruit and retain employees and improve geographical diversity in operations would be key for managing high growth rates.

Liquidity position: Adequate

As the advances comprise relatively shorter-tenure microfinance loans compared to the tenure of the borrowed funds, the asset liability maturity (ALM) profile remains comfortable. The company has scheduled loan recoveries to the tune of ~Rs. 857 crore (assuming 100% collection efficiency) against scheduled debt repayments of Rs. 444 crore by September 30, 2020, as per the ALM profile as on September 30, 2019. The company had adequate liquidity in the form of unencumbered cash and liquid balances to the tune of ~Rs. 290 crore as on December 30, 2019. Additionally, the company had ~Rs. 289 crore of sanctioned unutilised funding lines from 8 lenders as on December 31, 2019. While ICRA expects the company to meet its debt obligations in a timely manner, it would be important for the company to maintain its collection efficiency while ensuring the regular flow of funds to meet its internal growth projections.

Rating sensitivities

Positive triggers - ICRA could revise the outlook to Positive or upgrade the rating if there is a sustained improvement in company's profitability indicators with a return on managed assets of more than 2.5% on a sustainable basis, improvement in scale and geographical diversification while maintaining the asset quality, and prudent capitalisation with the adjusted gearing being below 5 times on a sustained basis.

Negative triggers - Pressure on the company's rating could arise if there is a deterioration in the asset quality which, in turn, could affect its profitability with the return on managed assets falling below 2%. An increase in the adjusted gearing beyond 6 times or a weakening in liquidity could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies ICRA's Policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Sonata Finance Private Limited (SFPL) is a non-banking finance company – microfinance institution (NBFC-MFI) registered with the Reserve Bank of India (RBI). The company was incorporated in 1995 and the company's microfinance operations commenced in 2006. The company's registered office is in Lucknow. The company offers credit to economically backward women engaged in income-generating activities like processing and manufacturing activities, service activities and animal husbandry. While the company offers a gamut of loans including loans for home

improvement, utility, sanitation, etc., its focus product is the income-generating group loan (IGL) using the joint liability group lending (JLG) model. As on December 31, 2019, the company was managing a portfolio of Rs. 1,545 crore through a network of 439 branches spread across 129 districts in 8 states of India.

Key financial indicators (audited)

	IGAAP FY2018	IGAAP FY2019	IND AS H1 FY2020*
Total income	232.93	280.32	161.64
Net interest income	67.88	113.53	67.44
Profit after tax (PAT)	(33.40)	18.77	19.38
Net worth	179.18	274.90	305.03
Gross loan portfolio	1,322.81	1,441.08	1,481.87
% PAT / Average managed assets	-2.16%	1.32%	2.46%
% PAT / Average net worth	-17.04%	8.27%	13.37%
% Gross NPAs	4.10%	3.34%	1.35%
% Net NPAs	3.32%	2.70%	0.00%
% Net NPA / Net worth	20.96%	9.43%	0.00%
% Capital adequacy ratio	17.41%	25.95%	26.03%
Gearing (Reported)	6.43	3.55	3.86
Gearing (Adjusted)	6.92	4.13	4.15

Amounts in Rs. crore; *Unaudited

Status of non-cooperation with previous CRA: CRISIL, October 2016

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years										
	Type	Amount Rated	Amount Outstanding	Rating	FY2019					FY2018		FY2017		
				02-Mar-20	06-Feb-19	03-Jan-19	10-Dec-18	31-Oct-18	20-Sept-18	29-Jan-18	19-Jun-17	18-Oct-16	28-Jun-16	18-Apr-16
Bank lines	Long term	500.00	311.29	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
NCD programme	Long term	333.00	318.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
Subordinated debt programme	Long term	15.00	15.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
NCD programme*	Long term	73.00	-	Withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

*Instrument matured and rating withdrawn; Amount in Rs. crore

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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE509M07105	NCD	30-Jun-2015	14.70%	30-Jun-2020	30.00	[ICRA]BBB(Stable)
INE509M07121	NCD	03-Mar-2016	14.00%	15-Apr-2022	10.00	[ICRA]BBB(Stable)
INE509M07139	NCD	22-Jun-2016	14.00%	22-Jun-2022	68.00	[ICRA]BBB(Stable)
INE509M07147	NCD	26-Oct-2016	12.77%	26-Oct-2021	67.00	[ICRA]BBB(Stable)
INE509M07154	NCD	21-Mar-2017	12.17%	23-Mar-2020	30.00	[ICRA]BBB(Stable)
INE509M07162	NCD	31-Jul-2017	12.77%	31-Jul-2022	78.00	[ICRA]BBB(Stable)
INE509M07170	NCD	07-Dec-2018	14.20%	31-Mar-2023	20.00	[ICRA]BBB(Stable)
INE509M07097	NCD	06-Apr-2015	14.75%	18-Dec-2020	15.00	[ICRA]BBB(Stable)
Unallocated/Proposed	NCD	-	-	-	15.00	[ICRA]BBB(Stable)
INE509M07089	NCD*	25-Mar-2015	14.00%	25-Mar-2019	38.00	-
INE509M07014	NCD*	31-Jan-2014	14.05%	30-Jan-2020	35.00	-
INE509M08012	Subordinated debt	02-Mar-2016	16.25%	15-Apr-2022	15.00	[ICRA]BBB(Stable)
NA	Term loans	28-Sep-2016 to 31-12-2019	10.60% - 13.50%	25-03-2020 to 13-03-2022	311.29	[ICRA]BBB(Stable)
NA	Long-term bank lines – Unallocated	NA	NA	NA	188.71	[ICRA]BBB(Stable)

*Instrument matured, and rating withdrawn; Source: Company

Analyst Contacts

Karthik Srinivasan

+91 22 6114 3444
karthiks@icraindia.com

Supreet Nijjar

+91 124 4545 324
supreetan@icraindia.com

Sachin Sachdeva

+91 124 4545 307
sachin.sachdeva@icraindia.com

Prateek Mittal

+91 33 71501132
prateek.mittal@icraindia.com

Jatin Arora

+91 124 4545 330
jatin.arora@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents