Suryoday Micro Finance Private Limited

Instrument	Amount	Rating Action
Non Convertible Debenture Programme	**Rs. 20 Crore**	**[ICRA]A- (stable) assigned**

ICRA has assigned the rating of [ICRA]A- (stable) to Rs 20 cr Non Convertible Debentures Programme of Suryoday Micro Finance Private Limited. ICRA also has [ICRA]A- (stable) rating on Rs. 500 crore bank lines, Rs. 25 crore Subordinated debt programme and Rs. 273.50 crore Non Convertible Debenture Programme of Suryoday Micro Finance Limited.

The rating factors in Suryoday's improved business risk profile after it convertsinto a small finance bank (SFB) and the progress made towards this transition, including broad basing the management team, identification of Information Technology partners as well as tying up equity funding. ICRA notes that Suryoday has been able to bring down its foreign shareholding below the mandated 49%. However, ICRA also notes that post conversion to SFB, Suryoday's funding requirements would increase by around 20-25% owing to CRR and SLR requirements. In the short term, the company would remain dependent on refinance from SIDBI, NABARD, MUDRA; fund raising through capital market instruments, inter-bank participation certificates, borrowings from banks and NBFCs and to a smaller extent securitization (less than 10% of the resources profile) for meeting its funding requirements. In the initial phase of conversion, deposit mobilization is expected to be low and not expected to be a significant funding resource. Thus, Suryoday's ability to develop a deposit franchise over the medium term would be a critical determinant of its liquidity position going forward. In ICRA's opinion, Suryoday would be able to offer additional loan products, offer fee based products as well as develop a retail deposit franchise over the medium term given its large active customer base which would support its liability profile and funding costs over the medium term. Overall, the ability of the company to diversify its product mix, develop a good retail deposit franchise and maintain asset quality indicators while managing the high pace of projected growth as well as meet the transition related challenges would be important from a credit perspective.

The ratings continue to positively factor in Suryoday's geographically diversified operations, reasonably strong and professional senior/ middle level management, strong investor profile and their representation on the board of the company, prudent credit policies, and strong internal audit and control systems. Suryoday has expanded its geographical presence over past 2-3 years by venturing into states of Karnataka, Madhya Pradesh, Rajasthan, and presently has operations in 180 branches across 8 states as on June 2016. As a policy, the company intends to restrict the portfolio in any state to 1-1.25 times of the networth and consequently has brought down the share of portfolio in Maharashtra from ~77% as on March 2012 to ~38% as on June 2016. The asset quality has been stable in all the states where the company presently operates in. Nevertheless, given the weak credit profile of the target customers and a significant expansion plan into new states, the ability of the company to maintain its asset quality on a diversified and larger asset base and across geographies remains to be seen. The ratings also take note of Suryoday's relatively high pace of growth (3-year CAGR of 81% till June 2016), moderate track record of ~7 years, risks associated with the unsecured lending business, monoline nature of business, political risks and operational risks arising out of cash handling, as well as lack of diversity in earnings. Though access to credit bureaus is a positive, however, with the increase in regulatory maximum permissible ticket size from Rs 50,000 earlier to Rs 1 lakh, MFIs would need to carefully assess the debt repayment capacity of borrowers so as to limit the risk of over leveraging and the consequent threat to portfolio credit quality. Suryoday has a diversified funding profile, with around 28 direct lenders and increasing share of debt market instruments in the overall resource mix

As for Suryoday's liquidity profile, it is comfortable supported by the relatively shorter tenor assets vis-à-vis liabilities, well matched maturity of assets and liabilities. In recent times, the tenure of liabilities has increased on account of NCD and Subordinated Debt issuances, further strengthening the maturity profile of assets and liabilities. Suryoday's earning profile was good, (PAT / Average Net worth of 16.66% during FY2016 vis-a-vis 15.36% for FY2015), supported by moderate operating expenses (5.74% of average managed assets (AMA) during FY2016 vis-a-vis 5.71% for FY2015) and low credit cost (0.44% of AMA during FY2016 vis-a-vis 0.39% for FY2015), despite the relatively higher pace of growth. However, diversity of earnings continues to be low as the company is almost entirely dependent on micro loan products for income. Going forward, the company's operating expenses are expected to increase in near term owing to the conversion to an SFB, broad-basing of the management team, and investments in technology and infrastructure. Consequently, its profitability in the near term is likely to decline. Over the long term, the company's ability to develop a stable, low-cost liability franchise, diversifying the product mix and maintaining good asset quality will be important from a credit perspective.

Company Profile

Suryoday Micro Finance Limited (Suryoday) was set up in Oct-08 as an NBFC with the concept of providing loans to women in urban and semi-urban areas under the Grameen Bank Joint Lending Model. Suryoday commenced full-fledged operations from May-09. The company had received equity funds from Aavishkaar Goodwell and Lok Capital in the early stages of its operations. Subsequently in Sep-12, the company also received equity funds of Rs. 7 crore from HDFC Holdings and HDFC standard Life. The company has been able to receive continued equity support from the promoters and existing investors, who have brought in equity of Rs. 20 crore in FY 2013. Further in Sep-13, the company received equity infusion of Rs 15 crore from individual domestic investors. In May-14, the company received Rs. 27 crore of capital, of which Rs. 15 crore was contributed by a new investor, International Finance Corporation (IFC), while Rs. 12 crore from the existing investors of the company viz. Avishkaar Goodwell and Lok Capital. In Jan-15, a new investor viz. DWM came on board by acquiring 9.95% stake from Aavishkaar Goodwell. In July 2015, the company received equity capital of Rs. 33 crore from its existing investors, thus further strengthening the networth of the company and further Rs 5 crore was infused by the promoter in December 2015. In the latest round of capital infusion (July 2016) the company received Rs. 131 crores of fresh equity from domestic investors viz. IDFC Bank Ltd and ASK Wealth Advisors Pvt. Ltd. which has increased total domestic shareholding to 51.24%. Also, foreign investors viz. Avishkaar Goodwell and Lok Capital LLC have completely exited. The equity infusion of Rs.131 crore includes funding of Rs.31.5 crore from promoters and Rs.99.5 crore from existing and new domestic investors.

As of June 2016, Suryoday has operations across 8 states viz. Maharashtra, Tamil Nadu, Gujarat, Odisha, Karnataka, Rajasthan, Madhya Pradesh and Puducherry with about 38% of its portfolio in Maharashtra, and about 25% in Tamil Nadu. For FY2016, Suryoday reported PAT of Rs. 27.44 crore, which is roughly 2.68% of Average Managed Assets (AMA) vis-a-vis PAT of Rs 16.85 crore for FY2015 (2.72% of AMA). The capitalisation for Suryoday was comfortable with reported CRAR of 35.03% (Tier-1 being 31.38%) as on June 2016.

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