

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

June 27, 2022 | Mumbai

Sindhuja Microcredit Private Limited

'CRISIL BBB-/Positive' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.66 Crore
Long Term Rating	CRISIL BBB-/Positive (Assigned)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BBB-/Positive**' rating on the long-term bank loan facilities of Sindhuja Microcredit Pvt Ltd (Sindhuja). The rating primarily factors in adequate capital position, extensive experience of the promoters in microfinance sector, and its adequate asset quality metrics. These strengths are partially offset by company's geographic concentration in portfolio, modest though improving earnings profile and susceptibility to local socio - political issues inherent to microfinance industry and modest credit risk profile of the borrowers.

Sindhuja has raised Rs 103.5 crore of equity capital since its inception in 2018. This came from financial investors such as Nordic Microfinance Initiative (NMI) Fund and CarpeDiem Capital Partners, along with funds from promoters. As a result, Sindhuja's adjusted networth and adjusted gearing (including off-book) as on March 31, 2022 at Rs 103.3 crore and 3.8 times, respectively compared with Rs 100.7 crore and 2.2 times as on March 31, 2021. The company plans to raise additional equity capital of around Rs 80-100 crore in the third quarter of fiscal 2023. The company's ability to significantly ramp-up internal accretion to sustain its capital position and keep adjusted gearing within the targeted cap of 5 times is a key monitorable.

As on March 31, 2022, Sindhuja's assets under management (AUM) stood at Rs 433.8 crore, registering a three-year compound annual growth rate (CAGR) of 92%. The company was able to record such growth even amidst challenging conditions like the covid-19 pandemic. Despite dealing with borrowers in microfinance sector, the company has strong focus on risk management and has an independent credit team at every branch to keep a tap on asset quality. As a result, unlike most other players, the company has been able to manage its asset quality all through the last two fiscals despite the pandemic, as reflected in 30+ and 90+ days past due (dpd) at 2.1% and 1.9%, respectively as on March 31, 2022.

Sindhuja was founded by Mr Abhisheka Kumar and Mr Malkit Singh Didyala, who have a vast experience in the lending space of over a decade. Both promoters were earlier associated with microfinance institutions (now converted as small finance bank). The company also benefits from experienced board that has a good mix of independent directors.

The company's collection efficiency (including over-dues but excluding prepayments) revived to 99.5% in March 2021 after having dropped to around 80% during June 2020 to August 2020. With the sharp spike in number of cases due to the second wave of Covid-19 and various forms of lockdown being imposed by states to curb its spread, collections fell to 91% in May 2021 but then started improving from June onwards and stood at 98% in June 2021, which further improved to 99.4% as of March 2022. Further, under the RBI Resolution framework, Sindhuja had not availed any restructuring.

Under the Covid-19 Regulatory Package announced by the Reserve Bank of India (RBI), lenders were allowed to grant moratorium on loans. CRISIL Ratings understands that Sindhuja availed moratorium from around 75% of its lenders during April 2020. However, it didn't avail moratorium in phase-II from June to August 2020. Furthermore, it continued to make scheduled repayments wherever moratorium was not granted.

Analytical Approach

For arriving at the ratings, team has evaluated the standalone business and financial risk profile of Sindhuja.

Key Rating Drivers & Detailed Description

Strengths:

- Adequate capitalisation supported by regular infusions**

Sindhuja is adequately capitalised with adjusted networth of Rs 103.3 crore and adjusted gearing of 3.8 times as on March 31, 2022. The company has been able to raise funds at regular intervals since inception. The company has

managed to bring in NMI Fund and CarpeDiem Capital Partners as investors. CCPF and NMI have both infused Rs 45 crore each in Sindhuja. The company expects to maintain steady state on-book gearing of below 5 times. Additionally, the company is additionally expecting another round of infusion of around Rs 80-100 crore by existing investors and a new foreign investor. This capital infusion is expected to be completed by the end of Q3 fiscal 2023.

- **Extensive experience of the promoters**

The promoters have a vast experience in the lending space of over a decade. Mr Abhisheka Kumar, the Managing director and the founder, was the CFO of Utkarsh Small Finance Bank Ltd prior to Sindhuja. He was also the founding member of Utkarsh Micro Finance where he as part of leadership team steered the start-up to a major MFI & then to a SFB. Prior to his more than 8 years journey with Utkarsh Micro Finance and Utkarsh Small Finance Bank, he was with ICICI Bank for more than 4 years. He also had over a year's stint at Friends of Women World Banking where he worked closely with more than 35 MFIs across India. The co-founder and whole time director, Mr Malkit Singh Didyala, also has over 12 years of experience in banking and finance with reputed financial institutions like Bajaj Finance, ICICI Bank and Utkarsh Small Finance Bank. The board of directors also include Mr Abhishek Sharman, who leads Carpe Diems investment strategy and Ms Smriti Chandra, who runs NMI's Indian office.

- **Adequate asset quality maintained thus far, however vintage in the portfolio has been limited**

Sindhuja has been able to maintain their asset quality at a better level compared to the industry even amidst challenging conditions like the covid-19 pandemic. The company's collections have also been very stable at over 98% throughout fiscal 2022 with the exception of May 2021 when the wave 2 of the pandemic had resulted in collections dropping to 91%. The company reported a 90+ dpd of 1.9% during fiscal 2022 as compared to 2.7% during fiscal 2021. Consequently, the credit losses or write-offs have also been limited at around Rs 4 crore (0.9% of AUM) in fiscal 2022. Additionally, the company has also not undertaken any type restructuring. Nevertheless, Sindhuja has limited operational track record of around 4 years, having started its operations only in 2018, primarily through BC book. The company then started with their own book from fiscal 2019. The company has attained significant growth in operations from fiscal 2020. The loan portfolio has grown at 72% in fiscal 2022 indicating that a majority of the portfolio has limited seasoning. Nevertheless, CRISIL Ratings overall believes that company was able to maintain its asset quality during critical Covid periods. However, given there has been limited seasoning in portfolio, company's ability to continue to maintain asset quality metrics at healthy level will remain key monitorable.

Weakness:

- **Geographically concentrated portfolio; single state accounts for over 48% of AUM**

The company has a well-established business network with a moderately large customer base and benefits in terms of good understanding of operational dynamics. The AUM of the company stood at Rs 434 crore as on March 31, 2022 panning 114 branches across 6 states. Nevertheless, Bihar accounts for 48% of the total portfolio as of March 2022, with the remaining states being Rajasthan (21%), Uttar Pradesh (11.5%), Jharkhand (11.3%), Haryana (6.7%) and Chhattisgarh (1.9%). In terms of district wise concentration, the top five districts accounted for 22% of the overall AUM as of March 2022. The geographic concentration increases company's susceptibility to local socio-political risks, inherent in the microfinance business. Nevertheless, strong risk management practices would help the company to mitigate these risks. Recently, the company has expanded to Haryana, to drive incremental growth and reduce state wise concentration. Sindhuja also has a board approved policy according to which the single state concentration is expected to be less than 30% by the end of fiscal 2024. In addition, they also have a policy of not having more than 2 branches in the same district to avoid concentration risk. However, amidst fast growth in the portfolio, sustainability of the asset quality at the current level of growth and across newer territories will be a key monitorable.

- **Modest though improving earnings profile**

Sindhuja has been profitable for the last three fiscals since 2019 and has only reported a loss during 2018 when they had started their operations. Their ability to manage asset quality challenges even amidst challenging pandemic conditions has helped them keep their credit costs under control, which has helped them maintain their profitability in the last two fiscals. The company reported a PAT of Rs 3.3 crore and RoMA of 0.8% during fiscal 2022 as compared to Rs 2.2 crore and 0.8% during the previous fiscal. In terms of operating costs, given the company has been in expansion mode, the operating costs remained high in range of 5.5%-7.5% during last 2-3 years. Nevertheless, post achieving scale and operational leverage, the operating costs are expected to stabilise. Further, with the new MFI directives issued by RBI, which removes the interest rate cap, it should be beneficial for the company as far as NIMs (Net Interest Margin) is concerned. In addition, with major growth for fiscal 2022 having come in the fourth quarter of the fiscal, the profitability of the company in the current fiscal is expected to be higher because of the same. CRISIL Ratings overall believes that, in order to achieve substantial improvement in profitability, the company will have to continue to focus on managing its operational and credit costs while scaling-up the portfolio.

- **Susceptibility to potential risk from socio-political issues in the microfinance sector and inherently modest credit profile of the borrowers**

The microfinance sector witnessed two major disruptive events in the past decade. The first was the crisis promulgated by the ordinance passed by the government of Andhra Pradesh in 2010 and the second was demonetisation in 2016. Promulgation of the ordinance on MFIs by the government of Andhra Pradesh in 2010 demonstrated their vulnerability to regulatory and legislative risks. The ordinance triggered a chain of events that adversely affected the business

models of MFIs by impairing their growth, asset quality, profitability, and solvency. The sector witnessed high levels of delinquencies post demonetisation and subsequent socio-political events. Additionally, any loan waivers – similar to MFI Bill, 2020 passed by the Assam Assembly – announced will make matters worse owing to their impact on repayment discipline. In addition, the sector remains susceptible to issues such as local elections, natural calamities, and borrower protests among others, which may result in momentary spurt in delinquencies. This indicates the fragility of the business model to external risks. As the business involves lending to the poor and downtrodden sections of society, MFIs will remain vulnerable to socially sensitive factors, including high interest rates, tighter regulations, and legislation.

Microfinance customers generally have below-average credit risk profiles with lack of access to formal credit and high seasonality in income. The income flow of this segment of customers is volatile and dependent on the local economy. With slowdown in economic activity after the pandemic, there may be pressure on the borrowers' cash flows, thereby affecting their repayment capability. CRISIL Ratings in this regard, will therefore continue to monitor the performance of Sindhuja closely.

Liquidity: Adequate

As on March 31, 2022, the asset-liability maturity (ALM) profile was comfortable with positive cumulative mismatches in the up to one-year bucket. The liquidity stood at Rs 54.8 crore (excluding term loan) as of May 31, 2022 against debt obligations of Rs 53.9 crore for the next 3 months. This represents a liquidity position at a cover of 2.5 times (assuming 75% collection efficiency) considering debt repayments over the next three months through August 2022.

Outlook: Positive

CRISIL Ratings believes Sindhuja will remain adequately capitalised and also will continue to benefit from extensive experience of its promoters and management over the medium term.

Rating Sensitivity factors

Upward factors:

- Successful raising of equity capital to the tune of Rs 80-100 crore as plans shared by management
- Improvement in profitability with RoMA remaining above 1.5% on a sustained basis
- Ability to diversify and significantly scale-up loan book while maintaining operational and credit cost and improving earnings

Downward factors

- Increase in steady-state gearing to above 5 times
- Significant deterioration in asset quality with 90+ dpd increasing to over 5% thereby impacting capitalisation or earnings

About the Company

Sindhuja Microcredit Pvt Ltd is a new age, tech-enabled, rural-focused microfinance institution founded by Mr. Abhisheka Kumar, ex- CFO of Utkarsh of Small Finance Bank and Mr. Malkit Singh Didyala, ex-Business Head for MSME & Agri lending at Utkarsh Small Finance Bank. The Company started operations on 30th April, 2018 with its HQ in Noida and is currently operating with 114 branches in Bihar, Jharkhand, Chhattisgarh, Rajasthan, Haryana & Uttar Pradesh.

Sindhuja offers microfinance loans for income generating activities to economically active women residing in low-income areas, generally involved in agri/agri allied activities, production, trade and services. These borrowers being part of the essential services during covid-19 lockdown, the company was able to maintain steady cash flows during this period.

The company, as on date, caters to a client base of 1.74 lakh customers through 114 branches in 6 states, namely, Bihar, Jharkhand, Chhattisgarh, Rajasthan, Haryana & Uttar Pradesh. The company had an AUM of Rs 434 crore as on March 31, 2022, as compared to Rs 252 crore during the previous year, an on year growth of 72%. The company reported a PAT of Rs 3.3 crore during fiscal 2022 as compared to a PAT of Rs 2.2 crore during the previous fiscal.

Key Financial Indicators

Particulars	Unit	2022	2021	2020	2019
Total assets	Rs crore	469	299	176	59
Total income	Rs crore	63	41	25	3
Profit after tax	Rs crore	3.2	2.2	2.2	-2.7
90+ dpd	%	1.9	2.7	0.1	0.0
Adjusted gearing	Times	3.8	2.2	4.6	10.6
Return on managed assets	%	0.8	0.8	1.4	-5.3

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating
NA	Proposed long-term bank loan facility	NA	NA	NA	66	NA	CRISIL BBB-/Positive

Annexure - Rating History for last 3 Years

		Current		2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	66.0	CRISIL BBB-/Positive		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	66	Not Applicable	CRISIL BBB-/Positive

This Annexure has been updated on 27-Jun-2022 in line with the lender-wise facility details as on 27-Jun-2022 received from the rated entity.

Criteria Details**Links to related criteria**

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Finance Companies](#)

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