

## Saija Finance Private Limited

Instrument	Grading Action
MFI Grading	M2 Assigned

ICRA has assigned an MFI grading of M2 (pronounced M Two) to Saija Finance Private Limited (Saija)<sup>1</sup>. The grading is valid till June 2017. The grading indicates that in ICRA's current opinion, the graded MFI's ability to manage its microfinance activities in a sustainable manner is high. ICRA's MFI Grading is not a comment on any specific debt servicing capability of the MFI.

The grading factors in Saija's good processes for loan origination, collection and monitoring; experienced senior management team with long track record in microfinance operations and strong investor profile (Accion International holds 40.61% and Pragati India Fund Limited holds 34.28% stake in the company). The grading also factors in the company's good MIS systems as well as good access to funding which has helped the company to scale up operations (portfolio of Rs. 216 crore as on March 31, 2016,) largely through expansion in client base (53% growth in FY16) and branch network (39% growth in FY16) while the growth in average portfolio per member has been 16%. Saija's asset quality remains comfortable, notwithstanding the deterioration (0+ delinquencies of 0.77% as on March 31, 2016 vs. 0.38% as on June 30, 2015, including death cases). In light of good fund raising capacity, experienced management, prudent policies and MIS systems, ability of company to manage its microfinance operations on a sustainable basis is high.

The grading is however constrained by Saija's moderate scale and geographically concentrated nature of operations (with 81% of the portfolio concentrated in Bihar as on March 31, 2016), further accentuated as top 10 districts accounts for 87% of the portfolio. ICRA has also noted the ability of the company to bring down its operating expense levels (operating expenditure/ avg. managed advances at 9.9% during FY16 vs. 11.2% during FY15) which has led to some improvement in profitability indicators of the company (ROE of 7.2% during FY16 as compared to 2.5% during FY15) although it remains low, and deterioration in capitalisation profile of the company owing to delays in capital infusion and higher growth in portfolio vis-à-vis internal capital generation. ICRA has noted that the company is in various stages of tying up around Rs. 30-40 crore of capital which would help the company to grow for the next 4-6 months, post which the company would go for another round of capital raising. Over the medium term, the company plans to grow at a CAGR of 100-110% (owing to a moderate base as on Mar-16) 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. 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. ICRA has also noted Saija's high pace of growth (growth of 77% in FY16 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 and asset quality while expanding into newer states as well as newer products (SME loans) and maintaining prudent leveraging levels would be critical from a grading perspective.

ICRA has taken cognizance of Saija's good loan monitoring and collection mechanisms supported by good Management Information Systems (MIS), Risk Management and Internal Audit Processes. Saija has been conducting monthly internal audit of all its branches and has put in place a branch rating model and the incentives of staff being linked to the audit scores. The company has also formalised training procedures and manuals at all levels. Saija also has a formal grievance redressal mechanism in place.

Though the company has diversified its funding mix, around 49%<sup>2</sup> of its funding was met through NBFCs/Financial Institutions at relatively higher cost of funds (around 16%). Saija would require larger lines from banks at competitive rates to reach the planned scale of operations. 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.

<sup>1</sup> For complete rating scale and definitions please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> Only on balance sheet debt

As for profitability, while the interest spreads of the company were around 10%, relatively high operating expenses (operating expenditure/ avg. managed advances at 9.9% during FY16 vs. 11.2% during FY15), led to low profitability indicators for the company (ROE of 7.2% in FY16). Saija has recently reduced its interest rates to 25.98% 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% – 9% and hence ICRA expects Saija to report ROEs of 7%-9% over that period.

### Company Profile

Saija Finance Private Limited (Saija) is an NBFC MFI that started its microfinance operations in November 2007 but as a programme under Saija Vikas, a society formed in July 2007 by the promoters – Mr. S.R Sinha and his wife, Mrs. Rashmi Sinha. The NBFC, Saija Finance Private Limited was formed in April 2008 and was granted the NBFC-MFI license in December, 2013 by RBI. The company follows the Grameen Model of lending. Saija offers two types of JLG loans —business purposes and Saija Mahila Rin (group loans to women; ~90% of total portfolio as on February 2016) and Saija Karobar Rin (group loans to men or women; constituting ~10% of total portfolio as on February 2016). Saija reported a net profit of Rs. 2.32 crore during FY16 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 FY15. The company reported a CRAR of 21.40% (Tier I of 12.79%) as on Mar-16.

### Shareholding Pattern

	Mar-16
Shareholders	%
Mr Shashi Ranjan Sinha	3.20%
Mrs Rashmi Sinha	3.18%
Accion Gateway LLC	6.26%
Accion Africa Asia Investment Company	34.35%
Pragati India Fund Limited	34.28%
Saija Management and Employee Welfare Trust	18.73%
Total	100.00%

In addition, option to vest MSOP (8.12%) has been approved by shareholders and board of Saija.

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