Saija Finance Private Limited

December 14, 2017

Saija Finance Private Limited: Grading assigned

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
MFI Grading	N.A.	M2; Assigned
Total	**N.A.**	

Rating action

ICRA has assigned an M2 (pronounced M two) microfinance grading to Saija Finance Private Limited (SFPL). This grading indicates that in ICRA's current opinion, the graded MFI's ability to manage its microfinance activities in a sustainable manner is high. Within this category, the sign of + (plus) may be appended to the grading symbols to indicate their relative position within the grading categories concerned. The grading is valid till November 30, 2018.

Rationale

The grading takes into account SFPL's moderate scale of operations (portfolio of Rs. 253.27 crore as on September 30, 2017), experienced management team, good loan origination, collection and monitoring systems supported by an adequate management information system (MIS) and an internal audit system. The grading is also constrained by SFPL's geographically concentrated operations, with 74% of the portfolio as on September 30, 2017 being concentrated in Bihar (with top 10 districts contributing nearly 69% of the portfolio), followed by 15% in Jharkhand and remaining in U.P.; in order to diversify its portfolio, SFPL has started exploring new territories of Punjab and Haryana. In addition, nearly 10 out of the total 38 districts of operations accounted for nearly 73% of the portfolio as on September 30, 2017. While the MFI's collections were affected post the announcement of demonetisation by the Government of India (GoI), SFPL's asset quality deteriorated with 90+ dpd[1] at 5.5% as on September 30, 2017 (4.0% as on March 31, 2017). ICRA notes that owing to provisioning made for delinquent portfolio, Saija reported losses in H12018 leading to deterioration in capital adequacy of 10.85% as on September 30, 2017 as against minimum regulatory CRAR requirement of 15%. However, the equity infusion of Rs. 15 crore by Accion and Pragati Fund during December 2017 is likely to support the capitalisation profile going forward.

The grading is supported by a experienced Board of Directors (BoD) and a dedicated management team. In addition, the systems and processes are supported by good systems which are being further upgraded with an efficient CLAP (Credit Loan Appraisal) team and Omni system resulting in efficient verification of cases added by the field staff and hence reduction of risk. However, grading is constrained by lack of diversity in the funding profile characterised by low bank borrowings and high cost of funds, resulting in weak profitability indicators during FY2017 and H1FY2018; incremental profitability will be a function of its ability to avail cheaper sources of funds and operational efficiencies.

[1] *Days past due*

Key grading drivers

Credit strengths

Experienced and professional management team: The senior management team at Saija comes with diverse background with experience in the fields of advisory, financial management, social transformation, statistics, operations and BFSI.

Adequate and robust IT infrastructure with an efficient MIS system: The IT systems and infrastructure are good and further strengthened by the adoption of Omni systems and support from the CLAP team that are efficiently handling processes from client addition to client management. In addition, a robust MIS system enables SFPL to have real time access to its branches and hence ensure better risk management.

Adequate loan origination and risk management systems and procedures: The internal control systems are commensurate with the scale of operations and the company has efficient CLAP team for proper client origination and management, ensuring better risk management.

Credit weaknesses

Moderate capitalisation profile: the provisioning made for 90+ overdue loans led to losses in H1FY2018 and hence erosion of net worth. While the of Rs. 15 crore from the investors during December 2017 is likely to support capitalisation, the company would need another round of capital for meeting its growth plans

Moderate asset quality indicators: SFPL reported 30+ and 90+ delinquencies of 6.5% and 5.5% respectively of the portfolio as on September 30, 2017 (30+ and 90+ delinquencies formed 7.9% and 4.0% respectively as on March 31, 2017).

Geographical concentration of the portfolio in Bihar: The operations are concentrated geographically with nearly 74% of the portfolio as on September 30, 2017 from Bihar. However, the management has started expanding to new territories in Punjab and Haryana to mitigate the risks arising from political and regional uncertainties.

To diversify funding profile and secure funds at competitive rates to support business growth: the existing funding mix with less than 10% from bank funding despite financial assistance from 3 banks and 14 financial institutions has led to high cost of funds

Weak Profitability Indicators: Higher cost of funds and high credit provisioning owing to demoentisation related credit costs led to NIM/AMA of 3.3% and 4.2%, operating expense/AMA of 7.4% and 6.8% and return on equity of -55.9% and 7.4% respectively during H1FY2018 and FY2017. The company's ability to improve its profitability by improving operating efficiencies while keeping credit costs under control will be important from a grading perspective

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

ICRA grading methodology for microfinance institutions

About the company

The promoters of Saija Finance Private Limited (SFPL), Mr. S.R. Sinha and Mrs. Rashmi Sinha, started microfinance operations in November 2007 as a programme under Saija Vikas, a society formed by them in July 2007. The current management acquired the NBFC, Saija Finance Private Limited in April 2008; the NBFC was granted the NBFC-MFI licence in December 2013 by the RBI.

The company follows the Grameen model of lending and offers loans under: Saija Mahila Rin (group loans to women) and Saija Karobar Rin (loans for business) which respectively formed 91% and 5% of the portfolio as on September 30, 2017. Individual loans for solar lamps, fans and stoves accounted for remaining 4% of the portfolio.

During FY2017, Saija reported a net profit of Rs. 2.2 crore on a managed asset base of Rs. 251.4 crore vis-à-vis net profit of Rs. 2.3 crore on a managed asset base of Rs. 217.2 crore during FY2016. As on March 31, 2017, the operations were spread across 38 districts in 3 states of Bihar, Jharkhand and Uttar Pradesh. During H1FY2018, the company reported a loss of Rs. 7.6 crore on a managed asset base of Rs. 253.27 crore. The company reported a CRAR of 10.85% as on September 30, 2017 (16.10% as on March 31, 2017) against the regulatory requirement of 15%.

Key Financial Indicators (Audited)

	FY 2016	FY 2017	H1FY2018*
Total Income (Rs. crore)	36.64	55.34	28.49
PAT (Rs. crore)	2.32	2.14	(7.62)
Net worth (Rs. crore)	28.17	29.72	24.77
Total managed portfolio (Rs. crore)	217.15	251.40	253.27
Total managed assets (Rs. crore)	319.78	311.79	321.22
Return on managed assets (%)	0.8%	0.7%	(2.4)%
Return on equity (%)	7.23%	7.41%	(55.95)%
Gearing (times)	8.13	7.75	8.65
Gross NPA (%)	0.38%	4.00%	6.00%
Net worth/Managed assets (%)	8.81%	9.29%	9.78%
CRAR (%)	21.40%	16.10%	10.85%

*Based on limited review

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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: N.A.

ANALYST CONTACTS

Karthik Srinivasan
+91 22 61143444
karthiks@icraindia.com

Supreeta Nijjar
+91 124 4545324
supreetan@icraindia.com

Rajat Mehta
+91 124 4545377
rajat.mehta@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
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-3341580 (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) 2552 0194/95/96