

## Press Release

### Saija Finance Private Limited

September 24, 2021

#### Reaffirmed; On Watch with Developing Implications

<b>Total Facilities Rated*</b>	Rs. 53.50 Cr.
<b>Long Term Rating</b>	ACUITE BBB- (Reaffirmed; On Watch with Developing Implications)

\* Refer Annexure for details

#### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-' (read as ACUITE triple B minus)** to the Rs. 53.50 Cr bank facilities of Saija Finance Private Limited (SFPL). The rating has been placed on "**Watch with Developing Implications.**"

The rating action follows the recent development wherein the company's promoters and investors have signed a share subscription and shareholding agreement (SSHA) with Dvara Kshetriya Gramin Financial Services Private Limited (rated ACUITE A-/Stable). As per the SSHA, Dvara is expected to infuse capital of Rs 7.57 Cr. in the first tranche to take up a 25.90 percent equity stake in the company, referred to as "Initial Acquisition", subject to compliance with prescribed conditions precedent. Further, the entire operations of SFPL are expected to be merged with Dvara within 18 months, subject to the Company achieving certain Performance Milestones to the satisfaction of Dvara KGFS and receipt of necessary approvals. Acuité will continue to engage with SFPL's management to understand the contours and monitor the progress. Acuité will resolve the watch once further clarity emerges and outcome on the credit profile and business profile of SFPL is ascertained.

The rating continues to factor in SFPL's experienced management and operational track record with comfortable capitalization at 20.34 percent as on March 31, 2021. The rating is however constrained by SFPL's declining AUM (Rs 157.15 Cr. as on August 2021 as against Rs 304. 69 Cr. as on March 31, 2020) and geographically concentrated portfolio impacting the scale of operations. The rating further takes into account deterioration in the asset quality as reflected in the on-time portfolio which stood at 70.89 percent as on March 31, 2021 (94.76 percent as on March 31, 2020) with rise in gross non-performing assets (owned portfolio) to 14.77 percent as on March 31, 2021 (3.75 percent as on March 31, 2020). This, in turn, resulted into higher credit provisioning which has impacted the profitability for FY2021 resulting into losses of Rs 32.51 Cr. for FY2021 (P.Y PAT Rs 2.30 Cr.). Such significant losses resulted in erosion of the net worth (Rs 33.63 Cr. for FY2021 as against Rs 66.36 Cr. for FY2020). Going forward, the company's ability to raise capital (both equity & debt), improve collection efficiency, contain delinquencies across different time buckets and its resultant impact on profitability metrics would remain key monitorable.

Despite the concerns highlighted, Acuité expects the operational performance shall improve gradually on the execution of the above mentioned SSHA and the proposed takeover of the management by Dvara KGFS. Any deviation in the proposed plan will have a negative impact on SFPL's credit profile.

#### About the company

Incorporated in the year 1997, Saija Finance Private Limited (SFPL) is a Bihar based "NBFC-MFI", in the name of Regars Finance Pvt Ltd. The company obtained license from Reserve Bank of India as a Non-Deposit taking Non-Banking Finance Company in 2009. It was reclassified as NBFC-MFI in 2013 by the RBI. The company was founded by Mr. Sashi Ranjan Sinha and Ms. Rashmi Sinha.

SFPL is engaged in providing microfinance services to rural, semi-urban and urban poor, as well as micro and

small businessmen under the Joint Liability Group Model (JLG) in the Northern & Eastern India. As on August 31, 2021, the company reported AUM of Rs 157.15 Cr. spread across 5 States, namely, Bihar, Jharkhand, Uttar Pradesh, Haryana and Punjab having a network of 101 branches across 61 districts.

### **Analytical Approach**

Acuité has considered the standalone business and financial risk profile of SFPL to arrive at the rating.

### **Key Rating Drivers**

#### **Strengths**

- **Experienced management and track record of operations:**

The company is promoted by Mr. Sashi Ranjan Sinha and Mrs. Rashmi Sinha. Both the promoters have over three decades of experience in banking and financial services sector and administration of corporates. Mr. Shashi Ranjan Sinha, Managing Director of Maharishi Housing Development Finance Ltd (MHDFL), has over 35 years of experience in retail banking, housing finance and insurance. He also worked for Lord Krishna Bank, as Senior Vice President, Retail Assets and as Country Head – Cross Sell with Centurion Bank of Punjab. Mrs. Rashmi Sinha, has over 30 years of experience in the field of human resources and management education.

In the year 2009, Accion Investments invested in the company for 45.20 percent stake and also provided the company with Technical and Manpower support, IFC Grant Support. In the year 2011, Pragati Investments Fund Limited (PIFL, a UK based fund) invested in the company. As on March 31, 2021, Accion and PIFL held ~87% of the stake in the company. The board members have experience in the fields of microfinance, banking, and financial services industry.

The company has geographical presence in the states of Bihar, Jharkhand, Uttar Pradesh, Haryana and Punjab with its network of 101 branches and an Asset under Management (AUM) of Rs. 157.15 Cr. as on August 31, 2021. Though the company's AUM has declined, it is expected to improve gradually with the execution of SSHA and proposed takeover by Dvara KGFS.

Acuité believes that presence of the experienced promoters in the microfinance segment will be central to support the business risk profile of the company.

#### **Weaknesses**

- **Decline in scale of operations and geographically concentrated portfolio.**

The company's scale of operations declined with AUM of Rs. 157.15 Cr. as on August 31, 2021 as compared to Rs 304.69 Cr as on March 31, 2020 and Rs.517.65 Cr as on March 31, 2019. The portfolio declined on account of challenges and delays in raising funds.

SFPL has presence in five states with concentration in Bihar (~55.66 percent of the overall portfolio as on March 31, 2021) followed by Jharkhand (15.48 percent). It has 101 branches located over 61 districts. This exposes the company to high geographical concentration risk. Thus, the company's performance is expected to remain exposed to competitive landscape in these regions and occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework thereby impacting credit profile of SFPL. The impact of COVID may also impair the scalability of business operations, which has currently disrupted access to funds, collections and disbursement processes.

Acuité believes that geographic concentration in its portfolio coupled with the inherent risk in microfinance segment in the backdrop of second wave of COVID will continue to weigh on the company's credit profile over the near to medium term.

- **Deterioration in Asset Quality and resulting impact on Profitability and Net worth**

The outbreak of the COVID and the intermittent lockdowns have significantly impacted the operations of the micro finance industry. The business activities of the borrowers have impacted, affecting the cash flows and thereby impacting the asset quality, liquidity and the collection efficiency. Given the challenges and accumulated overdue recoveries, the delinquencies have increased and the company reported a 90+DPD at 14.77 percent as on March 31, 2021 (owned portfolio) as against 3.75 percent as on March 31, 2020 (owned portfolio). This in turn, has led to higher provisioning and decline in the profitability in FY2021. The company reported losses of Rs 32.51 Cr. for FY2021 as against the profit of Rs 2.30 Cr. for FY2020. Such significant losses have further led to erosion in the net worth for FY2021 which stood at Rs 33.63 Cr. as against Rs 66.37 Cr. as on March 31, 2020. While the company's current collection efficiency has been improving since Q1FY2022, the overdue recoveries is expected to remain uncertain in the near term owing to the pandemic.

Acuite believes, given the challenges, the company's ability to manage the additional slippages while maintaining the portfolio collections will be crucial.

### Liquidity Position-Stretched

SFPL's overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term as per ALM dated March 31, 2021. The company is in talks with various lenders to raise long term debt. The company's liquidity position is supported by unencumbered Cash and Bank Balance of Rs 12.49 Cr as on July 31, 2021. While the company's current month collections have been improving during Q1FY2022, future liquidity position will hinge upon the company's ability to raise resources while continuing to achieve optimal portfolio collections.

### Rating Sensitivity

- Stance of the key investors in infusing equity.
- Ability to raise capital, both debt and equity.
- Movement in Asset Quality and Collection efficiency.
- Movement in profitability metrics.

### Material Covenants

SFPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

**Outlook:** Not Applicable

### About the Rated Entity - Key Financials

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	210.83	327.02
Total Income*	Rs. Cr.	28.51	46.15
PAT	Rs. Cr.	-32.51	2.30
Net Worth	Rs. Cr.	33.63	66.37
Return on Average Assets (RoAA)	(%)	-12.09	0.55
Return on Average Net Worth (RoNW)	(%)	-65.01	3.54
Debt/Equity	Times	5.10	3.75
Gross NPA	(%)	14.77	3.75
Net NPA	(%)	1.12	0.63

\*Total income equals to Net Interest Income plus other income.

### Status of non-cooperation with previous CRA (if applicable):

Not Applicable

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Up to last three years)

Date	Name of the Facilities	Term	Amount ( Rs Cr)	Ratings/Outlook
10-Nov-2020	Non-Convertible Debentures	Long Term	10.00	ACUITE BBB-/Negative (Assigned)
	Non-Convertible Debentures	Long Term	10.00	ACUITE BBB-/Negative (Assigned)
	Non-Convertible Debentures	Long Term	23.50	ACUITE BBB-/Negative (Assigned)
	Proposed Non-Convertible Debentures	Long Term	10.00	ACUITE BBB-/Negative (Assigned)

### \*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Date of Maturity	Size of the Issue (Rs. Cr.)	Rating/Outlook
Not Applicable	Non-Convertible Debentures	December 22, 2017	13.45%	December 22, 2022	3.33	ACUITE BBB- (Reaffirmed, On Watch with Developing Implications)
Not Applicable	Non-Convertible Debentures	July 30, 2018	12.72%	July 30, 2023	6.67	ACUITE BBB- (Reaffirmed, On Watch with Developing Implications)
Not Applicable	Non-Convertible Debentures	December 07, 2020	12.00%	June 08, 2022	10.00	ACUITE BBB- (Reaffirmed, On Watch with Developing Implications)
Not Applicable	Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	33.50	ACUITE BBB- (Reaffirmed, On Watch with Developing Implications)

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### About Acuité Ratings & Research:

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