

India Ratings Upgrades Sindhuja Microcredit's Debt Facilities to 'IND BBB'; Outlook Stable

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India Ratings and Research (Ind-Ra) has taken the following rating actions on Sindhuja Microcredit Private Limited's (Sindhuja) debt instruments:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)*	-	-	-	INR1,300	IND BBB/Stable	Upgraded
Bank loans	-	-	-	INR2,500 (increased from INR500)	IND BBB/Stable	Upgraded

*Details in Annexure

The upgrade reflects continued growth in Sindhuja's franchise and its scale of operations in FY23 while maintaining the asset quality, an increase in funding diversification and a likely improvement in profitability, supported by higher yields following the removal of prescriptive interest rate caps from March 2022.

Key Rating Drivers

Maintained Growth Runway: At 9MFYE23, Sindhuja's assets under management (AUM) grew to INR6,230 million (FYE22: INR4,340 million; FYE21: INR2,519 million; FYE20: INR1,933 million; FY19: INR6,13.9 million). As part of its near-term strategy, Sindhuja plans to increase its AUM to about INR13 billion by FY24. Sindhuja's AUM growth in FY23 has been in line with the agency's expectations and the company would maintain the growth given an increase in disbursements post-COVID-19 and improved availability of funding for small and mid-sized non-banking financial companies – microfinance institutions (NBFC-MFIs). Sindhuja is also piloting new products like individual loans for vintage joint liability group customers and secured micro, small and medium enterprise loans in FY24.

Healthier-than-Peers' Asset Quality through COVID-19: Sindhuja's gross non-performing assets (90 days past due) stood comfortable at 1.08% in 9MFY23 (FYE22: 1.5%; FYE21: 2.43%; FYE20: 0.1%), Ind-Ra believes it to be better than

most of the NBFC-MFI peers. Moreover, Sindhuja witnessed far lower credit costs of 0.6% (unannualised) in 9MFY23 (FY22: 2.2%; FY21: 1.06%; FY20: 1.04%) as compared to 1.5%-5% for other NBFC-MFIs in FY23. As of 9MFY23, Sindhuja had no restructured assets while most other NBFC-MFIs had 1%-4% of restructured assets, indicating Sindhuja's systems and processes, and its better-than-peers' credit policies and / or practices. Ind-Ra opines the company's relatively smaller portfolio during the COVID-19 period and high concentration in Bihar (a state that has generally shown better credit behaviour in events than many other states) also played a role in lower-than-peers' credit costs. Although Ind-Ra sees improving outlook for NBFC-MFIs for FY24, the sector continues to face systemic and idiosyncratic risks, given the socio-economically vulnerable profile of its borrowers.

Ability to Maintain Adequate Capital; Comfortable Net Leverage: At 9MFYE23, Sindhuja's tier-1 capital declined to 17.7% (FY22: 23.8%; FYE21: 41.77%) and leverage (debt/equity) deteriorated to 4.99x (3.3x, 1.9x) amid debt-funded growth. However, the company had high unencumbered cash and liquid investments of INR893 million as of December 2022, with the net leverage (net debt/equity) remaining at 4.2x. The agency expects Sindhuja's current investors to infuse INR250 million-300million of capital by 1QFY24 and the company would need additional equity infusion possibly towards the end of 1HFY24 to consistently grow its franchise. Sindhuja has a track record of raising equity, with Carpedium Capital Partners and NMI Fund IV KS acquiring 39.15% and 29.7% stakes in the company, respectively, after investing a total of INR900 million over two rounds of funding since Sindhuja's inception. Ind-Ra expects Sindhuja to maintain the leverage below 4.5x over the medium term on a sustainable basis, while maintaining its growth expectations. The agency also expects the company to increase direct assignment transactions in the near- to medium-term for capital optimisation.

Improved and Diversified Funding Sources: Sindhuja's funding profile is diversified consisting of over 40 lenders, with NBFCs accounting for 35% of the total funding at end-December 2022, banks 28% (private and public sector), NCDs 27% and small finance banks 11%. Sindhuja added 14 new lenders in 9MFY23. The company was able to consistently improve its cost of borrowings over the years at 12.43% as of 9MFY23 (FY22: 12.9%; FY21: 14.4%; FY20: 15.3%). The cost of borrowings would modestly increase in the near term, given the increase in policy rates with marginal cost of borrowings for FY23 at 13.3%. However, Ind-Ra expects the company to pass on the increase in the cost of borrowings with the removal of cap on prescriptive interest rates.

Liquidity Indicator – Adequate: At end-December 2022, the company had maintained a cumulative surplus in the buckets of up-to-one year of 25% of total assets. Also, based on Ind-Ra's stress test, the company has adequate liquidity buffers in the up-to-one-year bucket. Given MFI loans have a shorter tenor than that of liabilities, the asset-liability mismatch is generally in excess over the short term. At end-December 2022, Sindhuja had INR895.4 million of cash and liquid investments (mainly fixed deposits, as per of the asset liability mismatch analysis) on its balance sheet and unutilised bank lines of INR200 million, adequately covering debt repayments of INR1,100 million over the next three months. The company maintains practice of maintaining liquid assets as 10% of its AUM which is equivalent to two months of debt repayment and operating expenses.

Modest Profitability Profile; likely to Improve over Medium Term: At 9MFYE23, the company reported improved but still modest profit of INR121.7million (FY22: INR30.7 million; FY21: INR21.6 million; FY20: INR20.8 million) with return on average assets of 2.8% (0.66%, 0.73%). The profitability remained moderate with high operating expenditure/ average assets of 6.6% in 9MFY23 (FY22: 6.4%; FY21: 6.9%; FY20: 9.1%) amid large geographical expansion and continuous addition of branches with 70 branches added in 9MFY23. The profitability was partly supported by low credit costs of below 2% since its inception. With the scaling up of operations, Ind-Ra expects Sindhuja's profitability to improve over the medium term; furthermore, the removal of the lending caps after the implementation of harmonisation guidelines would contribute substantially to its profitability and increase the viability of small-sized MFIs across India. It will also enable MFIs to transmit higher borrowing costs.

Geographical Concentration, but Reducing: At end-December 2022, Bihar accounted for 46% of the company's AUM (FY22: 46%; FY21: 64%, FY20: 63%), followed by Rajasthan with 15% (21%; 13%). Also, the contribution from the top 10 districts continuously declined to 33% at end December 2022 (March 2022: 42%; FY21: 48%; FY20: 53%). The company started its operations in Gujarat and Madhya Pradesh in FY23 and plans to diversify its portfolio by expanding its presence in some of the existing states and foraying into new geographies (Maharashtra, Karnataka, Orissa, Punjab and Tamil

Nadu). Ind-Ra believes that contiguous expansion will be a prudent option for the company as non-contiguous expansion could lead to operational and control-related challenges that could impact Sindhuja's asset quality.

Rating Sensitivities

Positive: A positive rating action could result from a continued profitable scaling up of operations while maintaining stable asset quality levels, the maintenance of improved funding diversification as reflected in relative improvement in cost of borrowings and raising equity as per plans.

Negative: A material deterioration in the profitability and capital impairment, arising from deterioration in the company's asset quality, a weakening of its funding profile, the leverage exceeding 5x, and the company's inability to maintain adequate capital buffers could result in a negative rating action.

Company Profile

Sindhuja was incorporated under the provisions of the Companies Act and has a registered office in Noida, Uttar Pradesh. The company was registered as an NBFC-MFI with the Reserve Bank of India on 11 September 2018. It primarily provides microfinance services to women, who are enrolled as members and organised as joint liability groups, in rural areas of India. At end-December 2022, the company had 166 branches operating across Bihar, Jharkhand, Chhattisgarh, Uttar Pradesh, Rajasthan, Haryana, Madhya Pradesh and Gujarat.

FINANCIAL SUMMARY

Particulars	9MFY23	FY22	FY21
Total assets (INR million)	7,136.3	4671.5	2,980.1
Total equity (INR million)	1,171.7	1,033	1,007.2
Net income (INR million)	121.7	30.7	21.6
Return on average assets (%)	2.75	0.80	0.91
Return on average equity (%)	14.72	3.01	3.15
Equity/Asset (%)	16.4	22.1	33.8

Source: Sindhuja, Ind-Ra

Solicitation Disclosures

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Rating History

Instrument Type	Current Rating/Outlook			Historical			
	Rating Type	Rated Limits (million)	Rating	5 August 2022	10 March 2022	3 March 2022	17 February
Bank loans	Long-term	INR2500	IND BBB/Stable	IND BBB-/Positive	IND BBB-/Positive	IND BBB-/Positive	IND BBB-/P
NCDs	Long-term	INR1300	IND BBB/Stable	IND BBB-/Positive	IND BBB-/Positive	IND BBB-/Positive	IND BBB-/P

Annexure

Instrument	ISIN	Date of Issuance	Coupon rate	Maturity date	Size of Issue (million)	Rating/Outlook
NCDs	INE0FWI07013	31 March 2021	14.54%	31 March 2024	INR200	IND BBB/Stable
NCDs	INE0FWI07021	7 March 2022	13.00%	7 January 2024	INR200	IND BBB/Stable
NCDs	INE0FWI07039	15 March 2022	12.85%	15 March 2024	INR300	IND BBB/Stable
NCDs	INE0FWI07047	5 August 2022	12.95%	5 March 2025	INR220	IND BBB/Stable
NCDs		Total Utilised			INR920	
NCDs		Unutilised			INR380	
		Total			INR1,300	

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low
Bank loans	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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APPLICABLE CRITERIA

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

The Rating Process

Evaluating Corporate Governance

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