

Rating Rationale

July 20, 2022 | Mumbai

Samunnati Financial Intermediation & Services Private Limited

'CRISIL BBB+/Stable' assigned to Non Convertible Debentures

Rating Action

Total Bank Loan Facilities Rated	Rs.300 Crore
Long Term Rating	CRISIL BBB+/Stable (Reaffirmed)
Short Term Rating	CRISIL A2+ (Reaffirmed)

Rs.155 Crore Non Convertible Debentures	CRISIL BBB+/Stable (Assigned)
Rs.37 Crore Non Convertible Debentures	CRISIL BBB+/Stable (Reaffirmed)
Rs.33.25 Crore Non Convertible Debentures	CRISIL BBB+/Stable (Reaffirmed)
Rs.33.25 Crore Non Convertible Debentures	CRISIL BBB+/Stable (Reaffirmed)
Rs.80 Crore Non Convertible Debentures	CRISIL BBB+/Stable (Reaffirmed)
Rs.125 Crore Non Convertible Debentures	CRISIL BBB+/Stable (Reaffirmed)
Rs.100 Crore Non Convertible Debentures	CRISIL BBB+/Stable (Reaffirmed)
Rs.20 Crore Non Convertible Debentures	CRISIL BBB+/Stable (Reaffirmed)
Rs.35 Crore Short Term Non Convertible Debenture	CRISIL A2+ (Reaffirmed)
Rs.40 Crore Commercial Paper	CRISIL A2+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BBB+/Stable**' rating to Rs 155 crore non-convertible debentures of the Samunnati Financial Intermediation & Services Private Limited (Samunnati). The ratings on the other debt instruments and bank facilities have been reaffirmed at '**CRISIL BBB+/Stable/CRISIL A2+**'.

The ratings continue to centrally factor in the adequate capitalisation of the company, which is expected to be strengthened further by fresh equity raise shortly and the rich pedigree of its investors. The ratings also reflect its experienced leadership, sound risk management processes and adequate liquidity. As the company has relatively lower vintage of operations, these strengths are partially offset by limited track record of operations, geographical concentration risk and the inherent vulnerability of asset quality to counterparty risks because of the modest credit risk profiles of the borrowers and subdued earning profile.

Samunnati's asset under management (AUM) grew at a two-year CAGR growth of 43% in March 2021. During fiscal 2022, company reported an AUM of Rs 1,114 crore as compared to Rs 945 crore in March 2021, business being impacted by the second wave of Covid 19. However, total disbursements during fiscal 2022 stood at Rs 2,552 crore (Rs 1,744 crore during fiscal 2021) primarily due to short tenure products. In terms of products, the company is focused at increasing its MSME financing under agri receivable financing and agri enterprise lending that accounted for 33% and 31% of the total AUM, respectively as of January 2022 (37% and 14% during March 2021). At the same time, the company is running down its on-lending portfolio given increased asset-quality pressure in this segment. As a result, its share has reduced to 14% in March 2022 as compared to 26% in March 2021.

On account of the second wave of covid 19, overall asset quality moderated during third quarter of fiscal 2022 and the 90+ days past due (dpd) stood at 8.0% as on December 31, 2021. However, with improvement in collections and also due to write-offs (Rs 51.5 crore) done by the company, 90+ dpd reduced to 3.5% as of March 31, 2022 as compared to 4.8% in March 2021. Further, company has outstanding restructured portfolio of Rs 54 crore as of June 30, 2022 which accounts for 5.0% of the AUM. In terms of earning profile, elevated credit cost primarily due to reclassification of portfolio from secured to unsecured book and reduction in yields has led to a loss of Rs 67 crore in nine months fiscal 2022 as compared to net profit of Rs 0.4 crore in March 2021. Samunnati's ability to steadily improve asset quality trend (including that of the restructured book) and restore earnings profile will remain key rating sensitivity factors.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has combined the business and financial risk profiles of Samunnati and Samunnati Agro Solutions Pvt Ltd (SamAgro).

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- Adequate capitalisation supported by regular equity infusion and rich pedigree of investors

Samunnati's capital position, as reflected in its adjusted networth at Rs 487 crore as on March 31, 2022 is adequate in relation to its scale of operations. The Tier-I and overall capital adequacy ratio is comfortable and stood at 20.3% and 21.0% as on March 31, 2022. The company had six rounds of fundraising since fiscal 2016 in which all previous investors participated. This is demonstrative of the constant support from investors and Samunnati's ability to attract new investors. The key investors include Elevar M - III, Accel India V (Mauritius) Ltd, responsAbility Agriculture I, SLP and TIAA who have extended capital to the company in the past. In May 2019, the company raised Rs 301 crore to support its near-term growth plan. Adjusted gearing stood at 2.2 times as on March 31, 2022. Company is in the process of raising fresh funds of \$50-70 million in the next 1-2 quarters. The ability to ramp up internal accretion to self-sustain capital position and thereby keep gearing within the targeted cap of 3 times remains a monitorable. Nevertheless, going by past track record, Samunnati should raise the required equity capital in a timely manner and ensure the overall capital position remains strong.

- **Founder with experience in agricultural financing, further supported by a strong and experienced senior management team**

The promoter, Mr Anil Kumar S G, has over 27 years of experience in banking and agricultural financing. He began with rural agricultural financing in 2007 as the founder-trustee of IFMR Trust, wherein he designed and deployed a local financial institution model called Kshetriya Gramin Financial Services. The second line of management comprises professionals with average experience of over a decade in commercial lending, auditing, operations and information technology. The board has adequate representation from investors and extends strategic support to the company. The management is aware of the risks associated with the segment and has put in place an elaborate credit policy for onboarding and sanction process.

Weaknesses:

- **Limited track record of operations with geographical concentration risk**

Being in the initial stage of operations, the company lacks a track record. The company commenced full-fledged operations in fiscal 2017 and substantially scaled up portfolio from fiscals 2019 onwards and the overall operations got impacted due to pandemic over the last 2 fiscals. Thus, loan book lacks seasoning and asset quality performance would need to be monitored over a longer period. The company's business model caters to the financing needs of farmers through agricultural enterprises, farmer producer organisations (FPOs), farmer groups and non-governmental organisations. Hence, evaluating the credit risk profiles of these clients is critical. The model is refined continuously based on the performance of the portfolio and feedback from the collections and credit teams. However, this type of agricultural financing model is at an initial stage in India. While Samunnati is one of the early entrants in this space, the ability to significantly scale up the portfolio while managing credit costs and operating expenses will be a key monitorable.

Samunnati operated in only eight states in fiscal 2017 and has currently scaled up operations to over 23 states as on March 31, 2022. Nevertheless, its exposure to Tamil Nadu continues to be high at 32% as of March 31, 2022, though this has come down from 60% as on March 31, 2017. Sustainability of the asset quality across newer territories while growing will be a key monitorable.

- **Weakened asset quality metrics; impacting overall earning profile**

Asset quality remains vulnerable to sharp increases given the credit risk profile of the underlying borrower segment. These loans are primarily given to agricultural enterprises, FPOs and community-based organisations (CBOs) and is ultimately used to fund the agri processors, importers, exporters, traders, farmer groups. These segments are exposed to cash flow cyclicity, which could result in potential slippages, and given the unsecured nature of the loans, recovery could also be limited. This risk is partly mitigated with about two-third of the portfolio as of March 2022 backed by hard collateral/ escrow/ subservient charge/ pledge of shares guarantee from US AID, US DFC and Rabo Bank/ pledge of shares.

On account of the pandemic, overall asset quality moderated during the fiscal 2022 and the 90+ days past due (dpd) stood at 8.0% as on December 31, 2021, compared with 4.8% as on March 31, 2021. However, with improvement in collections and writeoffs done by the company, 90+ dpd reduced to 3.5% as of March 31, 2022. As of June 30, 2022, Samunnati has outstanding restructuring of about ~Rs. 54 crore (5.0% of the AUM as on same date) and the billing for the restructured book has started from April onwards. The company had Rs 17.5 crore of exposure to Margdarshak Finance which the company has written off in fiscal 2022. However, on the collections front, the company's collections efficiency, which fell to 80% in May 2021 due to localised lockdown imposed by states to curb the sharp spike in cases due to second wave of Covid-19 pandemic, rose to 101% in March 2022 and 111% in June 2022 driven by higher overdue collection. The company's ability to improve asset quality and maintain healthy collection will be a key monitorable.

Given the business model where yields are high, Samunnati should be able to achieve operational efficiencies as the book grows. However, in fiscal 2022, company focused on acquiring better quality customers and change the mix towards agri-commerce. This impacted their overall yields for the company. Additionally, earnings profile hinges upon the ability to manage credit costs. With significant increase in asset quality due to ongoing pandemic, credit costs increased sharply in fiscal 2021 and similarly in fiscal 2022 thereby impacting Samunnati's overall earnings profile. As a result, the company reported a loss of Rs 67 crore in fiscal 2022 as against a profit of Rs 0.4 crore in fiscal 2021. Total credit cost stood at Rs 72 crore (4.7% as a % of managed assets) in fiscal 2022 as compared to Rs 32.3 crore (2.7% as a % of managed assets) in fiscal 2021. which includes one-time write-off for its exposure towards Margdarshak Finance in fiscal 2022 and Sambandh Finserve in fiscal 2021. Moreover, at a pre provisioning operating level (PPOP), company reported a loss of Rs 10 crore in fiscal 2022 against a profit of Rs 32.5 crore in fiscal 2021. Going forward, company's ability to improve its NIMs and manage the credit cost within tolerable level thereby improving its profitability and overall earnings profile will be key rating sensitivity factor.

Liquidity: Adequate

As on June 30, 2022, the company had liquidity of around Rs 185 crore. Liquidity buffer to cover total debt obligation and operating expenses till August 2022 (assuming nil collections) was close to 1.4 times. Additionally, company has funds in pipeline of Rs 400 crore as of June 30, 2022. Thus, it is well-placed to withstand any liquidity pressure in the market.

Outlook: Stable

The company will continue to benefit from the experience of its promoter and maintain adequate capitalisation over the medium term.

Rating Sensitivity factors**Upward Factors:**

- Track record of maintenance of asset quality metrics at current levels and improvement in earnings profile with RoA at above 3.0%
- Capitalisation metrics remaining strong with gearing remaining below 2 times

Downward Factors:

- Deterioration in asset quality or earnings profile, resulting in stressed profitability and capital position
- Steady-state adjusted gearing of over 3 times, or inability to raise capital to fund growth

About the Company

Incorporated in November 2014 and promoted by Mr Anil Kumar S G, Samunnati is registered as a non-deposit accepting non-banking financial company providing financial services to the agricultural value chain. It started operations through retail loans in the dairy value chain. In December 2015, the company gave its first loan to an FPO, and in January 2016 it provided its first loan to an agricultural enterprise. In October 2016, the company established three verticals - retail, CBOs and agricultural enterprises. The company has discontinued the retail loan book and it is only the outstanding portfolio that is running down, with no fresh disbursements since the second-half of fiscal 2019. It has a B2B2C (business to business to consumer) model in which it does not deal directly in retail loans.

SamAgro was set up in September 2016 as a wholly owned subsidiary of Samunnati. It trades in agricultural produce, mainly fruits and vegetables.

Key Financial Indicators: Samunnati Financial - Consolidated

As on for the period ended,	Unit	Mar- 22	Mar-21	Mar-20	Mar-19
Total assets	Rs crore	1926	1499	1080	655
Advances	Rs crore	1144	945	734	464
Total income	Rs crore	2292	927	727	430
PAT	Rs crore	-106	-6.6	-3.4	8.6
Gross NPA (90+dpd)	%	3.5	4.8	3.7	1.6
Adjusted gearing	Times	2.8	1.8	1.0	2.3
Return on assets	%	-5.9	-0.5	-0.4	1.7

Note: Above numbers are CRISIL Ratings adjusted

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Non-Convertible Debentures [^]	NA	NA	NA	155	Simple	CRISIL BBB+/Stable
NA	Non-Convertible Debentures [^]	NA	NA	NA	7.1	Simple	CRISIL BBB+/Stable
INE551U07191	Non-Convertible Debentures	28-Dec-21	11.60%	27-Dec-24	37	Simple	CRISIL BBB+/Stable
INE551U07209	Non-Convertible Debentures	15-Feb-22	12.20%	15-Feb-26	59.4	Simple	CRISIL BBB+/Stable
INE551U07175	Non-Convertible Debentures	26-Jul-21	10.70%	15-Jul-26	34.5	Simple	CRISIL BBB+/Stable
INE551U07167	Non-Convertible Debentures	05-Apr-21	11%	05-Apr-24	40	Simple	CRISIL BBB+/Stable
INE551U07183	Non-Convertible Debentures	06-Sep-21	10.85%	06-Sep-24	24.4	Simple	CRISIL BBB+/Stable
NA	Non-Convertible Debentures [^]	NA	NA	NA	1.1	Simple	CRISIL BBB+/Stable
INE551U07126	Non-Convertible Debentures	25-Sep-20	11.72%	25-Sep-23	33	Simple	CRISIL BBB+/Stable

INE551U07142	Non-Convertible Debentures	15-Dec-20	12.06%	15-Dec-23	89.6	Simple	CRISIL BBB+/Stable
NA	Non-Convertible Debentures^	NA	NA	NA	2.4	Simple	CRISIL BBB+/Stable
NA	Non-Convertible Debentures^	NA	NA	NA	4.375	Simple	CRISIL BBB+/Stable
INE551U07118	Non-Convertible Debentures	20-Aug-20	12.39%	20-Aug-25	50.625	Simple	CRISIL BBB+/Stable
INE551U07100	Non-Convertible Debentures	17-Jul-20	12%	17-Jul-23	25	Simple	CRISIL BBB+/Stable
INE551U07084	Non-Convertible Debentures	19-Jun-20	13%	19-Jun-23	5	Simple	CRISIL BBB+/Stable
INE551U07076	Non-Convertible Debentures	17-Jun-20	12.75%	17-Jun-23	15	Simple	CRISIL BBB+/Stable
NA	Short term non-convertible debentures^	NA	NA	NA	35	Simple	CRISIL A2+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	18.96	NA	CRISIL BBB+/Stable
NA	Short Term Loan	NA	NA	NA	20	NA	CRISIL A2+
NA	Working Capital Demand Loan	NA	NA	NA	25	NA	CRISIL BBB+/Stable
NA	Cash Credit	NA	NA	NA	4	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	Oct-23	15	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	Nov-22	7.29	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	Jan-23	30	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	Jun-24	40	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	Sep-24	16.75	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	Sep-24	75	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	Mar-24	30	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	Sep-22	18	NA	CRISIL BBB+/Stable
NA	Commercial Paper	NA	NA	7-365 days	40	Simple	CRISIL A2+

^yet to be issued

Annexure - List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Samunnati Agro Solutions Pvt Ltd	Full	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	300.0	CRISIL BBB+/Stable / CRISIL A2+	23-06-22	CRISIL BBB+/Stable / CRISIL A2+	17-12-21	CRISIL BBB+/Stable / CRISIL A2+	24-09-20	CRISIL BBB+/Stable / CRISIL A2+		--	--
			--	06-04-22	CRISIL BBB+/Stable / CRISIL A2+	14-06-21	CRISIL BBB+/Stable / CRISIL A2+	18-09-20	CRISIL BBB+/Stable / CRISIL A2+		--	--
			--	06-01-22	CRISIL BBB+/Stable / CRISIL A2+	10-06-21	CRISIL BBB+/Stable / CRISIL A2+	16-07-20	CRISIL BBB+/Stable / CRISIL A2+		--	--
			--		--	24-03-21	CRISIL BBB+/Stable / CRISIL A2+	10-06-20	CRISIL BBB+/Stable / CRISIL A2+		--	--
			--		--	05-02-21	CRISIL BBB+/Stable / CRISIL A2+	06-05-20	CRISIL BBB+/Stable / CRISIL A2+		--	--

			--		--		--	14-02-20	CRISIL BBB+/Stable		--	--
			--		--		--	10-02-20	CRISIL BBB+/Stable		--	--
Commercial Paper	ST	40.0	CRISIL A2+	23-06-22	CRISIL A2+	17-12-21	CRISIL A2+	24-09-20	CRISIL A2+		--	--
			--	06-04-22	CRISIL A2+	14-06-21	CRISIL A2+	18-09-20	CRISIL A2+		--	--
			--	06-01-22	CRISIL A2+	10-06-21	CRISIL A2+	16-07-20	CRISIL A2+		--	--
			--		--	24-03-21	CRISIL A2+	10-06-20	CRISIL A2+		--	--
			--		--	05-02-21	CRISIL A2+	06-05-20	CRISIL A2+		--	--
			--		--		--	14-02-20	CRISIL A2+		--	--
Non Convertible Debentures	LT	583.5	CRISIL BBB+/Stable	23-06-22	CRISIL BBB+/Stable	17-12-21	CRISIL BBB+/Stable	24-09-20	CRISIL BBB+/Stable		--	--
			--	06-04-22	CRISIL BBB+/Stable	14-06-21	CRISIL BBB+/Stable	18-09-20	CRISIL BBB+/Stable		--	--
			--	06-01-22	CRISIL BBB+/Stable	10-06-21	CRISIL BBB+/Stable	16-07-20	CRISIL BBB+/Stable		--	--
			--		--	24-03-21	CRISIL BBB+/Stable	10-06-20	CRISIL BBB+/Stable		--	--
			--		--	05-02-21	CRISIL BBB+/Stable		--		--	--
Short Term Non Convertible Debenture	ST	35.0	CRISIL A2+	23-06-22	CRISIL A2+	17-12-21	CRISIL A2+	24-09-20	CRISIL A2+		--	--
			--	06-04-22	CRISIL A2+	14-06-21	CRISIL A2+		--		--	--
			--	06-01-22	CRISIL A2+	10-06-21	CRISIL A2+		--		--	--
			--		--	24-03-21	CRISIL A2+		--		--	--
			--		--	05-02-21	CRISIL A2+		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	2	Kotak Mahindra Bank Limited	CRISIL BBB+/Stable
Cash Credit	2	IDFC FIRST Bank Limited	CRISIL BBB+/Stable
Proposed Long Term Bank Loan Facility	18.96	Not Applicable	CRISIL BBB+/Stable
Short Term Loan	20	Kotak Mahindra Bank Limited	CRISIL A2+
Term Loan	18	Kotak Mahindra Bank Limited	CRISIL BBB+/Stable
Term Loan	15	Nabsamruddhi Finance Limited	CRISIL BBB+/Stable
Term Loan	7.29	IndusInd Bank Limited	CRISIL BBB+/Stable
Term Loan	30	Standard Chartered Bank Limited	CRISIL BBB+/Stable
Term Loan	40	State Bank of India	CRISIL BBB+/Stable
Term Loan	30	CSB Bank Limited	CRISIL BBB+/Stable
Term Loan	75	IDFC FIRST Bank Limited	CRISIL BBB+/Stable
Term Loan	16.75	IDFC FIRST Bank Limited	CRISIL BBB+/Stable
Working Capital Demand Loan	10	Suryoday Small Finance Bank Limited	CRISIL BBB+/Stable
Working Capital Demand Loan	15	YES Bank Limited	CRISIL BBB+/Stable

This Annexure has been updated on 20-Jul-22 in line with the lender-wise facility details as on 23-Jun-22 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](#)

[CRISILs Criteria for rating short term debt](#)

[CRISILs Criteria for Consolidation](#)

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com</p> <p>Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com</p> <p>Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com</p>	<p>Krishnan Sitaraman Senior Director and Deputy Chief Ratings Officer CRISIL Ratings Limited D:+91 22 3342 8070 krishnan.sitaraman@crisil.com</p> <p>Poonam Upadhyay Director CRISIL Ratings Limited B:+91 22 3342 3000 poonam.upadhyay@crisil.com</p> <p>Abhishek Narang Manager CRISIL Ratings Limited B:+91 22 3342 3000 Abhishek.Narang@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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