

Rating Rationale

March 21, 2023 | Mumbai

Samunnati Financial Intermediation & Services Private Limited

Ratings downgraded to 'CRISIL BBB/Stable/CRISIL A2'

Rating Action

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

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

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has downgraded its rating on the bank facilities and debt instruments of Samunnati Financial Intermediation & Services Private Limited (Samunnati) to **'CRISIL BBB/Stable/CRISIL A2'** from **'CRISIL BBB+/Stable/CRISIL A2+'**.

The rating action is primarily driven by continued pressure on overall earnings profile marked by lower pre-provisioning profitability and higher credit costs, thereby resulting in net losses. Samunnati has embarked on aggressive cost optimization while re-orienting its business to focus on borrower segments with better risk-adjusted margins. CRISIL Ratings expects the company to steadily return to profitability in fiscal 2024. However, the return on managed assets is likely to be lower than pre-Covid levels.

The rating action also factors in the strong capitalization profile with regular equity infusion which has allowed the company to maintain leverage levels despite the net losses. The company is also likely to raise additional equity of ~Rs 125 crore by end of March 2023 which will further support the overall credit profile.

As a result of its reoriented business strategy, overall assets under management (AUM) saw marginal de-growth of 4.5% to Rs 1,092 crore as of December 2022 from Rs 1,144 crore as of March 2022. Nevertheless, company continued pace in its disbursements; during nine months fiscal 2023, overall disbursements stood at Rs 1974 crore (about Rs 220 crore monthly rate) as against Rs 2,552 crore (about Rs 212 crore monthly). In terms of product segment, share of agri-enterprise loans have increased to 62% as of December 2022 as compared to 57% in March 2022. Network partner product segment accounts for ~20% as of December 2022. The asset creation segment, where the company lent through MFIs, NGOs and not-for-profits, will be de-focused.

As far as asset quality is concerned, the 90+dpd stood at 5.7% as of December 2022 as compared to 3.5% as of March 2022. The 90+dpd has remained high despite company writing-off Rs 38 crore worth of portfolio which is over 3.5% of AUM during the nine months ended December 31, 2022.

Samunnati has been reporting losses owing to the decline in its net interest income and higher credit costs. Even at pre provisioning profit (PPoP) level, company reported a consolidated loss of Rs 19 crore during nine months fiscal 2023 as compared to loss of Rs 39 crore during fiscal 2022. Additionally, with the significant elevation in delinquencies (after-shocks of pandemic), credit costs remained at very high level of 5.2% during fiscal 2022. As a result, the company reported a consolidated loss of Rs 106 crore in fiscal 2022 as against a loss of Rs 6 crore in fiscal 2021. The impact on earnings profile continued during nine months fiscal 2023, with company reporting loss of Rs 62 crore

The rating, on overall basis, continues to factor-in adequate capitalisation alongwith the rich pedigree of its investors. The capital position is expected to be strengthened further supported by fresh equity raise by end of fiscal 2023. The ratings also continue to reflect experienced leadership and adequate liquidity maintained by the company. These strengths are partially offset by subdued profitability, weakened asset quality metrics and limited track record of profitable operations.

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 estimated consolidated network at Rs 543 crore as on December 31, 2022 (Rs 481 cr as on March 31, 2022) is adequate in relation to its scale of operations. On standalone basis, the Tier-I and overall capital adequacy ratio is comfortable and stood at 23.2% and 26.5% as on December 31, 2022. The company had seven rounds of fundraising since fiscal 2016 in which all previous investors participated with the latest infusion of Rs 120 crore in October 2022 from existing investors which further improves its network. 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 growth plan. As of December 2022, standalone adjusted gearing stood at 1.5 times and is expected to remain around 2-2.5 times over the medium term.

The company is in the process of raising fresh equity of ~Rs 125 crore by end of March 2023. 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:

- **Subdued earnings profile**

Company has been steadily reporting losses over the last nine quarters owing to the decline in net interest income and higher credit cost. Since April 2021, company is focusing on acquiring better quality customers and change the mix towards agri-commerce. This impacted the overall yields for the company. Even at the PPOP level, company reported a low profit of Rs 10 crore during nine month fiscal 2023 as compared to loss of Rs 7 crore in fiscal 2022 at standalone level. However, over the last 9 months, company has reduced its operating cost from 5.9% in fiscal 2022 to 5.0% during nine months of fiscal 2023. On consolidated basis, operating cost declined from 7.5% in fiscal 2022 to 7.1% during nine months of fiscal 2023.

Additionally, earnings profile hinges upon the ability to manage the credit costs. With significant increase in delinquencies due to the pandemic, credit costs increased sharply from fiscal 2021 onwards thereby impacting Samunnati's overall earnings profile. As a result, the company reported a consolidated loss of Rs 106 crore in fiscal 2022 as against a profit of Rs 6 crore in fiscal 2021. Further during nine months fiscal 2023, company reported an estimated loss of Rs 52 crore.

At standalone level, 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 Finservice in fiscal 2021. Further during nine months fiscal 2023, company reported a credit cost of Rs 55 crore (4.6% as a % of managed assets). Company is expected to report losses in Q4 2023 as well. Samunnati has embarked on aggressive cost optimization while re-orienting its business to focus on borrower segments with better risk-adjusted margins. CRISIL Ratings expects the company to steadily return to profitability in fiscal 2024. However, the return on managed assets is likely to be lower than pre-Covid levels. Going forward, the 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.

- **Weakened asset quality metrics**

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 cyclicalities, 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 write-offs done by the company, 90+ dpd reduced to 3.5% as of March 31, 2022. In 9M2023, 90+ increased to 5.7% owing to higher slippages from the FPO-AC segment. There is still some stress book in the FPO-AC segment which will be written off over the next few quarters. However, the stress in the overall book is primarily due to the customers onboarded before April 2021 whereas the book which is generated from April 2021 onwards is performing well. Hence, asset quality is expected to improve going forward.

As of December 30, 2022, Samunnati has outstanding restructuring of about ~Rs. 52 crore (4.8% of the AUM as on same date) and the billing for the restructured book has started from April 2022 onwards. Out of the total restructured portfolio, only around Rs 5 crore of the book is in 90+ dpd and remaining book is paying regularly. On the collections

front, the company's collections efficiency stood at 103% in December 2022. However, company's ability to increase its operations while managing the asset quality will remain a key monitorable.

Limited track record of profitable operations

The company commenced full-fledged operations in fiscal 2017 and substantially scaled up portfolio from fiscals 2019 onwards. However, the overall operations got impacted due to pandemic over the last 2 fiscals. Thus, loan book has not yet displayed track record of profitable operations 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 27 states as on December 31, 2022. Nevertheless, its exposure to Tamil Nadu continues to be high at 28% as of December 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.

Liquidity: Adequate

The asset-liability management (ALM) profile was comfortable, with cumulative positive mismatches across all buckets up to one year as on December 31, 2022. The company had liquidity of around Rs 147.6 crore. Liquidity buffer to cover total debt obligation and operating expenses till February 2023 (assuming nil collections) was 1.0 times as of December 31, 2022. Additionally, company has funds in pipeline of Rs 142 crore as of December 31, 2022.

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:

- Increase in the scale of operations while maintaining RoMA above 2%
- Capitalisation metrics remaining strong with gearing remaining below 3 times

Downside Factors:

- Steady-state adjusted gearing of over 5 times, or inability to raise capital to fund growth
- Adverse movement in asset quality metrics and consequently credit costs, thereby, leading to an impact on the earnings profile.

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. Further, company has stopped disbursing loans in the FPO-AC segment from April 2021 onwards.

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-Standalone

As on for the period ended,	Unit	Dec-22	Mar- 22	Mar-21	Mar-20
Total assets	Rs crore	1,553	1617	1291	1005

Advances	Rs crore	1,093	1144	945	734
Total income	Rs crore	166	177	168	135
PAT	Rs crore	-34	-67	0.3	10
Gross NPA (90+dpd)	%	5.7	3.5	4.8	3.7
Adjusted gearing	Times	1.6	2.1	1.8	0.9
Return on assets	%	-2.8*	-4.7	0.0	1.3

*annualised basis

Key Financial Indicators: Samunnati Financial - Consolidated

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

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 and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. 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
INE551U07217	Non-Convertible Debentures	10-Aug-22	10.75%	02-Aug-28	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

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	300.0	CRISIL BBB/Stable / CRISIL A2		--	20-07-22	CRISIL BBB+/Stable / CRISIL A2+	17-12-21	CRISIL BBB+/Stable / CRISIL A2+	24-09-20	CRISIL BBB+/Stable / CRISIL A2+	--
			--		--	23-06-22	CRISIL BBB+/Stable / CRISIL A2+	14-06-21	CRISIL BBB+/Stable / CRISIL A2+	18-09-20	CRISIL BBB+/Stable / CRISIL A2+	--
			--		--	06-04-22	CRISIL BBB+/Stable / CRISIL A2+	10-06-21	CRISIL BBB+/Stable / CRISIL A2+	16-07-20	CRISIL BBB+/Stable / CRISIL A2+	--
			--		--	06-01-22	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		--	20-07-22	CRISIL A2+	17-12-21	CRISIL A2+	24-09-20	CRISIL A2+	--
			--		--	23-06-22	CRISIL A2+	14-06-21	CRISIL A2+	18-09-20	CRISIL A2+	--
			--		--	06-04-22	CRISIL A2+	10-06-21	CRISIL A2+	16-07-20	CRISIL A2+	--
			--		--	06-01-22	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		--	20-07-22	CRISIL BBB+/Stable	17-12-21	CRISIL BBB+/Stable	24-09-20	CRISIL BBB+/Stable	--
			--		--	23-06-22	CRISIL BBB+/Stable	14-06-21	CRISIL BBB+/Stable	18-09-20	CRISIL BBB+/Stable	--
			--		--	06-04-22	CRISIL BBB+/Stable	10-06-21	CRISIL BBB+/Stable	16-07-20	CRISIL BBB+/Stable	--
			--		--	06-01-22	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		--	20-07-22	CRISIL A2+	17-12-21	CRISIL A2+	24-09-20	CRISIL A2+	--
			--		--	23-06-22	CRISIL A2+	14-06-21	CRISIL A2+		--	--
			--		--	06-04-22	CRISIL A2+	10-06-21	CRISIL A2+		--	--
			--		--	06-01-22	CRISIL A2+	24-03-21	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	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
Term Loan	18	Kotak Mahindra Bank Limited	CRISIL BBB/Stable
Term Loan	15	Nabsamruddhi Finance Limited	CRISIL BBB/Stable
Working Capital Demand Loan	15	YES Bank Limited	CRISIL BBB/Stable
Working Capital Demand Loan	10	Suryoday Small Finance Bank Limited	CRISIL BBB/Stable

This Annexure has been updated on 21-Mar-23 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](#)

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