

Sonata Finance Private Limited

January 29, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank lines	500.00	500.00	[ICRA]BBB(negative); outlook revised from stable
Non-Convertible Debenture	421.00	421.00	[ICRA]BBB(negative); outlook revised from stable
Subordinated debt	15.00	15.00	[ICRA]BBB(negative); outlook revised from stable
Total	936.00	936.00	

*Instrument details in annexure-1

Rating action

ICRA has reaffirmed the long -term rating of [ICRA]BBB (pronounced ICRA triple B) on the Rs. 500.00-crore¹ bank lines, Rs. 421 crore NCD programmes and Rs. 15.00-crore sub-ordinated debt programme of Sonata Finance Pvt. Ltd (SFPL)². The outlook on the long-term rating has been revised to Negative from Stable.

Rationale

The rating action factors in the deterioration in asset quality indicators with 90+ overdues of nearly Rs. 145 crore (11.7% of the overall portfolio) as on November 30, 2017 (8.1% as on March 31, 2017), which could lead to a deterioration in capitalisation indicators once the company would have to provide completely for the overdue loans. ICRA notes that the company plans to raise equity going forward over the next four to five months and any delays in the same may lead to a significant impact on its capitalisation profile.

The rating continues to factor in SFPLs moderate scale of operations with a managed portfolio of Rs. 1,233 crore as on November 30, 2017 (Rs. 1,056 crore as on March 31, 2017) that remained geographically concentrated in the state of U.P., which contributed to nearly 51% of the managed portfolio as on November 30, 2017 (similar percentage as on March 31, 2017); the top three states (out of its presence in eight states) contributed to nearly 88% of the overall portfolio as on November 30, 2017. SFPL had a moderate liquidity profile and will have to tie up for funds to support its growth plans for FY2018. It reported a weak profitability profile with PAT/AMA of -1.9% and ROE of -13.7% during 8M FY2018 (0.1% and 0.7% respectively during FY2017). Going forward, incremental profitability will be a function of SFPL's ability to recover from overdue loans and improve its operational efficiencies further.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

The rating draws strength from an experienced management team, internal controls complimenting the scale of operations, good loan origination, appraisal, collection and monitoring systems supported by an adequate management information system (MIS). The rating considers the benefits of the new IT system and established processes, which are expected to help in better management of resources and strengthen the risk management framework. The company's overall ability to raise equity to improve its loss absorption capacity and maintain adequate capitalisation will have a strong bearing on its credit profile. The rating factors in the risks associated with the unsecured nature of microfinance loans, the credit risk emerging from the marginal profile of the borrower and other socio-political and operational risks inherent to the microfinance business.

Outlook: Negative

The outlook on the long-term rating is negative. ICRA will continue to monitor the trends in asset quality and progress on further capital raise. Any delays in the same may lead to deterioration in capitalisation and the solvency profile of the company, leading to a downward pressure on rating.

Key rating drivers

Credit strengths

Established track record of operations and experienced senior management team: SFPL was established in the year 1995 and started MFI activity in the year 2006. Mr. Anup Kumar Singh is its promoter and managing director and has been associated with the company for nearly 11 years. He comes with a vast experience in microfinance operations. The senior management team has a rich experience in the fields of micro lending, BFSI operations, risk management, IT, MIS, training, social transformation, and advisory operations. However, it would be crucial for the company to strengthen its senior and middle level management team further to manage the targeted portfolio expansion. The board of Sonata consists of 11 directors with a large mix of nominee/independent directors allowing better board participation.

Diversified funding profile: The company has a diverse funding profile reflected by tie-ups with 34 banks/financial institutions and it has raised funds through term-loans, NCDs and sub-debt. In future, the company's ability to maintain diversity of funding mix and secure funds at competitive rates and support profitability profile will remain monitorable.

Credit challenges

Geographical concentration risk: Though improving the company remains concentrated in the state of U.P. Nearly 51% of the portfolio as on November 30, 2017 was concentrated in U.P. (81% as on March 31, 2016). It has presence in eight states, of which nearly 88% is contributed by the top-three states of U.P., M.P. and Bihar. In addition, the top-10 districts out of the total 120 districts as on November 30, 2017 contributed nearly 27% of the portfolio and were 1.72 times the net worth.

Weak asset quality indicators: SFPL reported deterioration in asset quality indicators post demonetisation 0+ and 90+ delinquencies of 23.1% and 11.7% respectively of the portfolio as on November 30, 2017 (0+ and 90+ delinquencies formed 31.9% and 8.1% respectively as on March 31, 2017). Fresh rounds of equity in future will support the net worth and hence the loss absorption capability in case of loan write-offs.

Limited product and revenue diversification: Given the large share of microfinance loans, the revenue diversification is modest with non-interest income/average total assets of around 0.40% during the past five years, primarily constituting of commission income. ICRA takes note of the company's plans to diversify in other loan segments like home improvement loans, sanitation loans, utility loans and medium enterprise loans over the next two to three years. The company's ability to diversify into these segments while maintaining good asset quality and profitability indicators is crucial from a rating perspective.

Ability to manage political, communal and other risks in the microfinance sector: The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations and eventually its financial position. However, a geographically diversified portfolio would mitigate these risks to some extent as such issues have largely been region-specific so far. SFPL's ability to on-board borrowers with good credit history and recruit and retain employees, especially in view of the attrition observed at the field level and in addition, its ability to expand into new geographies would be key for managing the high growth.

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

Links to applicable criteria:

[ICRA Rating Methodology for NBFCs](#)

About the company

Sonata Finance Private Limited (Sonata) is an NBFC-MFI. The company was incorporated in 1995 and registered as a non-deposit taking NBFC in 2001. The microfinance operations of the company began in 2006 under the initiative of Mr. Anup Kumar Singh who is the Managing Director of the company at present and had acquired Sonata in 2005 along with the promoter group. In the initial round of equity infusion, the company received funding, the single largest investor being Bellwether Microfinance Fund.

The company has its registered office in Lucknow (earlier in Allahabad). Sonata primarily caters to the rural population, though it has some borrowers in the semi-urban and urban areas. Sonata offers credit to the economically backward women engaged in income-generation activities like processing and manufacturing activities, service activities and animal husbandry. Its key focus product is the income-generating group loan (IGL) for which it replicates the Grameen Bank model of lending.

As on November 30, 2017, Sonata reported a managed portfolio of Rs. 1,233 crore spread across eight states of India-Uttar Pradesh (51%), Madhya Pradesh (20%), Bihar (13%), Haryana (5%), Rajasthan (2%), Uttarakhand (2%), Punjab (1%) and Maharashtra (1%)

During FY2017, SFPL reported a net profit of Rs. 1.3 crore on a managed asset base of Rs. 1,056 crore vis-à-vis net profit of Rs. 27.2 crore on a managed asset base of Rs. 1,025 crore during FY2016. During 8M FY2018, the company reported a loss of Rs. 18.6 crore on a managed asset base of Rs. 1,233 crore. The company reported a CRAR of 23.98% as on September 30, 2017 (tier-1 of 17.42%) against the regulatory requirement of 15%.

Key financial indicators (Audited)

	FY2016	FY2017
Total income (Rs. crore)	169.3	218.4
PAT (Rs. crore)	27.2	1.3
Net worth (Rs. crore)	145.8	212.9
Total managed portfolio (Rs. crore)	1,027	1,056
Total managed assets (Rs. crore)	1,384.0	1,554.5
Return on managed assets (%)	2.3%	0.1%
Return on equity (%)	22.1%	0.7%
Gearing (times)	6.70	5.14
Gross NPA (%)	2.07%	8.1%
Net worth/Managed assets (%)	14.2%	20.2%
CRAR (%)	24.7%	29.2%

Status of non-cooperation with previous CRA: CRISIL, October 2016

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				Jan 2018	Nov-16/ Mar-17	Dec-15/ Feb-16	May-14
1 Term loans	Long Term	500.00	500.00	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2 NCD programme	Long Term	421.00	421.00	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB(stable)
3 Sub-debt programme	Long Term	15.00	15.00	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
Total		936.00	936.00				

Source: ICRA research

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance /Sanction	Coupon rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE509M07014	NCD	31-Jan-14	14.05%	30-Jan-20	35.00	[ICRA]BBB(Negative)
INE509M07022	NCD	26-May-14	14.70%	26-May-17	50.00	[ICRA]BBB(Negative)
INE509M07089	NCD	25-Mar-15	14.00%	25-Mar-19	38.00	[ICRA]BBB(Negative)
INE509M07097	NCD	6-Apr-15	14.75%	18-Dec-20	15.00	[ICRA]BBB(Negative)
INE509M07105	NCD	30-Jun-15	14.70%	30-Jun-20	30.00	[ICRA]BBB(Negative)
INE509M07121	NCD	3-Mar-16	14.00%	15-Apr-22	10.00	[ICRA]BBB(Negative)
INE509M07139	NCD	22-Jun-16	14.00%	22-Jun-22	68.00	[ICRA]BBB(Negative)
INE509M07147	NCD	26-Oct-16	13.50%	26-Oct-21	150.00	[ICRA]BBB(Negative)
INE509M07030	NCD	26-Jun-17	13.50%	25-Jun-20	25.00	[ICRA]BBB(Negative)
Sub-total (A)					421.00	
NA	Term Loan 1	10/21/2015	NA	2/23/2019	14.00	[ICRA]BBB(Negative)
NA	Term Loan 2	3/31/2017	NA	7/5/2019	17.86	[ICRA]BBB(Negative)
NA	Term Loan 3	2/11/2014	NA	6/30/2020	19.92	[ICRA]BBB(Negative)
NA	Term Loan 4	6/12/2014	NA	7/15/2020	37.50	[ICRA]BBB(Negative)
NA	Term Loan 5	6/26/2015	NA	9/5/2020	75.45	[ICRA]BBB(Negative)
NA	Term Loan 6	8/19/2015	NA	3/31/2022	2.50	[ICRA]BBB(Negative)
NA	Term Loan 7	3/19/2016	NA	7/23/2021	14.06	[ICRA]BBB(Negative)
NA	Term Loan 8	1/25/2015	NA	9/23/2023	15.35	[ICRA]BBB(Negative)
NA	Term Loan 9	10/5/2013	NA	6/17/2020	22.95	[ICRA]BBB(Negative)
NA	Term Loan 10	10/26/2015	NA	4/30/2021	10.48	[ICRA]BBB(Negative)
NA	Term Loan 11	1/2/2012	NA	3/31/2018	7.92	[ICRA]BBB(Negative)
NA	Term Loan 12	4/8/2013	NA	3/30/2022	16.67	[ICRA]BBB(Negative)
NA	Term Loan 13	3/30/2015	NA	7/8/2019	27.27	[ICRA]BBB(Negative)
NA	Term Loan 14	3/18/2015	NA	5/19/2018	7.78	[ICRA]BBB(Negative)
NA	Term Loan 15	12/20/2013	NA	12/31/2020	44.50	[ICRA]BBB(Negative)
NA	Term Loan 16	4/16/2015	NA	2/23/2019	4.55	[ICRA]BBB(Negative)
NA	Term Loan 17	9/7/2015	NA	2/7/2020	11.03	[ICRA]BBB(Negative)
NA	Term Loan 18	3/19/2015	NA	3/23/2020	9.17	[ICRA]BBB(Negative)
NA	Term Loan 19	4/20/2015	NA	5/26/2020	7.50	[ICRA]BBB(Negative)
NA	Unallocated	NA	NA	NA	133.56	[ICRA]BBB(Negative)
Sub-total (B)					500.00	
NA	Sub-debt	2-Mar-16	16.25%	15-Apr-22	15.00	[ICRA]BBB(Negative)
Sub-total (C)					15.00	
Total (A)+(B)+(C)					936.00	

Source: Company

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