

India Ratings Assigns Samunnati Financial Intermediation Services's NCDs 'IND BBB'/Stable and CP 'IND A2'

May 28, 2024 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has rated Samunnati Financial Intermediation Services Private Limited's (Samunnati) debt instruments as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Non-convertible debentures*	-	-	-	INR1,000	IND BBB/Stable	Assigned
Commercial papers*	-	-	Up to one year	INR250	IND A2	Assigned

*yet to be issued

Analytical Approach

Ind-Ra has fully consolidated Samunnati's wholly owned subsidiaries – Samunnati Agro Solutions Private Limited, Samunnati Agri Innovations Lab Private Limited and Samunnati Finance Private Limited, to arrive at the ratings. This is because of the significant operational, financial and managerial integration among the entities and use of common brand name.

Detailed Rationale of the Rating Action

The ratings reflect Samunnati's adequate capital position due to the regular infusions of capital by foreign funds and high net-worth individuals. The company has exhibited a track record of consistent capital raising, with a cumulative total of INR8.1 billion raised till FYE24, and a further equity infusion could take place to support the business growth. Ind-Ra believes this will support the company's expansion in the post-pandemic operating environment. The ratings also factor in the vast experience of the company's promoter and senior management team.

The ratings also factor in the efforts taken by Samunnati for improving its underwriting process which is reflected in better asset quality numbers. The company achieved moderate profitability at the standalone level in FY24, moving towards breaking even at the consolidated level; however, there is limited track record of profitable operations. Also, the ratings factor in Samunnati's moderately diversified funding mix and the geographical concentration risk it faces.

List of Key Rating Drivers

Strengths

- Regular equity infusions result in adequate capitalisation
- Experienced management team and marquee shareholders

Weaknesses

- Moderate scale of operations with limited track record
- Mobilisation of funds from banking sector yet to be demonstrated
- Lack of track record of profitable operations

Detailed Description of Key Rating Drivers

Regular Equity Infusions Result in Adequate Capitalisation: At end-9MFY24, Samunnati at the consolidated level had tangible net-worth of INR4.19 billion (FY23: INR2.87 billion, FY22: INR3.54 billion). The company raised capital of INR1.92 billion during FY24, out of which INR1.34 billion was in October 2023 and INR0.58 billion was in March 2024. The company has been raising funds since FY16, in which all previous investors have participated. The total funds raised since inception till FY24 was INR 8.1billion. Also, Samunnati is providing various credit facilities to and making investments in its subsidiaries to support their funding requirements while maintaining the leverage (debt/equity) below 4.0x at the consolidated level (9MFY24: 3x, FY23: 4.5x, FY22: 3.8x) and below 2.5x at the standalone level (1.7x, 1.9x, 2.1x). Ind-Ra believes timely raising of equity capital in light of subdued profits to support growth is a key monitorable.

Experienced Management Team and Marquee Shareholders: Samunnati benefits from a seasoned management team consisting of professionals having almost two decades of experience in lending to the agricultural sector. Samunnati also derives strength from its marquee shareholders and their demonstrated track record of capital infusions. Samunnati is backed by foreign funds and high net-worth individuals such as Accel India V (Mauritius) Ltd, Elevar M- III, responsAbility Agriculture I , and Teachers Insurance and Annuity Association of America. The investors maintain adequate oversight with board representation (the four largest investors have board representation), supporting technological initiatives and providing strategic inputs to the management team.

Moderate Scale of Operations with Limited Track Record: Samunnati was incorporated in FY15 and was majorly into network partners lending. It had scaled up before COVID-19 and faced asset quality issues during the pandemic. In FY21, the company has shifted its focus towards two segments - agri enterprises and farmer producer companies - and has been running down the book of network partners (FY24: 10% of the portfolio). Samunnati meets the funding requirement of the customers by providing them working capital (up to 12 months) or equated monthly installment-based loans (up to 36 months). The company also provides trade facilities and market linkages to agri- value chain players through one of its wholly owned subsidiary Samunnati Agro Solutions Private Limited. Post the COVID-19 impact, Samunnati has started taking exposure on borrowers with a better credit profile to avoid any further potential asset quality issues. The company generates its major business from three states namely Tamil Nadu, Maharashtra and Karnataka which contributed 60% to the overall portfolio by end-FY24. Ind-Ra believes Samunnati's borrowers 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, hence asset quality is a key monitorable.

At the consolidated level, Samunnati had asset under management (AUM) of INR11.4 billion at end-9MFY24 (FY23: INR11.2 billion, FY22: INR11.4 billion). There is an improvement in the overall asset quality with gross non-performing assets (GNPA) at 2.33% in FY24 (FY23: 5.94%, FY22: 3.69%). Samunnati works on 100% digital model having around 30 offices all over India with a team strength of around 486 at end-FY24. Samunnati has adopted technology and developed inhouse IT systems. Also, linking with application programming interface has helped in real-time cross verification and improving the turnaround time. The initial onboarding-to-disbursement process is completely integrated digitally.

Mobilisation of Funds from Banking Sector Yet to be Demonstrated: Samunnati's funding is skewed towards capital market instruments. Samunnati at the standalone level had borrowings in the form of non-convertible debentures (42.7%), term loans (39.9%), external commercial borrowings (13.5%) and commercial papers (3.9%) at end-9MFY24. Samunnati has majority of borrowings from financial institutions and funds, whereas the share of banks was 6% of the total borrowing at end-9MFY24 (FY23: 15%). The average cost of funding of the company stood at 11.05% in 9MFY24 (FY23: 10.55%; FY22: 9.87%). However, despite the increase in repo rate, the company managed to maintain its cost of funds from its lenders in the past few years. Also, Samunnati is in regular touch with banks and other financial institutions to avail the loans at better pricing. The successful mobilisation of funds from various sources at a competitive pricing is a key monitorable.

Lack of Track Record of Profitable Operations: Samunnati at the consolidated level has been in losses for the past couple of years due to increased operating expenses and losses made by its subsidiaries. Also, the company took additional credit cost hit in its statement of profit and loss account during FY22 and FY23. Samunnati lacks a track record of profitable operations; it had profit after tax of negative INR0.01 billion at end-9MFY24 (FY23: negative INR1.47 billion; FY22: negative INR1.07 billion). However, at the consolidated level, the company expects Samunnati to break even by end-FY24. Its operating expenditure-to-asset ratio moderated to 6.68% in 9MFY24 (FY23: 10.07%, FY22: 8.75%), and

return on assets stood at negative 0.11% (negative 8.43%, negative 6.5%) due to a decline in the opex and credit cost as compared to past years. The ability of the company to achieve profitable momentum is a key monitorable.

Liquidity

Adequate: According to the asset liability management statement at end-March 2024, Samunnati was in a surplus position, with a cumulative surplus (excess of short-term assets over short-term liabilities in the up-to-one-year bucket) of 26% of the total assets. As a policy, Samunnati at the standalone level maintains total liquidity minimum of one months’ repayment obligations and two months of operational expenses (based upon an average of the expenses incurred in the last 12 months). As on 31 March 2024, Samunnati had cash and liquid investments of INR1.3 billion along with un-utilised lines. The company has next three months of advances of INR6.93 billion, which is adequate to cover debt obligations of INR3 billion for April-June 2024.

Rating Sensitivities

Positive: Ability to generate adequate profitability along with business expansion on a sustained basis, control over asset quality, further funding diversification and a reduction in geographical concentration could lead to a positive rating action.

Negative: The following developments, individually or collectively, could lead to a negative rating action:

- inability to mobilise equity to grow operations,
- the leverage (debt to equity) at consolidated level exceeding 4.0x on a sustained basis
- continued weak operating performance
- significant rise in credit cost exceeding Ind-Ra’s expectations
- deterioration in the liquidity buffers

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on Samunnati, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra’s ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

About the Company

Samunnati is a non-banking finance company that commenced operations in 2016. It offers financial services to the agricultural value chain. Samunnati operates on a digital lending model and caters to the funding requirements of agri enterprises and farmer producer companies. The company has around 30 offices all over India with people strength of around 486. The major business of the company is from three states Tamil Nadu, Maharashtra and Karnataka.

KEY FINANCIAL INDICATORS

CONSOLIDATED FINANCIALS

Particulars	9MFY24 (Provisional)	FY23	FY22
Total assets (INR billion)	17.64	16.76	17.98
Total equity (INR billion)	4.19	2.86	3.54
Net profit/loss (INR billion)	-0.014	-1.47	-1.07
Equity/assets (%)	23.75	17.08	19.67
Leverage (x)	3	4.55	3.76
Tier 1 ratio (%)	22.80	14.81	20.16
Source: Ind-Ra; Samunnati			

STANDALONE FINANCIALS

Particulars	FY24 (Provisional)	FY23	FY22
Total assets (INR billion)	19.35	14.70	15.87
Total equity (INR billion)	7.07	4.98	5.05

Net profit/loss (INR billion)	0.18	-0.98	-0.67
Equity/assets (%)	36.54	33.85	31.79
Gross NPAs (%)	2.33	5.94	3.69
Leverage (x)	1.7	1.91	2.1
Source: Ind-Ra; Samunnati			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating
Non-convertible debentures	Long-term	INR1,000	IND BBB/Stable
Commercial papers	Short-term	INR250	IND A2

Complexity Level of the Instruments

Instrument Type	Complexity Level
Non-convertible debentures	Low
Commercial papers	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

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process

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