Save Solutions Private Limited

December 21, 2020

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Non-convertible Debentures	75.00 (Rupees Seventy five crore only)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Assigned**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

While assigning ratings to Save Solutions Private Limited (SSPL), CARE has taken consolidated view on Save Group, taking into consideration two wholly owned subsidiaries of SSPL- Save Micro Finance Private Limited (SMPL) and Save Financial Services Private limited (SFSPL).

The rating assigned to the non-convertible debentures of Save Solutions Private Limited (SSPL) derives strength from experienced promoters and management team coupled with long track record of SSPL that has one of the largest business correspondent (BC) network in India. End Nov 2020, the company had more than 9000 customer service points (CSPs) and is positioned as the largest BC partner for State Bank of India (SBI). The Group, on a consolidated basis, has comfortable capitalization profile with overall gearing at 0.9 times as on March-20, profitable operations with consolidated return on total assets (RoTA) at 7.4% as on March 31, 2020 and adequate liquidity position. The company's overall capitalization profile is further supported by recent round (Series B) of equity infusion of Rs 130 crore by Denmark based Maj Invest Financial Inclusion Fund III in July 2020.

These rating strengths are, however, partially offset by relatively small portfolio size of wholly owned subsidiaries- SMPL and SFSPL with consolidated asset under management (AUM) of Rs.131 crore as on Sep-20, geographically concentrated operations with 72% of consolidated AUM concentrated in Bihar, higher portfolio vulnerability on account of relatively marginal income borrower profile and moderate asset quality with PAR 90 (on consolidated AUM) at 6% as on Sep-20.

Rating Sensitivities:

Going forward, the ability of the company to scale up its operations in a profitable manner, while maintaining comfortable asset quality and capitalization profile would be the key rating sensitivities

Positive Factors: *Factors that could lead to positive rating action/upgrade:*

- Meaningful scale up of operations in sustainable and profitable manner
- Comfortable asset quality with consolidated GNPA on a sustainable basis at around 2%
- Maintaining adequate capitalization profile with consolidated gearing below 3 times on a steady basis

Negative factors: *Factors that could lead to negative rating action/downgrade:*

- Weakness in profitability, asset quality and/or capitalization profile of SSPL with consolidated gearing rising above 3.5 times
- Further deterioration in reported asset quality metrics
- Any material change in shareholding pattern leading to decline in promoter support

Detailed description of the key rating drivers
Key Rating Strengths

Experienced promoters and management team: SSPL is a Bihar based company engaged in extending basic banking and financial services particularly in rural parts of the country. SSPL started with BC operations from Bihar in 2010. It was initially founded as SAVE Society (Society of Advancement of Village Economy) in 2009 and later converted into private limited company as on December 02, 2013. SSPL was co- founded by Mr. Ajeet Kumar Singh, Mr. Ajay Kumar Sinha and Mr. Pankaj Kumar who are promoter directors holding 20.48% stake each in the company as on Sep 30, 2020. The promoters have extensive experience in the banking and financial services space with particular expertise in rural banking domain. In July 2020, Denmark based Maj Invest Financial Inclusion Fund III invested Rs 130 crore in SSPL and acquired 19.7% stake in the organization. Agrif Cooperatief UA, the third fund of Denmark based FMO: Entrepreneurial Development Bank held another 14.38% stake in SSPL end July 2020.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.*

The promoters and other shareholders of the company are supported by well experienced management team. In order to further expand the operations and foray into the related segments, SSPL has floated two wholly owned subsidiaries, Save financial Services Private Limited (SFSPL) which is an NBFC engaged in extending Loan Against property (LAP) and Small Ticket size individual loans and an NBFC-MFI called Save Microfinance Private Limited (SMPL) which extends small ticket joint liability group loans (JLG) Loans.

Long track record of operations and long standing tie up with SBI: SSPL started its BC operations in 2010 and has a long track record of operations of over 10 years. As of Nov-20, SSPL had pan-India presence and was working with 9000+ CSPs across 28 states and 2 UTS in 476 districts. Of the total, about three fouth are in in rural area while the remaining are in urban area. SSPL has tie-up with 3 public sector banks, namely State Bank of India, Bank of India, Bank of Baroda (incl. Dena Bank) and two regional rural bank-Vananchal Gramin Bank (sponsored by SBI) and Uttrakhand Gramin Bank. However, SSPL largely carries out BC operations SBI with 88% CSPs (90% incl RRB), followed by Bank of India (BOI) at 5% of total CSPs and 7% CSPs are with remaining 2 banks end FY 20. The BC operations of SSPL includes basic banking services such as account opening, EKYC verification, providing small ticket sizes loans, providing Debit & Credit cards and PIN, loan deposit/recovery and other general banking transactions. The primary income source of the company is charging the banks for the services they provide which may vary as per the agreements with different banks. The BC operations of SSPL are concentrated in Bihar that constitutes about a fourth of total CSPs.

Comfortable capitalization profile: The capitalization profile of Save group is adequate with consolidated tangible net worth of Rs.93 crore and external debt of Rs.79 crore as on March 31, 2020 leading to overall gearing of 0.9 times as on March 31, 2020. The group's capitalization profile further is supported by steady internal accruals coupled with equity raising of Rs.130 crores from Maj Invest, a Denmark based fund in July-20 which in turn acquired 19% stake in SSPL. Per management, the equity raised at parent level will be down streamed into subsidiaries in a phased manner for the growth of subsidiaries.

Further, SFSPL, the group's NBFC arm had comfortable capitalization profile with overall CAR at 89.41%, as on March-20 well above the regulatory requirement at 15% and comfortable overall gearing at 0.34 times as on March-20. Also, SMPL, the group's MFI arm had adequate capitalization with overall CAR at 20% and overall gearing at 4.62 times as on March-20. Per management, by the end of current fiscal, the networth of both of SSPL's subsidiaries would touch around Rs.100 crore each backed by capital infusion from the parent.

Adequate Profitability: SSPL as BC offers various basic last mile banking services particularly in the financially underserved rural markets. It earns revenue through commission pay-out basis the various services offered viz. account opening, deposits collection, withdrawal, fund and money transfer, etc. The BC income of SSPL has grown over the years on account of higher volume of transactions driven by addition to CSP network and per CSP revenue. The consolidated total income of the group increased 41% y-o-y to Rs.171 crore in FY20. Of the total income reported in FY20, 82% of the income was from BC operations and 14% from interest income on lending operations and remaining was other income. On a consolidated basis, SSPL reported net profit of Rs.14.4 crore on a total income (net of interest expense) of Rs.163 crore in FY20. The profitability in NBFC and NBFC-MFI business is low given the nascent stage of their operations. The consolidated net interest margin (NIM) and return on total assets (RoTA) are healthy at 7.9% and 7.4% respectively as on March-20 as against NIM and RoTA at 8.3% and 15.4% respectively as on March 31, 2019.

Key Rating Weaknesses

Small scale of NBFC and MFI operations with geographically concentrated book: While the group started its operations in 2013 and has a pan-India presence in BC operations, the group's subsidiaries-SFSPL and SMPL started operations in 2015 and 2018 respectively. Due to initial years of operations, the size of business of subsidiaries is small and the seasoning of portfolio is limited. As a result, its asset quality performance through different economic cycles and geographies is yet to be established. The consolidated AUM of NBFC and MFI stood at Rs.139 crore as on Sep-20 (Rs 85 crore in SMPL and Rs 54 crore in SFSPL) down from Rs.155 crore as on March 31, 2020 (Rs 106 crore in SMPL and Rs 49 crore in SFSPL). Due to ongoing pandemic, the group took a cautious approach and stopped disbursements during the first quarter of current fiscal, however the disbursements picked up in subsequent quarters. The lending operations of the group are spread across 7 states with 72% of the total AUM concentrated in Bihar.

High portfolio vulnerability on account of marginal income profile borrowers leading to moderate asset quality: The group 's MFI arm SMPL provides small ticket JLG loans to low income group self-employed women or women working in informal sector while the NBFC arm provides loan against portfolio (LAP) and short term individual loans (STIL) to MSMEs. There are no asset quality issues in the MFI portfolio and gross NPA on 90+ DPD stood at Nil as on Sep-20. However, the NBFC book (under SFSPL) has registered high asset quality stress with Gross NPA on 180+ DPD at 15% as on Sep-20 (which translates to 6% of GNPA on consolidated AUM). The asset quality remains elevated in the NBFC book on account of

SFSPL's legacy loan exposure towards STIL product (of Rs.8 crore as on Sep-20 down from Rs 9.6 crore as on March 31, 2020) which is entirely stressed and is in run-down mode as per management. Additionally, the LAP book of NBFC has also seen some asset quality pressure with 180+ dpd at 2.32% end Sept 2020, up from 0.99% end March 31, 2020. Due to the stress in asset quality in NBFC book, the credit cost/average total assets increased to 2.2% as on March-20 from 0.4% as on March-19.

Concentrated resource profile and high borrowing cost: Total consolidated borrowings of the group increased by 43% y-o-y to Rs.79 crore as on March 31, 2020. Of the total borrowings as on Sep-20, 50% is in the form of non-convertible debentures and another 50% in the form of borrowings from banks/NBFCs. As per management, the group raises funds through NCDs at the parent (SSPL) level and the funds are then down-streamed into subsidiaries in the form of loans and advances. The cost of fund remains high as NCDs carry interest rate in the range of 12.5% to 14%. Further, as per one of the NCD term sheet, SSPL breached PAR 30 covenant of 5%; the group got waiver from the investor till March 2021.

Liquidity: **Adequate**
As per latest liquidity information shared by Save Group, the group (consolidated) had cash and cash equivalents (including fixed deposits and liquid mutual funds) to the tune of approx. Rs.180 crore as on Sep 30, 2020 and expected repayment Rs.46 crore from MFI loan book, inflows from NBFC loan book and income from BC operations. Against this, SSPL on a consolidated basis has debt repayments of Rs.48.5 crore for the next one year from Oct-20.

Covid 19 impact
In light of Covid-19 pandemic, the company has recalibrated its business strategy and has opted not to disburse loans in the first quarter of current fiscal. In line with Reserve Bank of India (RBI)'s move to allow banks, NBFCs and HFCs to offer six month moratorium to borrowers (till Aug 31,2020) the company has advanced moratorium to 80% of the MFI borrowers and about 65% of the NBFC borrowers end September 2020. The collection efficiency of MFI book was at 74% and of NBFC book was 65% end Sept 2020.

Analytical approach: Consolidated Approach, taking into consideration two wholly owned subsidiaries of SSPL- Save Micro Finance Private Limited (SMPL) and Save Financial Services Private limited (SFSPL).

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – Non Banking Finance Companies (NBFCs)
Financial Ratios – Financial Sector
Rating Methodology: Consolidation

About the Company
Save Solutions Private Limited (SSPL) is a Gaya based company, engaged in extending basic banking and financial services particularly in rural parts of the country. SSPL started with Business Correspondent (BC) operations from Bihar in 2010. It was initially founded as SAVE Society (Society of Advancement of Village Economy) in 2009 and later converted into private limited company as on December 02, 2013.
SAVE was co- founded by Mr. Ajeet Kumar Singh, Mr. Ajay Kumar Sinha and Mr. Pankaj Kumar who are promoter directors holding 20.48% stake each in the company as on July 31, 2020. The Bihar based promoters have extensive experience in the banking and financial services space with particular expertise in rural banking domain. SSPL has two wholly owned subsidiaries viz. Save financial Services Private Limited (SFSPL) which is an NBFC engaged in extending LAP and Small Ticket size individual loans and Save Microfinance Private Limited (SMPL), which is an NBFC-MFI for extending the JLG Loans. End Sep 30, 2020 the consolidated AUM of NBFC and MFI entities stood at Rs 139 crore (from Rs 155 crore as on March 31, 2020)

Brief Financials (Rs. crore)-Consolidated	FY19 (A)	FY20 (A)
Total Income	120.8	170.5
PAT	18.8	14.4
Interest coverage (times)	112.2	3.5
Total Assets (excluding Intangibles and deferred tax asset)	150.1	235.6
Net NPA (%)	1.13	0.94
ROTA (%)	15.4	7.4

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of Instrument	ISIN	RoI	Allotment date	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE06PM07024	13.94	20-Dec-19	13-Jun-24	18.24	CARE BBB-; Stable
Debentures-Non Convertible Debentures	INE06PM07016	12.90	20-Mar-19	20-Mar-21	21.40	CARE BBB-; Stable
Debentures-Non Convertible Debentures	-	-	-	-	4.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures	INE06PM07032	13.15	02-Jun-20	02-Jun-23	8.20	CARE BBB-; Stable
Debentures-Non Convertible Debentures	INE06PM07040	12.39	19-Oct-20	06-May-24	22.40	CARE BBB-; Stable
Debentures-Non Convertible Debentures	Proposed				0.76	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	75.00	CARE BBB-; Stable	-	-	-	-

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple

Annexure-5: List of subsidiaries of Save Solutions Private Limited getting consolidated

Sr. No.	Name of the Entity	Subsidiary	% Shareholding by Clix Capital as on March 31, 2020
1.	Save Microfinance Private Limited	Y	100%
2.	Save Financial Services Private Limited	Y	100%

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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