Suryodaya Womi Laghubitta Bittiya Sanstha Limited

Ratings

Facilities	Amount (Rs. Million)	Rating[1]	Rating Action
Issuer Rating	NA	CARE-NP BB (Is) [Double B (Issuer Rating)]	Reaffirmed

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB (Is)' assigned to Suryodaya Womi Laghubitta Bittiya Sanstha Limited (SWMF). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Detailed Rationale & Key Rating Drivers

The rating assigned to SWMF constrained by its weak assets quality indicated by elevated Gross Non-Performing Loan (GNPL) ratio over FY23-FY24 (FY refers to the twelve-month period ending mid-July), high dependence on Banks and Financial Institutions borrowings (BFIs) borrowings, competition from other Micro Finance Institutions (MFIs) and Co-operatives and inherent risk involved in the microfinance industry. The rating is also constrained by exposure to regulatory risks related to microfinance industry. The rating, however, derives strength from experienced board members, long track record of operations and diversified geographical coverage and sector wise credit portfolio distribution. The rating also factors in moderate capitalization level, and increase in scale of operations over FY23 and FY24 aided by organic growth as well as via mergers and acquisitions. The rating also takes cognizance of rebound in financial performance of the company in FY24.

Going forward, the ability of the company to continue its growth momentum along with substantial improvement in asset quality while maintaining capital adequacy ratio will be the key rating sensitivities.

Detailed description of the key rating drivers.

Key Rating Weaknesses

Weak assets quality

SWMF has a weak asset quality profile marked by high GNPL ratio of 6.34% of total loans and advances as on mid-July 2024, although slightly improved from 6.78% as on mid-July 2023. More than 30-days overdue advances of SWMF also stood relatively high at 9.18% of total loans and advances as on mid-July 2024 compared to historical figures. Increasingly stressed asset profile observed in the banking industry has exacerbated in FY24 amid high inflation and interest rates impacting entire demand-supply dynamics for various sectors, leading to reduced debt repayment capabilities of borrowers, and resulting in higher delinquencies. Muted pace of economic growth in the country could result in further slippages in SWMF's asset quality in coming quarters. The MFI's ability to improve collection leading to better asset quality will remain a key monitorable aspect.

High dependence of resource profile on Banks and Financial Institutions (BFIs) borrowings

SWMF's major source of funding consists of deposits from its members and borrowings from banks and financial institutions. The ratio of borrowings to total resource stood high at ~39% as on mid-July 2024, which slightly decreased from ~40% as on mid-July 2022. Higher dependence on BFI borrowings increases the cost of funds for the MFI, putting additional pressure on its profitability.

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

Competition from other MFIs and Co-operatives

As on Mid-April 2024, there were 55 MFIs in operation with total 5,065 branches all over Nepal. SWMF had 192 branches on the aforementioned date. Micro Finance Industry earned Rs. 43,871 Mn interest income, Rs. 17,167 Mn net interest income and Rs. 2,655 Mn Net profit as on Mid- April 2024. SWMF has 3.42% (Rs. 1,499 Mn) share on interest income, 3.61% (Rs. 620 Mn) share on net interest income and 3.72% (Rs. 99 Mn) share on net profit for the same period in the industry. SWMF has 2.73% and 2.47% market share in terms of deposit base and loan portfolio respectively of microfinance industry as on Mid-April 2024. Furthermore, large numbers of cooperatives are operating all over Nepal which provides loans and other financial services to their members with or without collateral. Due to presence of large number of micro finance and co-operatives, SWMF is facing competition to tap the new customer and to retain the existing good customers.

Inherent risk involved in the microfinance industry

Micro Finance Institutions are prone to credit risk which is directly related to the portfolio of the organization and is one of the more significant risks from MFI's perspective. Credit risk assumed by MFI is typically higher compared to banks and other types of lenders given the weak borrower profile. Furthermore, majority of MFI's loan portfolio is unsecured in nature means advances not secured by adequate collateral. In case any borrower defaults, the MFI does not have any asset backed as collateral to meet its loss, which makes the credit even riskier. As borrowings from MFIs do not usually require collateral, clients tend to borrow from multiple MFIs resulting to problem of loan duplication. As per NRB norms, MFIs are allowed to lend against collateral up to one-third of total lending. SWMF's percentage of loan with collateral to total loan is 23.95% at the end of FY24, increased from 22.34% at the end of FY23.

Key Rating Strengths

Experienced board members and long track record of operations

SWMF has six directors in its Board of Directors led by Chairman, Mr. Lekha Nath Khaniya, who has around three decades of experience with Nepal Rastra Bank. The company's management team is led by Chief Executive Officer, Mr. Moscha Prasad Pangeni, having experience of more than two decades in Government service in various positions. He is further supported by experienced team to look after various functions in the company. SWMF has operational track record of over a decade under name 'Womi Laghubitta Bittiya Sanstha Limited' before merger with Suryodaya Laghbuitta Bittiya Sanstha Limited in FY22.

Moderate capitalization

WMF's Tier I and overall Capital Adequacy Ratio (CAR) stood at 10.81% and 11.51%, respectively, at the end of FY24 over the minimum regulatory requirement of 4% and 8%, respectively, for microfinance institutions (MFIs). Adequate cushion in the capitalization levels would put the MFI in a better position to absorb any losses, should they materialize, especially given the uncertainty surrounding credit recovery. The MFI's ability to maintain adequate cushion in the capital adequacy ratios will remain critical for its solvency and growth prospect. Company has maintained Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) of 0.58% and 6.83%, respectively, as on mid-July 2023 which is in line with the minimum regulatory requirements for MFIs.

Geographical diversification of business and sector wise credit portfolio distribution, however concentration towards agriculture sector

SWMF has a diversified geographical presence in Nepal with its 192 branches covering 55 districts of Nepal spanning all 7 provinces as on mid-July 2024. Geographically diversified network base enables SWMF to have varied customer base and

diversified portfolio and thereby reduces the risk of volatility of a single economic region. The credit portfolio of SWMF is reasonably diversified with exposure across agriculture, service industry and service industry although agricultural sector accounted for 69.91% of the MFI's total loans and advances portfolio as on mid-July 2024, increased from 64.32% as on mid-July 2023. Advances towards service sector stood at 24.54% as on mid-July 2024, decreased from 28.70% as on mid-July 2023. Relatively higher exposure towards agriculture sector is common for MFIs in Nepal. The recovery in the agriculture sector depends on various factors such as climatic conditions like monsoons, drought and floods, availability of prices etc. Any adverse climatic conditions or other unfavorable factors which might have an impact on crop production or sales would adversely affect repayment capacity of the borrowers and put added stress on the MFI's asset quality.

Growing scale of operations

SWMF's credit portfolio grew at Compounded Annual Growth Rate of ~34% during FY21-FY24 to Rs. 11,201 Mn as on mid-July 2024. SWMF has 2.73% and 2.47% market share in terms of deposit base and loan portfolio respectively, of the microfinance industry as on mid-April 2024. During FY23, SWMF's total income increased to Rs. 1,645 Mn in FY24 from Rs.1,634 Mn in FY23. Consequently, net interest income increased by ~8% to Rs. 620 Mn during FY24. Similarly, SWMF's net profit rebounded to Rs. 99 Mn in FY24 from Rs. 36 Mn in FY23, albeit remained lower than the figures achieved over FY21-FY22.

About the Company

Suryodaya Womi Laghubitta Bittiya Sanstha Limited (SWMF) is a "D" class National Level microfinance institution. It is formed with merger of Womi Laghubitta Bittiya Santha Limited and Suryodaya Laghubitta Bittiya Sanstha Limited on April 02, 2022. Womi Laghubitta Bittiya Santha Limited was incorporated on June 09, 2011 and commenced its operations on March 08, 2012. SWMF is primarily engaged in providing microfinance loan based on the Joint Liability Group (JLG) model with each group consisting of minimum two members and maximum fifty members.

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