Press Release

Hindusthan Microfinance Private Limited

July 11, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 75.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' **(read as ACUITE double B)** on the Rs. 75.00 crore bank facilities of HINDUSTHAN MICROFINANCE PRIVATE LIMITED. The outlook is **'Stable'**.

Hindusthan Microfinance Pvt. Ltd. (HMPL), incorporated in July 1996, is a Mumbai based Non-Banking Financial Company - Microfinance Institution (NBFC-MFI), which aims at offering credit and other financial products to the urban and rural poor with its presence in the states of Maharashtra, Madhya Pradesh and Chhattisgarh. Earlier, it operated under two models namely, Joint Liability Group (JLG) and Business Correspondents Model (BCM). However, recently, the company has shifted its focus on expanding its own loan book portfolio through the JLG model. The JLG model focuses on lending to women borrowers for income generation purposes, with the ticket size ranging from Rs.10,000 to Rs.50,000.

Key Rating Drivers

Strengths

- **Experienced Management**

HMPL's promoters have immense experience in the micro finance business and have been associated with cooperative societies, banking sector and financial services domain. Mr. Anil Jadhav, chairman & Managing Director of HMPL, has rich experience of more than three decades of managing credit cooperatives for providing micro finance services. Mr. Satishkumar Rao, executive director of HMPL, has an experience of over 20 years as a Banker with various public and private sector banks like Bank of Baroda, HDFC Bank, YES Bank and United Overseas Bank.

The day to day operations of the company are overseen and managed by Mr. Anil Laxmanrao Jadhav- Chairman & Managing Director and Mr. Satishkumar G. Rao- Executive Director. The Board of directors consists of six directors, who have varied experiences from varied backgrounds. Acuité believes that HMPL shall benefit from the extensive experience of the management.

- **Adequate capitalization**

HMPL's capitalization is adequate, with net worth of Rs.13.82 crore and gearing of 2.42 times as on March 31, 2018. Capital Adequacy Ratio remained healthy at 48.40 per cent as on March 31, 2018 (P) as compared to 39.76 per cent a year ago. Tier-1 capital ratio stood at 31.97 percent as on March 31, 2018. The promoters have been infusing capital on a regular basis. During FY18 (P), the promoters have infused a capital of Rs.1.00 Crore and the company also raised equity of Rs. 3.10 Crore from private investors. Also, the Company is contemplating to raise additional equity capital of Rs. 5.00 crore from private investors in current financial year for future growth. Accordingly, capital adequacy is expected to remain comfortably above the mandatory requirements going forward. One major reason for a healthy capitalization can also be attributed to the halt in disbursements and focus on the collection of existing dues. Going forward, the company shall have adequate capital to support its growth plans over the medium term.

Weaknesses

- **Small scale of operations and geographic concentration risk**

HMPL has small scale of operations. The company's loan book stood at Rs.34.82 Crore as on March 31, 2018, Rs.31.82 Crore as on March 31, 2017 and Rs.30.60 Crore as on March 31, 2016. The total Assets under Management (AUM) of the company declined to Rs.38.38 as on March 31, 2018 from

Rs.145.84 Crore as on March 31, 2017 on account of significant scale-down of the BC business model and the company's conscious decision to slowdown growth in on-balance sheet loan book due to the asset quality related challenges faced post demonetization. The ability of the company to expand its operation, including through the BC model, and compete with the larger players in this segment will remain a key risk factor.

Also, owing to strong roots in the state of Maharashtra, the company started operations from this state. It has been operating in 3 states namely; Maharashtra, Madhya Pradesh & Chhattisgarh. The portfolio is dominated by the state of Maharashtra (88% of the AUM as on March 31, 2018), followed by Madhya Pradesh (11%). The MFI has been expanding its geographical reach and added its footprint in Chhattisgarh in the year 2016. While the company shall be expanding its presence in a phased manner, operations shall remain concentrated in Maharashtra and hence will remain susceptible to the natural vagaries and the economic conditions in the state.

- **Average profitability, albeit expected to improve going forward**

Earlier, HMPL's profitability comprised of interest income from advances under its own book and interest earned through the loan book under the BC model. The company has considerably reduced its focus on the business correspondent Model & consequently its income proportion from that segment has reduced significantly in 2017-18. Hence, the interest income declined significantly to Rs. 13.24 crore in 2017-18 from Rs.19.61 crore in 2016-17. For 2017-18, interest from its own book accounted for 73 percent of the total income as against 53 per cent in the previous year.

Furthermore, continued high operating costs amidst strong focus on collections and recoveries and slower loan book growth also adversely impacted the company's profitability. Additionally, provisions for NPAs and write-offs increased significantly during 2017-18 on account of the sharp deterioration in asset quality which also impacted the company's profitability.

Reduction in interest income from channel business, deterioration in asset quality, stagnant operating costs has resulted in the losses reported by the company. The company reported a loss of Rs.1.81 Crore for FY 2018(P) as against profit after tax of Rs.1.38 crore in 2016-17. The company has registered a negative return on average asset (ROAA) for FY 2018 (P) of 3.31% as compared to a 2.23 percent in FY 2017. Nevertheless, the company reported profit after tax of Rs.2.84 Crore in H2 of FY 2018 as against loss of Rs.4.76 crore in H1 of FY 2018, on the back of the strong collection efforts.

The company is expected to scale-up its operations steadily over the medium term which will support its profitability. The company has been able to maintain steady NIMs in the own loan book portfolio at 12.60 percent and 12.28 percent in FY 2018 and FY 2017, respectively. However, its ability to maintain low credit costs will remain a key rating sensitivity factor.

- **Deterioration in asset quality, although improvement in collections recently, reflected in improving gross NPAs**

HMPL's asset quality was severely impacted during and post demonetization period as it impacted the income generation ability of the small borrowers, due to non-availability of adequate liquidity in the system. HMPL's 30+ portfolio at risk (PAR) increased sharply to 19.2% as on March 31, 2017 from 0.41% a year ago. 30+ PAR further increased to 27.8% as on December 31, 2017 partly because of de-growth in the loan portfolio. However, gross non-performing assets (GNPA; 90+ day NPA recognition) ratio increased moderately to 2.15 percent as on 31st March, 2018 and 1.68 percent as on 31st March, 2017 from 0.2 percent as on March 31, 2016 as the company availed the dispensation provided for NPA recognition.

The company stopped loan disbursements for four months and shifted its entire focus on collections. The company initiated escalation process as well as legal process to streamline collections. The company proactively took actions to tackle the scenario and ensure speedy recovery of NPAs. Collections improved sharply during the last quarter of 2017-18. This is reflected in the sharp decline in 30+ PAR to 2.65 percent as on March 31, 2018 from 30 percent in December 31, 2017.

Going forward, the company's ability to maintain its asset quality along with increase in loan book portfolio will remain a key sensitivity factor.

Analytical Approach
To arrive at its rating, Acuité has considered the standalone business and financial risk profile of Hindusthan Microfinance Private Limited (HMPL).

Outlook: Stable
Acuité believes that HMPL will maintain a Stable outlook on account of its adequate capitalisation and experienced management. The outlook may be revised to 'Positive' in case of healthy growth in assets under management along with sustainable improvement in profitability while maintaining asset quality. Conversely, the outlook may be revised to 'Negative' in case of continued growth challenges or deterioration in asset quality or profitability.

About the Rated Entity - Key Financials

	Unit	FY18 (P)	FY17	FY16
Total Assets	Rs. Cr.	48.80	60.61	63.34
Total Income (net of interest expenses)	Rs. Cr.	7.76	13.17	6.73
PAT	Rs. Cr.	(1.81)	1.38	1.24
Net Worth	Rs. Cr.	13.82	11.52	9.26
Return on Average Assets (RoAA)	(%)	(3.31)	2.23	3.91
Return on Net Worth(RoNW)	(%)	(13.10)	11.99	13.38
Total Debt/Tangible Net Worth (Gearing)	Times	2.42	4.13	5.47
Gross NPA	(%)	2.15	1.68	0.2
Net NPA	(%)	0.69	1.68	0.20

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

• Default Recognition - https://www.acuite.in/criteria-default.htm
• Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
• Non - Banking Financing Entities - https://www.acuite.in/view-rating-criteria-10.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)
Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	3.65	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.91	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.88	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.71	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.41	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.83	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.79	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.27	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	52.08	ACUITE BB/ Stable

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in Aditi Shah Analyst - Rating Operations Tel: 022-67141371 aditi.shah@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

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