

## Press Release

### Hindusthan Microfinance Private Limited

September 26, 2019

#### Rating Reaffirmed



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

\* Refer Annexure for details

#### Rating Rationale

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

Mumbai-based, Hindusthan Microfinance Private Limited (HMPL) was incorporated in July 1996. It is a 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, Karnataka, Madhya Pradesh and Chhattisgarh. It operates under the Joint Liability Group's (JLG) model which focuses on lending to women borrowers for income generation purposes, with ticket size ranging from Rs.30,000 to Rs.60,000. The MFI also undertakes Business Correspondent (BC) activities for four credit co-operative societies. HMPL operations are spread across 4 states, 21 districts with 45 branches as on August 31, 2019. The company has an established borrower base of 29,374 as on August 2019 as against 21,360 as on March 2019.

#### Analytical Approach

Acuite has considered the standalone business and financial risk profile of Hindusthan Microfinance Private Limited (HMPL) to arrive at its rating.

#### Key Rating Drivers

##### Strengths

##### • Experienced Management

HMPL is promoted by Mr. Anil Jadhav for MFI activities. It has in place an experienced management team with vast experience in the BFSI sector. The team is led by Chairman and Managing Director, Mr. Jadhav, who has an experience of over three decades in managing credit cooperatives for providing micro finance services. He is supported by Mr. Satishkumar Rao, Executive Director, who has over two decades of experience in the banking sector through his association with 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. Jadhav and Mr. Rao. The Board of Directors consists of four other directors, with experience in various sectors.

Acuite believes that HMPL will continue to benefit from the extensive experience of the management.

##### • Improvement in asset quality

HMPL who are mainly engaged in income generating activities. The initial loan amount is linked to adequate cash flows of each member of the group and the repayment track record of the existing loans by the members. The subsequent loan amount is linked to the earlier loan cycles and the repayment track record therein.

HMPL reported NIL Non-Performing Assets (NPA) as on March 31, 2019 as compared to 1.78 per cent Gross Non-Performing Assets (GNPA) as on March 31, 2017 (0.24 per cent GNPA as on March 31, 2018). The deterioration in asset quality in FY2017 was mainly on account of impact of demonetisation on the income generation ability of the borrower's; this also resulted in write off of Rs. 0.65 crore in FY2018. The stringent credit assessment and monitoring processes has enabled HMPL to improve its asset quality reflected in its NIL NPA and healthy collection efficiency for past 12 months ending August 31, 2019 stood at an average of ~99 per cent.

Acuite believes that going forward the company's ability to maintain minimum NPAs along with growth in AUM will be a key monitorable.

## Weaknesses

### • Ability to scale up operations and profitability

HMPL's Assets Under Management (AUM) stood at Rs. 60.22 crore as on August 31, 2019 as against Rs. 36.70 crore as on March 31, 2019 and Rs. 38.06 crore as on March 31, 2018. The company's own portfolio declined from Rs. 34.50 crore as on March 31, 2018 to Rs 21.38 crore as on March 2019 and Rs 16.43 crore as on August 31, 2019. The decline in HMPL's own portfolio was mainly due to challenges faced by the company to raise fresh funds. Consequently, HMPL has cut down its disbursements; the company did not disburse any fresh loans for the period ending August 31, 2019 in FY2020 as compared to Rs 5.04 crore as on 31 March, 2019 and Rs. 35.19 crore as on March 31, 2018. In order to grow its AUM and maintain its profitability, the company shifted its focus BC activities and registered a ~330 per cent Y-o-Y growth in its managed portfolio. The managed portfolio stood at Rs. 15.32 crore as on March 31, 2019 as against Rs 3.56 crore as on March 31, 2018 and increased to Rs. 43.79 crore as on August 31, 2019. HMPL has BC arrangements with 4 co-operative societies and plans to maintain a 70 – 75 per cent of managed portfolio in FY2020.

Acuite believes that the ability of HMPL to mobilise additional funding through debt /sub debt and its ability to deploy the funds profitably while maintaining asset quality will be crucial to the credit profile of the company.

### • Geographic concentration risk

The activities of microfinance companies, like HMPL, are exposed to geographical concentration risks. HMPL operates with a network of 45 branches, spread across 21 districts of 4 states namely, Maharashtra, Karnataka, Madhya Pradesh and Chhattisgarh. Maharashtra contributes to 74.68 per cent of the total AUM, followed by Karnataka at 22.42 per cent and 2.91 per cent by other states as on August 31, 2019. This exposes the company to high geographical concentration risk. Thus, the company's performance is expected to remain exposed to competitive landscape in these regions and occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework.

## Rating Sensitivity

- Increase in scale of operations, while maintaining stable profitability
- Diversification of funding profile
- Improvement in AUM, while maintaining asset quality

## Liquidity Position: Adequate

HMPL has adequately matched ALM as on March 31, 2019 with cumulative surplus in all maturity buckets. Most of the loans are upto 18 to 36 months tenure, while the borrowings are upto 3-5 years leading to positive mismatches over the near to medium term with limited buffer in each maturity.

## Outlook: Stable

Acuite believes that HMPL will maintain a 'Stable' outlook on account of its experienced management and improved asset quality. The outlook may be revised to 'Positive' in case of healthy growth in AUM 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	32.61	48.50	60.61
Total Income (Net of Interest Expense)	Rs. Cr.	4.92	7.84	13.17
PAT	Rs. Cr.	0.07	(1.54)	1.38
Net Worth	Rs. Cr.	13.71	13.86	11.52
Return on Average Assets (RoAA)	(%)	0.16	(2.83)	2.23
Return on Average Net Worth (RoNW)	(%)	0.47	(12.17)	13.29
Total Debt/Tangible Net Worth (Gearing)	Times	1.32	2.41	4.13
Gross NPAs	(%)	0.00	0.24	1.78
Net NPAs	(%)	0.00	0.08	1.54

**Status of non-cooperation with previous CRA (if applicable)**

Not Applicable

**Any other information**

Not Applicable

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

**Note on complexity levels of the rated instrument**
<https://www.acuite.in/criteria-complexity-levels.htm>
**Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
11-July-2018	Term loans	Long Term	3.65	ACUITE BB / Stable (Assigned)
	Term loans	Long Term	1.91	ACUITE BB / Stable (Assigned)
	Term loans	Long Term	0.25	ACUITE BB / Stable (Assigned)
	Term loans	Long Term	0.88	ACUITE BB / Stable (Assigned)
	Term loans	Long Term	1.71	ACUITE BB / Stable (Assigned)
	Term loans	Long Term	2.41	ACUITE BB / Stable (Assigned)
	Term loans	Long Term	1.83	ACUITE BB / Stable (Assigned)
	Term loans	Long Term	3.79	ACUITE BB / Stable (Assigned)
	Term loans	Long Term	4.27	ACUITE BB / Stable (Assigned)
	Term loans	Long Term	1.50	ACUITE BB / Stable (Assigned)
	Proposed Bank Facilities	Long Term	52.80	ACUITE BB / Stable (Assigned)

**\*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 (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.91	ACUITE BB/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE BB/Stable (Withdrawn)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.88	ACUITE BB/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.71	ACUITE BB/Stable (Withdrawn)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.61	ACUITE BB/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.83	ACUITE BB/Stable (Withdrawn)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.42	ACUITE BB/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.16	ACUITE BB/Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.56	ACUITE BB/Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.41	ACUITE BB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.33	ACUITE BB/Stable (Assigned)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	60.07	ACUITE BB/Stable (Reaffirmed)

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### About Acuité Ratings & Research:

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