

Press Release

Mentor Home Loans India Limited (MHIL)

28 March, 2017

Rating Assigned

Total Instruments Rated*	Rs. 10.00 Cr
Long Term Rating	SMERA BBB/Stable (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned a rating of **SMERA BBB (read as SMERA triple B)** to the Rs. 10.00 crore Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures of Mentor Home Loans India Limited (MHIL). The outlook is '**Stable**'.

MHIL is a Housing Finance Company registered with the National Housing Bank. It is engaged in the business of providing housing loans, mortgage finance and Loans Against Property (LAP). The company is currently present in Rajasthan and Madhya Pradesh and has 24 branches (19 in Rajasthan and 5 in Madhya Pradesh).

List of Key Rating Drivers and their detailed description

Strengths:

Experienced Management: MHIL is promoted by Mr. Gidhari Lal Goyal, Mr. Pawan Kumar Goyal and Mr. Basant Kumar Goyal. The company initially started its operations in 1994 as an NBFC-ND-SI engaged in vehicle financing and subsequently shifted its operations as a Housing Finance Company in 2014.

The promoters have over two decades of experience in the financial services industry. The strong market intelligence of the company coupled with its established relationship with various intermediaries has enabled it to grow its loan portfolio and more than doubled its portfolio while maintaining its asset quality.

MHIL reported a significant increase in its loan portfolio to Rs. 150 crore as on 31 December, 2016 from Rs. 100.47 crore as on 31 March, 2014 – despite challenging economic conditions in the country in the latter part of Q3 FY17. SMERA expects MHIL's credit profile to be supported by its experienced management which will enable it to grow its loan portfolio while maintaining healthy asset quality and profitability indicators.

Further, MHIL reported a comfortable capital adequacy ratio of 48.80 per cent on 31 December, 2016 as compared to 57.23 per cent on 31 March, 2016. The healthy capitalization levels are

expected to provide MHIL with adequate room to grow its loan portfolio without raising additional regulatory capital.

Healthy Asset Quality: MHIL has developed stringent underwriting standards and proactive asset quality monitoring & recovery practices across its portfolio. The company maintains an average Loan to Value ratio of 50 per cent on its loan portfolio. The prudent lending policies have enabled MHIL to maintain a healthy asset quality – marked by low Gross Non-Performing Assets (NPA) ratio of 0.93 per cent on 31 December, 2016 against 0.99 per cent 31 March, 2016.

The rating also draws comfort from MHIL's ability to maintain a healthy asset quality despite challenging economic conditions on account of events like demonetization of high value currency notes. 98.25 per cent of MHIL's portfolio continued to remain free from any overdues as on 31 December, 2016.

Comfortable Profitability Indicators: MHIL primarily focuses on secured high yielding lending. The company reported a healthy return on average assets (RoAA) of 3.15 per cent in FY2016 as compared to 2.49 per cent in FY2015. The profitability indicators are supported by the sustained decline in cost to income ratio of the company on account of realization of significant economies of scale.

SMERA expects MHIL to continue to benefit from its healthy Net Interest Margin (NIM) of 11.21 per cent in FY2016 as compared to 11.90 per cent in FY2015. The NIM is supported by the infusion of capital by the promoters and healthy interest spreads maintained by the company.

Weaknesses:

Modest Scale of Operations in an intensely competitive segment: MHIL is a recent entrant in the housing finance market and is gradually expanding its footprint in Rajasthan & Madhya Pradesh. The company faces competition from established players with larger scale of operations – such as banks and other Financial Institutions – who can offer similar loan products to the borrowers at competitive rates. The intense competition in the housing finance space may affect the MHIL's ability to scale up its loan book significantly while maintaining its spreads and hence MHIL's rating is affected by its modest scale of operations – marked by a loan portfolio of Rs. 100.47 crore on 31 March, 2016 as compared to Rs. 60.53 crore on 31 March, 2015.

MHIL also reported a modest Networth Base of Rs. 27.59 crore on 31 December, 2016 as compared to 22.61 crore. Notwithstanding the infusion of equity capital by the promoters, SMERA expects MHIL's networth base to remain modest of the medium term.

High Geographical Concentration in the Loan Book: Key risk emanating from geographic concentration is that the cash flows of the retail borrowers are dependent on the level of economic activity in the region. Occurrence of events such as slowdown in economic activity or shifting of industrial activity to other geographies could impact the cash flows of the borrowers – thereby impacting MHIL's asset quality. Slowdown in economic activity could also impact demand for housing in the secondary market – which will also impact the business risk profile of the company. 95 per cent of MHIL's loan book is concentrated in the state of Rajasthan on 31 December, 2016.

Analytical approach: SMERA has taken a standalone view of the above entity

Applicable Criteria

- Non-Banking Finance Entities: <https://www.smera.in/criteria-nbfc.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the rated instrument will maintain a stable risk profile on account of the experienced management, healthy asset quality and comfortable scale of operations. The outlook may be revised to 'Positive' in case of sustained growth in the loan portfolio while maintaining its asset quality and profitability indicators. The outlook may be revised to 'Negative' in case of significant deterioration in asset quality and/or moderation in profitability indicators.

About the Rated Entity

MHIL is a Housing Finance Company registered with the National Housing Bank. It is engaged in the business of providing housing loans, mortgage finance and Loans Against Property (LAP). The company is currently present in Rajasthan and Madhya Pradesh and has 24 branches (19 in Rajasthan and 5 in Madhya Pradesh).

The company reported net profit of Rs. 2.65 crore on an operating income of Rs.17.31 crore in FY2015-16, as compared with net profit of Rs. 1.36 crore on an Operating income of Rs. 11.55 crore in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: NA

Rating History for the last three years:

Name of Instruments	FY2017 (Current)			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures	LT	10.00	SMERA BBB/Stable (Assigned)	-	-	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Proposed Unsecured Subordinated Redeemable Non- Convertible Debentures	N.A	N.A	N.A	10.00	SMERA BBB/Stable (Assigned)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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