

Press Release

Mentor Home Loans India Limited (MHIL)

06 April, 2018

Rating Upgrade



Total Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA BBB+/Outlook: Stable (Upgraded from SMERA BBB/Stable)

* Refer Annexure for details

Rating Rationale

SMERA has revised the long-term rating on the Rs.10.00 crore Non-Convertible Debenture of Mentor Home Loans India Limited (MHIL) from '**SMERA BBB**' (read as **SMERA triple B**) to '**SMERA BBB+**' (read as **SMERA triple B plus**). The outlook is '**Stable**'.

The rating revision is in view of sustained growth in loan portfolio while maintaining asset quality and profitability. The growth in the loan portfolio and the profitability margins are expected to be sustained in the near to medium term. Further, the business risk profile of MHIL is supported by governments' initiatives to promote affordable housing which in turn supports MHIL's growth objective.

The Jaipur based, MHIL was established in 1995 as a non-deposit taking Non-Banking Finance Company (NBFC). Subsequently in 2014, it got registered as a non-deposit taking Housing Finance company (HFC) with the National Housing Bank. MHIL is engaged in the business of providing housing loans, mortgage finance and Loans Against Property (LAP) through a network of 28 branches in Rajasthan, Madhya Pradesh and Gujarat. The company has loan portfolio of Rs.292.62 crore with active borrower base of 6934 borrowers as on December 2017.

Key Rating Drivers

Strengths

Experienced management:

MHIL is promoted by Mr. Pawan Kumar Goyal and Mr. Basant Kumar Goyal who have over two decades of experience in the financial services industry. The company initially started its operations in 1994 as an NBFC-ND-SI engaged in vehicle financing and subsequently shifted to housing finance in 2014. MHIL is a HFC registered with National Housing Bank. The strong market intelligence of the company coupled with its established relationships with various intermediaries has enabled it to grow its loan portfolio and more than double its portfolio while maintaining its asset quality.

MHIL reported a significant increase in its loan portfolio to Rs.292.62 crore as on 31 December, 2017 from Rs.100.47 crore as on 31 March, 2016 on account of increased operations in Madhya Pradesh and Gujarat. SMERA expects MHIL's credit profile to be supported by its experienced management which will enable it to scale up its operations while maintaining a healthy asset quality and profitability indicators.

Healthy growth in loan portfolio and comfortable capitalization levels:

MHIL has entered the housing finance market in 2014 and is gradually expanding its footprint in Rajasthan, Madhya Pradesh and Gujarat. The company faces competition from established players with larger scale of operations such as banks and other financial institutions. MHIL's loan book has grown at a Cumulative Annual Growth Rate (CAGR) of 63.02 percent for the period FY2014 to FY2017 marked by loan portfolio of Rs.182.10 crore as on 31 March, 2017 as against Rs.42.03 crore as on 31 March, 2014. The loan book outstanding as on 31 December, 2017 stood at Rs.292.62 crore. MHIL's net owned funds

amounted to Rs.33.62 crore on 31 March, 2017 as compared to Rs.22.61 crore as on 31 March, 2016. The capitalization levels are comfortable marked by Tier-I Capital Adequacy Ratio (CAR). The overall CAR of 33.55 percent and 46.71 percent respectively as on 31 December, 2017 (44.98 percent and 66.02 percent, respectively, as on March 31, 2017).

SMERA believes that the comfortable capitalization levels will provide support towards moderate growth in MHIL's portfolio.

Healthy asset quality:

MHIL has developed stringent underwriting standards and proactive asset quality monitoring and 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 (NPAs) ratio of 1.51 percent on 31 December, 2017. Further, 98 percent of MHIL's portfolio continued to remain on time as on 31 December, 2017.

Comfortable profitability indicators:

MHIL primarily focuses on secured high yield lending. The company reported a healthy return on average assets (RoAA) of 3.99 percent in FY2017 as compared to 3.15 percent in FY2016. The profitability indicators are supported by the sustained decline in operating expenses to earning assets ratio. SMERA expects MHIL to continue to benefit from its healthy Net Interest Margin (NIM) of 10.97 percent in FY2017 as compared to 11.51 percent in FY2016. The NIM is supported by the infusion of capital by the promoters and healthy interest spreads maintained by the company.

Weaknesses:**Geographical concentration in the Loan Book:**

The 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 credit profile of MHIL's borrowers. Moderation in economic activity also impacts demand for housing in the regions, which in turn affects the business risk profile of the company. The company plans to reduce its geographical concentration as reflected in increased operations in Madhya Pradesh thus bringing down concentration of 93.92 percent of total loan portfolio in Rajasthan as on 31 March, 2017 to 86.17 percent in as on 31 December, 2017. Further, the company has extended its operations to Gujarat and presently has four branches. SMERA believes that MHIL will continue to face geographical concentration risk till it achieves a major share in other regions besides Rajasthan.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of MHIL to arrive at the rating.

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 - Key Financials

Particulars	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	196.95	103.73	64.49
Total Income	Rs. Cr.	18.67	9.34	6.38
PAT	Rs. Cr.	6.00	2.65	1.36
Net Worth	Rs. Cr.	33.62	22.61	14.97
Return on Average Assets (RoAA)	(%)	3.99	3.15	2.49
Return on Average Net Worth (RoNW)	(%)	21.36	14.09	10.24
Total Debt/Tangible Net Worth (Gearing)	Times	4.69	3.40	3.20
Gross NPA	(%)	1.51	1.64	0.99
Net NPA	(%)	1.21	1.35	0.77

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Non-Banking Financing Entities - <https://www.smera.in/criteria-nbfc.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
28 Mar 2017	Proposed Non-Convertible Debentures	Long term	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
Unsecured Subordinated Redeemable Non-Convertible Debentures	31 March 2017	14.00	30 September 2022	10.00	SMERA BBB+/Stable (Upgraded)

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ABOUT SMERA

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