

Press Release

Mentor Home Loans India Limited (MHIL)

February 14, 2019



Rating Reaffirmed

| Total facilities | Rs. 10.00 Cr. |
|------------------|------------------------------------|
| Long Term Rating | ACUITE BBB+/Stable (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of **ACUITE BBB+ (read as ACUITE triple B plus)** on the Rs. 10.00 Cr. Non-convertible debenture of Mentor Home Loans India Limited (MHIL). The outlook is '**Stable**'.

About the company:

MHIL is a Jaipur based non-deposit taking Housing Finance Company (HFC) engaged in mortgage financing, Loans against Property (LAP) and housing loans. The company was originally established in 1995 as a Non deposit taking Non-Banking Finance Company (NBFC) and subsequently in 2014, the company got registered as a Housing Finance Company with the National Housing Bank. The company is promoted by Mr. G. L. Goyal (Chairman) and is presently managed by Mr. Pawan Goyal (Managing Director), who has over two decades of experience in the financial services sector.

The company has presence in Rajasthan, Madhya Pradesh, Maharashtra and Gujarat and operates through a network of 42 branches.

Analytical approach:

Acuité has considered a standalone approach on MHIL's business and financial risk profile for arriving at the rating.

Key Rating Drivers

Strengths

- **Improving operational performance:**

MHIL, initially started its operations in 1994 as an NBFC-ND-SI engaged in vehicle financing and subsequently shifted to housing finance in 2014. Over the past 4 years the company has established its market position by scaling up its housing loan portfolio (including Loans Against Property) from Rs. 42.0 Cr. as of March 31, 2014 to Rs.352.41Cr. as of March 31, 2018. The company's loan portfolio stood at Rs. 446.1 Cr. as on September 30, 2018. The company's operations are mostly concentrated around Rajasthan with around 78% of the loan book originated from Rajasthan (94% as of March 2017). Besides Rajasthan, the company has a presence in other states like Gujarat, Madhya Pradesh & Maharashtra. It operates through a network of 42 branches across the four states. The company's operations are overseen by Mr. Pawan Goyal, Managing Director, along with support from professionals in various verticals. As of September 2018, retail housing loans (in affordable segment) comprised 75 percent of the total portfolio, the balance being LAP.

The company has exhibited the ability to leverage on the robust demand in the affordable housing segment which has witnessed buoyancy over the past 2-3 years on account of the strong regulatory thrust. The Government's push to the affordable segment and incentives to affordable housing finance companies has augured well for players like MHIL. MHIL's loan book expansion over the 18 month period from April 2017- September 2018 was mainly on account of increased penetration in Rajasthan and increased traction in other states like Maharashtra and Gujarat. While Rajasthan continues to be a major market for MHIL, its entry into other states will gradually derisk its portfolio from geographical concentration risk.

MHIL has reported healthy growth while maintaining asset quality and profitability measures. The company reported gross NPA of 1.54 percent as on September 30, 2018 as against 1.51 percent as on March 31, 2018 & 1.64 percent as on March 31, 2017. The company has adopted prudent lending practices as reflected in maintained LTV ratio. The company has maintained LTV ratio up to 50 percent in its overall portfolio. The low delinquency levels have enabled the company to maintain healthy profitability metrics. MHIL has sustained Net interest margins of 10.32 percent in FY2018 as against 10.97 percent in FY2017. The company reported Return on Average Assets (ROAA) of 5.94 percent in FY2018 as against 4.99 percent in FY2017. The ROAA has improved mainly due to healthy increase in fee income (processing fees) on the back of healthy growth in new sanctions.

Acuité believes that MHIL's business profile will continue to benefit from the established presence in the affordable housing finance segment backed by strong managerial support.

• **Adequate capitalisation**

MHIL's capitalization remained comfortable with overall Capital Adequacy Ratio (CAR) of 53.49 percent as on September 30, 2018 as against 45.01 percent as on March 31, 2018. Of the overall CAR as on September 30, 2018, Tier I CAR constituted 36.5 percent and Tier II CAR constituted 16.9 percent. MHIL has a tangible networth of Rs. 65.31Cr. (Unaudited) as on September 30, 2018 as against Rs. 50.50 Cr. on March 31, 2018 (Rs. 33.6 Cr as on March 31, 2017). The sharp increase in net worth is on account of the expansion in the loan book resulting in higher plough back of earnings. The company has relied mainly on bank lines to support its business growth over this period. The company reported gearing of 6.03 times as on September 30, 2018 as against 6.19 times as on March 31, 2018 & 4.69 times as on March 31, 2017. Debt comprises mostly term loans availed from banks and various financial institutions. Besides term loans which contribute majorly portion of debt funding company also has cash credit limit and raised funds through capital market instruments like NCDs. The company is exploring additional equity infusion to support its growth plans over the near term and is in talks with potential investors in this regard.

Acuité believes that the MHIL is adequately capitalized to support its growth prospects for over near to medium term.

Weaknesses

• **Low seasoned loan book:**

MHIL forayed in the housing finance segment since 2014 with average tenure of loans ranging from 5 to 10 years. The company's loan book has grown significantly to Rs. 446.10 Cr. as on September 30, 2018 from Rs. 182.10 Cr. as on March 31, 2017. Due to significant growth in the loan book in the last two years, ~56 percent of the overall portfolio as on September 30, 2018, has a seasoning of less than one year. The company has maintained its asset quality in the last two years. The company has reduced its concentration in Rajasthan to 78 percent as on September 30, 2018 of the overall loan book, however remains concentrated in Rajasthan. 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 has extended its operations to newer geographies and has increased its exposure in these newer regions. The company's ability to maintain its asset quality given the low seasoned loan book and increased presence in the newer geographies will remain a key rating sensitivity.

Increasing competition in Affordable Housing segment

The strong regulatory thrust on the affordable housing segment has led to various large number of players entering the affordable housing finance segment. These players offer similar products at competitive rates which has led to increased churn of borrowers. In the increasingly competitive market with a bid to grow its operations, the HFCs are likely to lower down its underwriting standards. Sustainability of growth of this segment remains a key monitorable. Further, impact of regulatory changes such as capital adequacy norms, LTV norms, provisioning norms to name a few will also have an impact on the overall performance of the sector.

Acuité believes that MHIL's ability to sustain the competition will depend on its ability to scale up its operations while maintaining its asset quality and keeping its cost of funding and opex at optimal levels.

Liquidity Position:

The Company's asset liability profile as on September 30, 2018 has a positive cumulative mismatch in all maturity buckets upto 1 year. While in the near term buckets there is limited buffer to absorb any shortfalls in inflows, company should be able to arrange for timely refinancing or drawdown from its existing cash credit lines to meet any potential mismatches. Any significant equity infusion will impart a positive bias to the liquidity profile.

Outlook: Stable

Acuité 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

| | Unit | FY18 (Audited) | FY17 (Audited) | FY16 (Audited) |
|---|---------|-------------------|-------------------|-------------------|
| Total Assets | Rs. Cr. | 371.62 | 196.95 | 103.73 |
| Total Income* | Rs. Cr. | 38.06 | 18.67 | 9.34 |
| PAT | Rs. Cr. | 16.88 | 6.00 | 2.65 |
| Net Worth | Rs. Cr. | 50.50 | 33.62 | 22.61 |
| Return on Average Assets (RoAA) | (%) | 5.94 | 3.99 | 3.15 |
| Return on Average Net Worth(RoNW) | (%) | 40.14 | 21.36 | 14.09 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 6.19 | 4.69 | 3.40 |
| Gross NPA | (%) | 1.51% | 1.64% | 0.99% |
| Net NPA | (%) | 1.22% | 1.35% | 0.77% |

* Total income equals to Net interest income plus other income

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

None

Any other information

Acuité has been informed that Mr. Basant Kumar Goyal has been re-designated from whole time director to non-executive director of the Company in board meeting held on 28th Dec, 2018.

Applicable Criteria

- Criteria for Rating of Non-Banking Financing Entities - <https://acuite.in/view-rating-criteria-10.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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 |
|----------------|--|-----------|------------------|-------------------------------|
| April 6, 2018 | Unsecured Subordinated Redeemable Nonconvertible Debenture | Long Term | 10.00 | ACUITE BBB+/Stable (Upgraded) |
| March 28, 2017 | Proposed Nonconvertible Debenture | Long Term | 10.00 | ACUITE BBB/Stable (Assigned) |

*Annexure – Details of instruments rated

| ISIN | Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------|--|------------------|-------------|---------------|-----------------------------|---------------------------------|
| - | Unsecured Subordinated Redeemable Non-Convertible Debentures | 31-03-2017 | 14.00 | 30-09-2022 | 10.00 | ACUITE BBB+/Stable (Reaffirmed) |

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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