Press Release

Mentor Home Loans India Limited

April 08, 2020

Rating Reaffirmed and Assigned

Non-convertible Debentures	Rs. 15.00 Cr.
Long Term Rating	ACUITE BBB+/Negative (Reaffirmed & Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed a long term rating of '**ACUITE BBB+**' **(read as ACUITE triple B plus)** to the Rs. 10.00 Cr and assigned a long term rating of '**ACUITE BBB+**' **(read as ACUITE triple B plus)** to the Rs. 5.00 Cr Non-convertible debentures of MENTOR HOME LOANS INDIA LIMITED (MHIL). The outlook is **'Negative'.**

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 the standalone business and financial risk profiles of MHIL to arrive at this rating.

Key Rating Drivers

Strengths

- **Healthy operational indicators:**
  MHIL, initially started its operations in 1994 as an NBFC engaged in vehicle financing and subsequently shifted to housing finance in 2014. Over the past 5 years the company has established its market position by scaling up Assets Under Management (AUM) from Rs. 42.0 Cr. as of March 31, 2014 to Rs.479.82 Cr. as of March 31, 2019. The company's AUM at Rs. 474.51 Cr. as on December 31, 2019, retail housing loans (in affordable segment) comprised 75 percent of the total portfolio, the balance being LAP.

  The company's operations are mostly concentrated around Rajasthan with around 75% of the loan book originated from Rajasthan (84% as of March 2018). Besides Rajasthan, the company has a presence in other states like Gujarat, Madhya Pradesh & Maharashtra. It operates through a network of 42 branches spread across the four states. While Rajasthan continues to be a major market for MHIL, its entry into other states will gradually de-risk its portfolio from geographical concentration risk. MHIL's operations are overseen by Mr. Pawan Goyal, Managing Director, along with support from professionals in various verticals.

  MHIL has reported healthy growth while maintaining asset quality and profitability measures. The company reported Gross Non-Performing Assets (NPA) of 1.58 percent as on March 31, 2019 as against 1.51 percent as on March 31, 2018 & 1.64 percent as on March 31, 2017. Gross NPAs stood at 1.61 percent as on December 31, 2019. The company has adopted prudent lending practices as reflected in its average Loan to Value (LTV) ratio, it 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 10.69 percent in FY2019 as against 10.59 percent in FY2018. The company reported Return on Average Assets (ROAA) of 5.61 percent in FY2019 as against 6.19 percent in FY2018, RoAA stood at 4.29 percent (annualised) for 9MFY2020.

  MHIL's borrower profile constitutes exposure of ~60 percent to self-employed borrowers and remaining to salaried borrowers. The cash flows of these borrowers especially in the self-employed category are linked to the economic activities in the region. With the COVID-19 lockdown in the country, most business are shut, there is also a heightened possibility of job losses in the market.

Acuite believes, any prolonged period of unrest may impact the asset quality of players like MHIL over the near term.

- **Adequate Capitalisation**

MHIL's capitalization remained comfortable with overall Capital Adequacy Ratio (CAR) of 54.32 percent as on March 31, 2019 as against 45.01 percent as on March 31, 2018. Of the overall CAR as on March 31, 2019, Tier I CAR constituted 39.96 percent and Tier II CAR constituted 14.37 percent. MHIL has a tangible net worth of Rs. 75.76Cr. as on March 31, 2019 as against Rs. 50.49 Cr. as on March 31, 2018. 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 5.61 times as on March 31, 2019 as against 6.19 times as on March 31, 2018 & 4.69 times as on March 31, 2017. CAR and gearing stood at 67.14 percent and 4.29 times respectively as on December 31, 2019. 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 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

- **Change in management:**

MHIL is a family run NBFC, promoted by Mr. G. L. Goyal (Chairman). The day to day operations of the company were managed by his sons, Mr. Pawan Goyal and Mr. Basant Goyal. Post a family feud, Mr. Basant Goyal, (a member of the promoter family), who was earlier associated with MHIL as an Executive director, has stepped down from his executive role, though he still continues on the Board of the company. Mr. Pawan Goyal, is presently in charge of the day to day operations.

The management has inducted professionals from the industry to oversee key functions which were earlier handled by Mr. Basant Goyal. The ability of the new management to maintain the key operating parameters, post these operational level developments is to be examined.

Acuité believes, that the efficacy of the company to maintain its operating performance and financial flexibility under these circumstances will remain a key rating monitorable.

- **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.

Material Covenants

- Maintaining minimum Capital Adequacy Ratio of 15% and networth of Rs. 27.00 crore
- Maintaining minimum GNPA < 3%
- Positive Profits after tax.

Rating Sensitivity Factors

- Growth in AUM, profitability and asset quality.
- Maintaining granularity in the portfolio
- Maintenance of adequate Liquidity

Liquidity Position – Adequate

The Company's asset liability profile as on December 31, 2019 has a positive cumulative mismatch in all maturity buckets. The company has unutilised undrawn credit lines to the tune of ~ Rs. 50 Cr. the company also avails cash credit limits from banks which was on an average ~35% utilised over six months ending December 31, 2019. Acuité believes, that any significant deterioration in collection efficiency and asset quality due to COVID-19 lockdown, may impact the liquidity profile of MHIL. Any equity infusion will impart a positive bias to the liquidity profile.

Outlook: Negative

Acuité has revised the outlook of MHIL to 'Negative' due to operating level changes in the management which may impact the operating performance and the financial flexibility of the company. The rating may be downgraded in case of deterioration in operating performance or challenges faced in raising additional funds and slowdown in disbursement, Conversely, the outlook may be revised to 'stable' in case the company demonstrates its ability to maintain growth in its loan book while maintaining a healthy asset quality and improved financial flexibility will remain a key rating monitorable.

About the Rated Entity - Key Financials

Particulars	Unit	FY19	FY18	FY17
Total Assets	Rs. Cr.	508.78	371.62	196.95
Total Income*	Rs. Cr.	52.98	38.06	18.67
PAT	Rs. Cr.	25.27	16.88	6.00
Net Worth	Rs. Cr.	75.76	50.50	33.62
Return on Average Assets (RoAA)	(%)	5.74	5.94	3.99
Return on Average Net Worth(RoNW)	(%)	40.02	40.14	21.36
Total Debt/Tangible Net Worth (Gearing)	Times	5.61	6,19	4.69
Gross NPA	(%)	1.58	1.51	1.64
Net NPA	(%)	1.35	1.22	1.35

Total income equals to Net interest income plus other income

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
23-Oct-2019	Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	5.00	ACUITE BBB+/Negative (Reaffirmed; Outlook revised to negative)
	Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	5.00	ACUITE BBB+/Negative (Assigned)
27-Aug-2019	Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	10.00	ACUITE BBB+ (Under Rating watch with developing implications)
14-Feb- 2019	Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	10.00	ACUITE BBB+/Stable (Reaffirmed)
06- April- 2018	Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	10.00	ACUITE BBB+/Stable (Upgraded)
28-Mar-2017	Proposed Non-Convertible Debentures	Long Term	10.00	ACUITE BBB/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
Unsecured Subordinated Redeemable Non-Convertible Debentures	31-03-2017	14.00	30-09-2022	5.00	ACUITE BBB+/Negative (Reaffirmed)
Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+/Negative (Reaffirmed)
Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+/Negative (Assigned)

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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.