

Press Release

Mentor Home Loans India Limited

January 22, 2021

Rating Reaffirmed



Non-convertible Debentures	Rs. 15.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Rating Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 15.00 Cr Non-convertible debentures of Mentor Home Loans India Limited (MHIL). The outlook is '**Stable**'.

The rating factors in the experience of the promoters and management in the financial services sector. The rating also derives strength from the adequate capitalisation buffers to support its growth prospects. Overall Capital Adequacy Ratio (CAR) stood at 60.19 percent as on September 30, 2020. The rating also derives strength from the prudent lending practices and moderate asset quality.

The rating is, however, constrained due to the ongoing dispute among the management. The rating also factors in significant decline in disbursement for FY21, owing to challenges in raising resources from financial institutions. The rating is constrained by the relatively small scale of operations and geographical concentration of the loan portfolio with ~74 percent in Rajasthan. Acuite believes that the efficacy of the company to maintain its operating performance and financial flexibility under these circumstances will remain a key rating monitorable. The rating is also constrained due to susceptibility of operating performance to the overall operating environment, geographically concentrated portfolio, ability to raise fresh funding and slow pace of disbursements which in turn will lead to slow growth in the loan portfolio of the company.

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 38 branches.

Analytical Approach

Acuite 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 6 years the company has established its market position by scaling up its portfolio from Rs. 42.0 Cr. as of March 31, 2014 to Rs.455.50 Cr. as of March 31, 2020 and Rs. 457.92 Cr. as on September 30, 2020. Its portfolio comprises mainly of retail housing loans (in affordable segment), i.e. 73 percent, the balance being LAP. The company's AUM at Rs. 481.92 Cr. as on September 30, 2020 includes off balance sheet exposures in the form of direct assignment portfolio.

The company's operations are mostly concentrated around Rajasthan with around 74% of the loan book

originated from Rajasthan (75% as of March 2020). Besides Rajasthan, the company has a presence in other states like Gujarat, Madhya Pradesh & Maharashtra. It operates through a network of 38 branches spread across these 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 muted growth while maintaining asset quality and profitability measures. The company reported Gross Non-Performing Assets (NPA) of 1.46 percent as on September 30, 2020 and 1.59 percent as on March 31, 2020 as against 1.58 percent as on March 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 9.73 percent in FY2020 as against 10.69 percent in FY2019. The company reported Return on Average Assets (ROAA) of 4.66 percent in FY2020 as against 5.71 percent in FY2019.

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 60.19 percent as on September 30, 2020 as against 66.61 percent as on March 31, 2020. Of the overall CAR as on September 30, 2020, Tier I CAR stood at 49.03% and Tier II CAR stood 11.16%. MHIL has a net worth of Rs. 112.35 Cr. as on September 30, 2020 and Rs. 99.94 Cr. as on March 31, 2020 as against Rs. 75.76 Cr. as on March 31, 2019. 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 4.01 times as on March 31, 2020 as against 5.61 times as on March 31, 2019. CAR and gearing stood at 60.19 percent and 3.44 times respectively as on September 30, 2020. Debt comprises mostly term loans and cash credit availed from banks ~46% and term loans from financial institutions ~53%. Besides term loans which contribute majorly portion of debt funding company also has cash credit limit and raised funds through NCDs (comprises 1% of borrowings). 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.

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

Weaknesses

• Disputes in the promoter family:

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 promoter dispute is currently sub judice and is being represented in National Company Law Tribunal (NCLT).

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.

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

• Susceptibility of operating performance to the overall operating environment

MHIL's key product offerings are spread across financing through home loans in the affordable housing segment and Loan against property (LAP). Around 73 percent of MHIL's portfolio as on September 30, 2020 accounts for home loans while remaining comprises of LAP portfolio. Majority of the MHIL's borrowers comprise of self-employed individuals including small traders, retailers, businessmen and other local small business operators. The activities of most of these small MSME units have been impacted because of the lockdowns and restrictions on movement of men and material. MHIL's overall credit profile is also susceptible to concentration of portfolio in Rajasthan, hence, the serviceability of these loans is directly dependent on the level of economic activity in the region.

While on one hand, MHIL could face asset side challenges w.r.t asset quality, MHIL also faces challenges in raising fresh long-term funding. The overtly cautious and selective approach adopted by lenders post the IL&FS crisis has led to lower availability of fresh funding for companies like MHIL. In FY2020 the company was able to raise ~Rs. 57 Cr in terms of fresh funding and Rs. 15 Cr. in FY2021 (till November, 2020). The extent of stringency in underwriting has intensified further after outbreak of pandemic and increasing challenges in the operating environment has made it difficult to raise fresh long-term funding. Amidst such a challenging financing environment, companies like MHIL, with a dissension in management, are likely to face challenges in terms of their funding. MHIL has, in this period, adopted to means like raising finances through sale of pool through direct assignment route.

Further the thrust of regulator in 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 choice for customers. The current overall environment has resulted in slowdown for credit, as the lender/investor have taken a wait and watch attitude. The demand for housing credit is expected to resume to normal levels only in a phased manner. Hence, companies like MHIL will face both demand side and supply side challenges. MHIL's disbursement for HY1FY2021 stood at ~Rs16 Cr. as against Rs. 52.64 Cr. for HY1FY2020 and Rs. 136.29 Cr. in HY1FY2019. 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.

Acuite believes that MHIL's ability to raise long term funding at competitive rates to augment its growth in a challenging operating environment while maintaining its asset quality and keeping its opex at optimal levels will be a key rating monitorable.

Rating Sensitivity Factors

- Significant changes in management
- Resolution of ongoing dispute
- Growth in AUM, profitability and asset quality.
- Maintaining granularity in the portfolio
- Maintenance of adequate Liquidity
- Changes in regulatory environment

Liquidity Position: Adequate

The Company has an adequate liquidity position as on November 30, 2020 with unencumbered cash and bank balance of ~ Rs. 31.70 Cr and undrawn cash credit limits of Rs. 5.73 Cr. The debt servicing obligations due over the next three months is ~Rs.30 Cr. The cashflows are supported by collections which are ~Rs. 12 to 14 Crs. per month, the per month collections had dropped to ~Rs. 4.29 Cr in April-2020 due to moratorium availed by borrowers it has now improved to ~Rs. 13 Cr in November 2020. The company has also availed funds through special liquidity window from NHB and has down sold its assets mainly through direct assignment transactions.

Outlook: Stable

Acuite believes that MHIL's credit profile will maintain a 'Stable' outlook on the back of its established position in its area of operations and healthy capitalisation levels. The outlook may be revised to 'Positive' in case MHIL is able to resolve the dispute in time and is able to demonstrate a higher than expected growth in AUM and improvement in its operating parameters. The outlook may be revised to 'Negative' In case of intensification in the dispute leading to disruption in operating performance or degrowth in AUM or decline in operating performance.

About the Rated Entity - Key Financials

Particulars	Unit	FY20	FY19
Total Assets	Rs. Cr.	508.55	508.78
Total Income*	Rs. Cr.	48.24	52.98
PAT	Rs. Cr.	23.68	25.27
Net Worth	Rs. Cr.	99.44	75.76
Return on Average Assets (RoAA)	(%)	4.66	5.74
Return on Average Net Worth (RoNW)	(%)	27.03	40.02
Total Debt/Tangible Net Worth (Gearing)	Times	4.01	5.61
Gross NPA	(%)	1.59	1.58
Net NPA	(%)	1.32	1.32

*Total income equals to Net interest income plus other income

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

None

Material Covenants

MHIL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

Any other information

The company and its directors face various pending litigations at NCLT, Jaipur filed by Mr. Basant Goyal.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/ Outlook
11-November-2021	Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	5.00	ACUITE BBB/Stable (Rating Downgraded from ACUITE BBB+; Outlook revised)
	Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	5.00	ACUITE BBB/Stable (Rating Downgraded from ACUITE BBB+; Outlook revised)
	Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	5.00	ACUITE BBB/Stable (Rating Downgraded from ACUITE BBB+; Outlook revised)
08-April-2020	Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	5.00	ACUITE BBB+/Negative (Reaffirmed)
	Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	5.00	ACUITE BBB+/Negative (Reaffirmed)

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

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About Acuité Ratings & Research:

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