

Press Release

Mentor Home Loans India Limited

February 25, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	125.00	ACUITE BBB Stable Reaffirmed	-
Non- Convertible Debentures (NCD)	15.00	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	140.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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**'.

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 125.00 Cr. proposed bank loan facility of Mentor Home Loans India Limited (MHIL). The outlook is '**Stable**'.

The rating factors in MHIL's experienced promoter and management team, as well as its adequate capitalisation & liquidity buffers. Overall Capital Adequacy Ratio (CAR) stood at 71.74 percent as on December 31, 2021. The rating further derives strength from healthy asset quality marked by on time portfolio of 98.01 percent as on December 31, 2021.

The rating is, however, constrained due to the ongoing dispute amongst the promoters which has impacted the business growth & resources raising in the company over the last few years. Over the last few years, the company's disbursements have declined from Rs. 107 Cr. during FY2020 to Rs. 47.13 Cr. during FY2021 (Rs. 57.44 Cr. during 10M FY2022) owing to challenges in resources raising from financial institutions. Consequently, there has been a decline in the overall AUM and profits. The rating is further constrained by the relatively small scale of operations and geographical concentration of the loan portfolio with ~72 percent POS in Rajasthan. Acuite believes that an amicable resolution to the ongoing promoter dispute is a key rating monitorable for the company's growth prospects going forward.

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 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 39 branches.

Analytical Approach

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

Key Rating Drivers

Strength

- **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 7 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. 457.11 Cr. as of March 31, 2021 and Rs. 446.43 Cr. as on December 31, 2021. Its portfolio comprises mainly of retail housing loans (in affordable segment) i.e. 73 percent, the balance being LAP. The company's AUM of Rs. 446.43 Cr. as on December 31, 2021 includes off balance sheet exposures in the form of direct assignment portfolio comprising ~22.39 percent of AUM. However, MHIL's AUM has remained stagnant over the past couple of year.

The company's operations are mostly concentrated around Rajasthan with around 72 percent of the loan book originated from Rajasthan (75 percent as of March 2020). Besides Rajasthan, the company has presence in other states like Gujarat, Madhya Pradesh & Maharashtra. It operates through a network of 39 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 decline in loan portfolio while maintaining asset quality and profitability measures. The company reported Gross Non-Performing Assets (NPA) of 1.99 percent as on December 31, 2021 and 1.68 percent as on March 31, 2021 as against 1.59 percent as on March 31, 2020. 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 9.83 percent in FY2021 as against 9.73 percent in FY2020. The company reported Return on Average Assets (ROAA) of 4.25 percent for FY2021 (4.66 percent in FY2020).

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. MHIL's portfolio has however, declined as the company is raising funds through direct assignment transactions as lenders have taken a cautious approach in sanctioning fresh loans with regards to on-going family feud.

Acuite believes that MHIL's ability to raise and deploy the funds profitably while maintaining its asset quality will be key rating monitorable.

- **Adequate Capitalisation**

MHIL's capitalization remained comfortable with overall Capital Adequacy Ratio (CAR) of 71.74 percent as on December 31, 2021 as against 60.26 percent as on March 31, 2021. Of the overall CAR as on December 31, 2021, Tier I CAR stood at 62.04 percent and Tier II CAR stood 9.70 percent. The improvement in CAR was majorly on account of reduction in risk weighted assets due to declining on-book loan portfolio. MHIL has a net worth of Rs. 130.30 Cr. as on September 30, 2021 and Rs. 120.29 Cr. as on March 31, 2021 (Rs. 99.44 Cr. as on March 31, 2020). The networth improved on the back of healthy internal accruals.

The company had relied mainly on bank lines to support its business growth however, during FY2021 and 9M FY2022, the company has relied on direct assignment transactions to sustain its AUM. The company reported gearing of 2.78 times as on March 31, 2021 from 4.01 times as

on March 31, 2020 (5.61 times as on March 31, 2019). Debt comprises mostly term loans and cash credit availed from Banks & NBFC/FI. Besides term loans & re-finance from NHB which contribute majorly portion of debt funding company also has cash credit limit and has raised funds through NCDs (comprises 1 percent of borrowings).

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

Weakness

• Disputes in the promoter family

MHIL is a family run NBFC, promoted by Mr. G. L. Goyal. 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. 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.

• 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 December 31, 2021 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. 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 and management dissent has led to lower availability of fresh funding for MHIL. In FY2020, the company was able to raise ~Rs. 37 Cr in terms of fresh funding via term loans and refinancing and Rs. 16 Cr. in FY2021. The outbreak of pandemic and increasing challenges in the operating environment has further made it difficult to raise fresh long-term funding. Amidst such a challenging financing environment, companies like MHIL, with 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, the company raised Rs. 15.37 Cr. in FY2020 and Rs. 53.46 Cr. In FY2021.

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. Acuite believes that the company will benefit from the expected buoyancy in demand for affordable housing segment once the economic climate in the country stabilises and MHIL's ability to benefit from the growth in demand for affordable housing.

MHIL's disbursement for FY2022 (till January 2022) stood at Rs. 57.44 Cr. as compared to Rs. 41.73 Cr. in FY2021 and Rs. 106.56 Cr in FY2020. Sustainability of growth of this segment remains a key monitorable.

Acuité 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

- Resolution of ongoing promoters dispute
- Growth in AUM
- Movement in profitability metrics and asset quality.
- Liquidity and capitalisation buffers
- Changes in regulatory environment

Material Covenants

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

Liquidity Position Adequate

MHIL has adequately matched asset liability profile as per ALM statement dated September 30, 2021. As on September 30, 2021 MHIL had unencumbered cash & bank deposits of Rs. 28.92 crore. The debt servicing obligations due over the period of 1 year is ~Rs. 67 Cr. The cashflows are supported by collections which are ~Rs. 13 to 14 Cr. per month. The company also avails cash credit facilities from Banks and has down sold its assets mainly through direct assignment transactions.

Outlook:

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.

Key Financials - Standalone / Originator

Particulars	Unit	FY21	FY20
Total Assets	Rs. Cr.	471.47	508.55
Total Income*	Rs. Cr.	45.52	48.24
PAT	Rs. Cr.	20.84	23.68
Net Worth	Rs. Cr.	120.29	99.44
Return on Average Assets (RoAA)	(%)	4.25	4.66
Return on Average Net Worth (RoNW)	(%)	18.97	27.03
Total Debt/Tangible Net Worth (Gearing)	Times	2.78	4.01
Gross NPA	(%)	1.68	1.59
Net NPA	(%)	1.29	1.32

*Total income equals to Net interest income plus other income

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

Not Applicable

Any other information

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

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Mar 2021	Proposed Non Convertible Debentures	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	100.00	ACUITE BBB Stable (Assigned)
	Proposed Non Convertible Debentures	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	25.00	ACUITE BBB Stable (Reaffirmed)
08 Feb 2021	Proposed Non Convertible Debentures	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	25.00	ACUITE BBB Stable (Assigned)
	Proposed Non Convertible Debentures	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
22 Jan 2021	Proposed Non Convertible Debentures	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
11 Nov 2020	Proposed Non Convertible Debentures	Long Term	5.00	ACUITE BBB Stable (Downgraded from ACUITE BBB+ Negative)
	Non Convertible Debentures	Long Term	5.00	ACUITE BBB Stable (Downgraded from ACUITE BBB+ Negative)
	Proposed Non Convertible Debentures	Long Term	5.00	ACUITE BBB Stable (Downgraded from ACUITE BBB+ Negative)
08 Apr 2020	Non Convertible Debentures	Long Term	5.00	ACUITE BBB+ Negative (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	5.00	ACUITE BBB+ Negative (Assigned)
	Non Convertible Debentures	Long Term	5.00	ACUITE BBB+ Negative (Reaffirmed)
23 Oct 2019	Non Convertible Debentures	Long Term	5.00	ACUITE BBB+ Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	5.00	ACUITE BBB+ Negative (Assigned)
27 Aug 2019	Non Convertible Debentures	Long Term	10.00	ACUITE BBB+ (Ratings Under Watch)
14 Feb 2019	Non Convertible Debentures	Long Term	10.00	ACUITE BBB+ Stable (Reaffirmed)
06 Apr 2018	Non Convertible Debentures	Long Term	10.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
28 Mar 2017	Proposed Non Convertible Debentures	Long Term	10.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Non-Convertible Debentures (NCD)	31-03-2017	14.00	30-09-2022	5.00	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	125.00	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB Stable Reaffirmed

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About Acuité Ratings & Research

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