

Press Release

Blaze Trust

April 11, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.00	ACUITE BB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	12.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) to the Rs. 12.00 crore bank facilities of Blaze Trust. The outlook is '**Stable**'.

The rating factors in the experienced management and adequate capitalization levels marked by Capital Adequacy Ratio (CAR) of 30.25 percent as on March 31, 2021. The rating also takes into account Blaze Trust's comfortable asset quality marked by on-time portfolio of 98.95 percent as on September 30, 2021.

The rating is however, constrained by modest scale of operations, limited financial flexibility, declining AUM, and risks inherent to micro finance sector. Given its constitution as a trust, Blaze Trust has inherent limitations in raising equity which is also expected to constrain its growth. Going forward, the company's ability to profitably scale up its operations while maintaining its asset quality shall be key monitorables.

About the company

Blaze Trust is a Non-Government Organisation-Micro Finance based in Tamil Nadu, India. The trust had started its operations in the year 2007. The trust focuses on Joint Liability Group (JLG), Self- Help Group (SHG), and Micro Credit Group (MCG) lending model for providing collateral free, small ticket-size loans amounting to Rs.10,000 to Rs.40,000 to group of economically active poor women for a period of 12 to 36 months. Blaze is presently working as a business correspondent with Kiara Microcredit Private Limited. The total portfolio of Blaze Trust stood at Rs 8.54 Crore of which managed portfolio stood at Rs 1.27 Crore as on March 31, 2021.

Analytical Approach

Acuite has considered standalone business and financial risk profile of Blaze Trust to arrive at the rating.

Key Rating Drivers

Strength

Experienced management

Blaze Trust has three-member governing body having adequate experience in Woman empowerment and MFI sector. Among the governing body, Mr. V. Sharavanakumar (Managing Trustee and CEO) takes strategic decisions and is actively involved in the day-to-day business operations. He is also a member of both the Finance and Audit Committee of the Board. Mrs. S. Nagasundari (Secretary and Social Welfare Officer) and Mrs. S. Abiramavalli (Trustee) are other members of governing body. Acuité believes that the company's growth prospects will be supported by the management's experience in the industry.

Adequate capitalization levels; comfortable asset quality.

The company has adequate capitalization levels. The company reported capital adequacy ratio at 30.25 percent as on March 31, 2021 (28.35 percent as on March 31, 2020). Its gearing stood at 3.52 times in FY2021 (2.95 times in FY2020), the same increased to 3.84 times as on September 30, 2021. The company has been able to maintain sound asset quality with an on-time portfolio at 98.95 percent and Gross Non-performing Assets (GNPA) at 1.01 percent as on September 30, 2021 (on-time portfolio at 99.04 percent and GNPA at 0.94 percent as on March 31, 2021).

Acuité expects the capitalization and asset quality metrics to remain comfortable in the near to middle term.

Weakness

Geographical concentration coupled with small scale of operation

The activities of microfinance companies, like Blaze Trust are exposed to geographical concentration risks. Blaze Trust has presence in 2 states with concentration in Tamil Nadu (91 percent of the overall portfolio) and balance in Kerala as on March 31, 2021. It has 5 branches located at 5 different districts. This exposes the company to high geographical concentration risk. The company's performance is expected to remain exposed to competitive or political landscape in these regions and occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework thereby impacting credit profile of Blaze Trust.

Acuité believes that geographic concentration in its portfolio coupled with the inherent risk in microfinance segment will continue to weigh on the company's credit profile over the near to medium term.

Limited resources raising ability

Blaze has funding relationships with 5 lenders (including PSU Banks/NBFCs). Out of total debt outstanding of Rs. 7.16 crores, the borrowings from PSU Banks contributed ~78 per cent of external borrowings and the rest from NBFCs as on 31st March, 2021. Blaze has added one lender i.e. Catholic Syrian Bank in FY 2021 and two more lenders in FY 2022 i.e. Union Bank of India and Kiara Microcredit Private Limited.

Acuité believes given its constitution as a trust, Blaze Trust has inherent limitations in raising equity which is also expected to constrain its growth.

Modest Profitability

In terms of profitability, PAT has remained steady at Rs 0.15 crores (FY2020: Rs 0.15 crores) on total income of Rs1.50 crores (FY2020: Rs1.10 crores) for FY 2021. During H1FY2022 PAT levels stood at Rs 0.08 crores on total income of Rs 0.56 crores.

Acuité believes, the ability of the company to mobilize additional funding, profitable portfolio scale-up while maintaining asset quality will be crucial to the credit profile of the company.

Rating Sensitivity

- Changes in business model
- Movement in Asset Quality and Profitability Metrics
- Scale of operations

- Ability to raise capital & liquidity
- Diversification in geographical profile

Material Covenants

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

Liquidity Position: Adequate

Blaze Trust's overall liquidity profile remains adequate in near to medium term. The company has maintained cash and bank balance of ~Rs. 1.08 crore as on September 30, 2021 (~Rs. 0.83 crore as on March 31, 2021).

Outlook-Stable

Acuité believes that Blaze will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to maintain asset quality. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio while maintaining asset quality and capital structure. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality and profitability metrics

Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	9.42	7.59
Total Income*	Rs. Cr.	1.50	1.10
PAT	Rs. Cr.	0.15	0.15
Net Worth	Rs. Cr.	2.07	1.92
Return on Average Assets (RoAA)	(%)	1.78	2.31
Return on Average Net Worth (RoNW)	(%)	7.57	9.30
Debt/Equity	Times	3.52	2.95
Gross NPA	(%)	0.94	0.21

Net NPA	(%)	NA	NA
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*Total income equals to Net Interest Income, Securitization Income plus other income.

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

Not Applicable.

Any other information

None

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:

Not Applicable

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	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB Stable Assigned

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About Acuité Ratings & Research

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