

Press Release

Cashpor Micro Credit

March 18, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs. 467.95 Cr.
Long Term Rating	ACUITE A/ Outlook: Stable (Upgraded from ACUITE A/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating on Cashpor Micro Credit's (CMC) bank facilities of Rs.362.95 crore to '**ACUITE A**' (**read as ACUITE A**) from '**ACUITE A-**' (**read as ACUITE A minus**), and assigned long term rating of '**ACUITE A**' (**read as ACUITE A**) to Rs. 105.00 crore bank facilities. The outlook is '**Stable**'.

Further, Acuité has withdrawn long term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs. 407.05 crore bank facilities of CMC.

The rating revision is in view of the improvement in CMC's operating performance, which is expected to be sustained over the near to medium term. CMC's Asset Under Management (AUM) i.e. on book loan portfolio and loans under Business Correspondent (BC) model has increased mainly on account of sharp spike in the portfolio under BC arrangement. The portfolio under BC arrangement increased to 49 percent as on December, 2018 of the overall AUM against 39 percent in FY2017. The company generated Net Profit of Rs.31.94 crore in FY2018 as against Rs.21.33 crore in FY2017. The asset quality continues to remain at healthy levels as Return on Average Asset (RoAA) has improved significantly to 4.65 (annualised) percent for nine months ending 31 December, 2018 from 2.33 percent in FY2017 supported by growth in BC portfolio. Further, the rating also factors in the company's demonstrated ability to maintain healthy asset quality while scaling up of operations.

Acuité expects CMC to sustain its growth over the near to medium term based on established relations with various banks under the business correspondent arrangement.

CMC began its operations in 1997 as Cashpor Financial and Technical Services (CFTS) for providing microfinance services to the below poverty line (BPL) women in Mirzapur District (Uttar Pradesh). In 2002, CFTS transferred all its microfinance activities to CMC which registered itself as a not-for-profit company under Section 8 of The Companies Act. The company is part of the Cashpor group promoted by Prof. David S. Gibbons and is currently operating in the states of Uttar Pradesh, Bihar, Chhattisgarh, Jharkhand and Madhya Pradesh. The company currently operates 552 branches in 73 districts in these 5 states.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of CMC to arrive at the rating.

Key Rating Drivers

Strengths

Established presence in microfinance lending:

Established in 1996-97, CMC has an established presence of over two decades in the microfinance sector. The company is promoted by Prof. Gibbons, Chairperson, having vast experience in this sector. He is a PHD holder in Politics and Economics from Princeton University, he is a professor in University Sains Malaysia in Penang. He founded Amanah Ikhtiar Malaysia, the first successful international replication of the Grameen Bank of Bangladesh. He was awarded with 'Contribution to the Sector Award - Contribution to the Growth of the Microfinance Sector in India by an Individual Award' in 2011 at Access Microfinance India Summit. Besides this, he has also been a member of Policy Advisory

Group of CGAP (Consultative Group to Assist the Poor), World Bank. Prof. Gibbons chairs the Board of CASHPOR Group of Companies and provides his strategic guidance and leadership to the Board and the Company.

The company's Managing Director, Mr. Mukul Jaiswal, Chartered Accountant, who has over a decades experience in the microfinance sector. In addition, CMC houses on its board Ms. Moumita Sen Sarma, Ex-head of Microfinance and Sustainable Development at ABN AMRO Bank (RBS Foundational Bank), and Mr. Bahram Navroz Vakil, who is a Masters in law holder from Columbia University, and is an advocate of the Bar Council of Maharashtra and Goa. Together they lend their significant expertise in the field of microfinance, corporate law and finance to CMC.

The company operates in regions with high concentration of below poverty line (BPL) population spread across 73 districts in the states of Uttar Pradesh, Bihar, Chhattisgarh, Jharkhand and Madhya Pradesh. The company has 552 branches as on 31 December, 2018 as against 422 branches as on 31 March, 2015. The entity over the years has been able to increase its AUM to Rs.1,919 crore in FY2018 from Rs.1,330 crore in FY2017, thereby registering a growth of ~44 per cent.

Acuité believes that CMC will continue to benefit from its established position and the promoter's strong understating of not-for-profit microfinance lending.

Healthy financial position and sound asset quality: BC business to be major growth driver

CMC primarily focuses on lending to Joint Liability Group's (JLG) of women, below poverty line, in Uttar Pradesh, Bihar, Jharkhand, Madhya Pradesh and Chhattisgarh. The stringent credit assessment and monitoring processes in place have enabled the company to maintain healthy asset quality, reflected in low GNPA and comfortable collection efficiency. The company reported Gross NPA of 0.47 percent as on December 31, 2018 and 0.40 percent as on March 31, 2018. It has demonstrated moderate collection efficiency with a track record of over ~97.54 percent collection on an average for the eleven months ended December 31, 2018. Further, CMC has a comfortable liquidity position due to well matched maturity of assets and liabilities, the tenure for loans issued is ~12-24 months, whereas the bank funding typically has tenure of about 24-60 months. Going ahead, Acuité expects the liquidity to remain comfortable, backed by CMC's sound asset quality reflected in its low Non-Performing Assets (NPA) which is 0.07 percent in FY2018 of the overall AUM as on March, 2018.

The funding pattern of CMC as on March, 2018 included ~87 per cent of term loan from banks and financial institutions compared to 89 per cent as on 31 March, 2017, resulting in improvement in Capital adequacy indicators. Capital Adequacy Ratio (CAR) improved to 19.19 per cent as on 31 March, 2018 compared to 17.09 per cent as on 31 March, 2017, while CAR stood at 22.31 percent as on 31 December, 2018. Further, healthy financial position of CMC is reflected in the comfortable Return on Average Asset of 4.65 percent (annualised) as on 31 December, 2018 as against 2.79 per cent as on 31 March, 2018 and 2.33 per cent as on 31 March, 2017. This was mainly due to the increase in the off-book lending, resulting in sharp improvement in the company's profitability. CMC has established relationships with banks such as IndusInd Bank and Kotak Mahindra Bank, amongst others for over six to seven years.

Going forward, the management's strategy to maintain equal balance of on-book and off-book loan portfolio will ensure capital levels are at modest levels and improvement in profitability over near to medium term.

Weaknesses

Moderate geographic concentration

CMC's operations are moderately concentrated with Uttar Pradesh accounting for 55 per cent of its total portfolio as on 31 March, 2018. Generally, the risk profile of a microfinance company with a geographically diversified portfolio is more resilient compared to that of an entity with a geographically concentrated portfolio. In order to reduce portfolio concentration level, the company is planning to open new branches in Bihar, Chhattisgarh, Jharkhand and Madhya Pradesh which currently constitute around 45 per cent of the portfolio. Acuité believes that the moderate geographical concentration of

its portfolio will continue to weigh on its credit profile over the near to medium term.

Liquidity Position

CMC has adequately matched cash flow as on December 31, 2018, with cumulative surplus all maturity buckets. Most of the loans are of upto two years tenure, while the borrowings are upto tenure of five years, leading to positive mismatches over the near to medium term.

Outlook: Stable

Acuite believes that CMC will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to maintain healthy AUM (on balance sheet assets and assets under BC model) and profitability metrics. The outlook may be revised to 'Positive' in case of higher than expected growth in AUM while maintaining key operating metrics and asset quality and liquidity. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of any challenges in maintaining its asset quality, profitability metrics and capital structure.

About the Rated Entity - Key Financials

	Unit	FY18	FY17	FY16
Total Assets	Rs. Cr.	944.56	810.97	570.94
Total Income (Net of Interest Expense)	Rs. Cr.	89.07	68.60	47.42
PAT	Rs. Cr.	31.94	21.33	13.46
Net Worth	Rs. Cr.	163.05	113.63	81.02
Return on Average Assets (RoAA)	(%)	2.79	2.33	1.83
Return on Average Net Worth (RoNW)	(%)	23.09	21.88	18.10
Total Debt/Tangible Net Worth (Gearing)	Times	6.45	7.88	8.65
Gross NPAs	(%)	0.40	0.62	0.37
Net NPAs	(%)	0.03	0.22	0.13

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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. Crore)	Ratings/Outlook
22-Dec-2017	Term Loan	Long Term	873.02	ACUITE A-/Stable (Assigned)
	Proposed Term Loan	Long Term	1.98	ACUITE A-/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
Term loan	Not Applicable	Not Applicable	Not Applicable	39.39	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	32.50	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	68.93	ACUITE A-/Stable (Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	19.39	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	27.27	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	5.27	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	25.71	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	42.68	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	29.17	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	43.57	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	43.17	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	28.57	ACUITE A-/Stable (Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	4.17	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A/Stable (Assigned)

Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	10.66 (revised from Rs. 1.98)	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	309.55	ACUITE A-/Stable (Withdrawn)

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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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