

Press Release

Msm Micro Finance Limited

June 28, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 24.50 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of **'SMERA BB-' (read as SMERA BB minus)** on the Rs. 24.50 crore bank facilities of Msm Micro Finance Limited. The outlook is **'Stable'**.

MSM Microfinance Limited (MSM), incorporated in 1996, is engaged in the financing of income generating agricultural activities in Tamil Nadu, Gujarat and Madhya Pradesh. The company is also a partnership model for several non-banking finance companies such as MAS Financial Services Limited, Equitas Finance Limited and Ananya Finance Limited. MSM originates loans on behalf of these NBFCs and is responsible for credit appraisal, monitoring and collections of receivables from the portfolio.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The day-to-day operations are led by Mr. Muthukumar, Managing Director, Mr. Mohan Kumar Subramanyam, Mr. P.S.V. Vasanth, Dr. R. Balakrishnan and Mr. Deivasigamani Balu. The management has been in the microfinance industry for over two decades. The company has long term relations with various financial institutions. Besides, MSM has been able to enter into partnership model relationships with various NBFCs. Under the partnership model, MSM extends advances to low income groups for undertaking income generating activities and is responsible for post disbursement monitoring and supporting recovery. MSM also provides a first loss facility to cover a predetermined proportion of delinquencies in the asset pool. The company has 12 branches across three states and reported Assets Under Management (AUM) (on-balance sheet loan book plus managed portfolio) of Rs.33.87 crore on 31 March, 2017 (Provisional) as against Rs.43.89 crore on 31 March, 2016. The degrowth in the AUM base is mainly on account of subdued economic condition in the semi-urban and rural economy primarily due to adverse events such as demonetisation of high value currency notes. On the back of its experienced management and relationships with coveted financial institutions, SMERA expects MSM's AUM to report sustained growth over the medium term.

- **Modest profitability indicators**

MSM derives its revenue from two sources - yield in its own on-balance sheet loan portfolio and fee income from its managed portfolio. The fee income comprises the difference in the yield on the managed portfolio and assured return to be paid to the NBFC. MSM reported total income of Rs. 3.44 crore in FY2016 (Rs. 2.07 crore in FY2015) which included net interest income of Rs. 1.47 crore in FY2016 (Rs. 1.54 crore in FY2015) and fee income of Rs. 1.32 crore in FY2016 (Rs. 0.29 crore in FY2015). Further, the company reported net interest income of Rs.5.92 crore in FY2017 (Provisional). MSM reported healthy Net Interest Margin (NIM) of 6.02 per cent in FY2016 as against 9.24 per cent in FY2015. MSM reported modest Return on Average Assets (RoAA) of 0.57 per cent in FY2016 as compared to 0.17 per cent in FY2015. While SMERA expects further moderation in MSM's NIM in FY2017 on account of challenging economic conditions, the profitability indicators are expected to improve over the medium term on account of continued growth in disbursements and

healthy yield on advances. MSM's ability to originate loans at competitive rates, maintain healthy asset quality and spread shall be the key drivers.

Weaknesses

- **Modest network base and scale of operations**

MSM faces competition from other micro finance institutions, non-banking finance companies. The competitive scenario coupled with the challenging economic environment has resulted in a significant de-growth in the company's AUM. The outstanding AUM declined to Rs. 33.87 crore on 31 March, 2017 (Provisional) from Rs.43.89 crore on 31 March, 2016. The rating is constrained by the modest scale of operations and dependence on other financial institutions for originating fresh loans. SMERA believes that MSM's ability to grow its loan book while maintaining its asset quality and spreads shall be a key credit monitorable. MSM reported modest network of Rs. 7.21 crore on 31 March, 2017 (Provisional) vis-à-vis Rs.6.60 crore on 31 March, 2016. Despite infusion of capital by promoters in FY2016, MSM's capitalisation levels continued to remain modest. MSM reported a Capital Adequacy Ratio (CAR) of 24.61 per cent in FY2016-17 (Provisional) vis-à-vis 21.23 percent in FY2015-16. SMERA believes that MSM could require infusion of additional capital by the promoters in order to continue to grow its loan book while maintaining its CAR over the medium term. Lower than expected growth in the network could result in deterioration in the overall capitalisation levels of MSM over the medium term.

- **Significant deterioration in asset quality**

MSM faced significant increase in delinquencies in its portfolio on account of lower than expected collection efficiency. The company caters mainly to low income semi-urban and rural segments. Consequently, on account of a subdued economic environment driven by events such as demonetisation, MSM reported a spike in its Portfolio At Risk (PAR). Overdue assets as a proportion of MSM's AUM increased from 0.88 per cent on 31 March, 2016 to 4.21 per cent on 31 March, 2017 (Provisional). SMERA believes that sustained increase in delinquencies can result in downward pressure on the rating over the near to medium term. MSM's credit profile will depend on its ability to improve its collection efficiency over the medium term.

Analytical Approach

SMERA has taken a standalone view of the above entity.

Outlook: Stable

SMERA believes that MSM will maintain a stable outlook on account of its experienced management and established relationships with NBFCs, comfortable capitalisation and healthy asset quality. The outlook may be revised to 'Positive' in case of higher than expected profitability margins and sustained growth in assets under management while maintaining asset quality. Conversely, the outlook may be revised to 'Negative' in case of headwinds faced by MSM in growing its loan book, sustained stress in asset quality or profitability indicators over the near to medium term.

About the Rated Entity - Key Financials

MSM, incorporated in 1969 is engaged in the business of lending and offers micro finance loans in south and west India. The company is also a partnership model for non-banking finance companies. MSM reported Profit after Tax (PAT) of Rs. 0.18 crore on total income (Interest Income plus Fee Income) of Rs.3.44 crore in FY2016 as compared to PAT of Rs.0.04 crore on total income of Rs.2.07 crore in FY2015.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Non - Banking Financing Entities - <https://www.smera.in/criteria-nbfc.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA BB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BB- / Stable

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ABOUT SMERA

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