



Press Release
MSM Micro Finance Limited
January 23, 2024
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	24.50	ACUITE BB+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	24.50	-	-

Rating Rationale

Acuite has upgraded the long-term rating to 'Acuite BB+' (read as Acuite BB plus) from 'Acuite B+' (read as Acuite B plus) on the Rs. 24.50 crore bank facilities of Msm Micro Finance Limited (MSM). The outlook is 'Stable'.

Reason for Rationale:

The upgrade in rating factors in MSM's healthy capitalization, experienced management, support of resourceful promoters and healthy asset quality. Capital infusion by promoters of Rs 1.47 Crs during FY2023 aided with internal accruals and the Tier 2 capital in the form of CCD and OCD of Rs 3.46 Cr that was raised in FY23 have contributed in company's Capital adequacy ratio of 59.22 percent as on Mar 31, 2023. MSM's healthy asset quality was marked by GNPA 1.44 percent and Nil NNPA as on March 2023. Company's on-time portfolio is marked by 98.02 percent in FY23 and 97.15 percent in H1FY24. Overall collection efficiency for average six month ending Sep'23 stood at 81 percent.

The rating is however constrained on account of MSM's high off book exposure which stood at ~75 percent of its AUM of Rs 153.8 Cr as on H1FY24. The rating is further constrained on account of modest earning profile as marked by ROMA of 0.77 percent and PAT of 0.82Cr in FY2023 and modest networth of Rs 17.50 Cr as on FY2023.

Acuite believes that the company's ability to timely infuse capital, improved networth base, and improvement in the profitability metrics, while keeping the momentum in growth of AUM, and disbursements would be a key rating monitorable.

About the company

MSM Microfinance Limited (MSM), incorporated in 1996, the present promoters acquired the company in 2010 is engaged in the financing of income-generating activities and agricultural activities in Tamil Nadu, Gujarat, Madhya Pradesh and Pondicherry. The company is also has a partnership model with Fincare small finance bank and several non-banking finance companies such as MAS Financial Services Limited, Kaleidofin Capital Pvt. Limited, Monexo Fintech 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

Unsupported Rating

None

Analytical Approach

Acuite has taken a standalone view of the above entity

Key Rating Drivers

Experienced management and long track record of operations

The day-to-day operations are led by Mr. Mohan Kumar Subramanyam, Chairman and Managing Director, Mr. P.S.V. Vasanth – Joint Managing Director, Mr. Prem kumar – Executive director, Mr. Sudhansu Sekar – DGM Operations and Mr. Sudhakar – DGM Finance. 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 Banks and 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 43 branches across four states and reported Assets Under Management (AUM) (on-balance sheet loan book plus managed portfolio) of Rs. 153.77 crore on H1FY24 (Provisional) as against Rs. 141.2 crore on 31 March, 2023. (Rs 72.27 Cr in FY2022). On the back of its experienced management and relationships with coveted financial institutions, Acuite expects MSM's AUM to report sustained growth over the medium term.

Healthy AUM growth while maintaining Asset Quality;

The company's loan portfolio registered growth to Rs. 141.21 Cr on Sept 30, 2023, as against Rs. 72.27 Cr as on March 31, 2022. MSM's healthy asset quality was marked by GNPA 1.44 percent and Nil NNPA as on March 2023. Company's on-time portfolio is marked by 98.02 percent in FY23 and 97.15 percent in H1FY24. Overall collection efficiency for average six month ending Sep'23 stood at 81 percent.

Acuite believes that MSM's ability sustain the growth in its loan book, while maintaining sound asset quality level in the near to the medium term will be key rating monitorable

Weakness

Subdued profitability metrics:

MSM was incorporated in 1996, the present promoters acquired the company in 2010; engaged in the financing of income-generating activities and agricultural activities in the states of Tamil Nadu, Gujarat and Madhya Pradesh and Pondicherry, the company expanded their branch network from 23 in March 31, 2022, to 36 in Mar 30, 2023, as to improve it's borrower base. This expansion resulted in high operating expenses primarily driven by staff expenses leading to subdued profitability metrics, where the company reported PAT of Rs 0.82 Cr and ROMA of 0.77 percent in FY2023.

The company's ability to expand while maintaining its profitability will be key monitorable.

Risk inherent to the microfinance segment

The activities of microfinance companies like MSM are exposed to the concentration risks. The company has presence in 4 states with a concentration in Tamil Nadu (~90 percent), MP (~3 percent), Gujarat (~2 percent) and Pondicherry (~5 percent) of total portfolio as on Sep 30, 2023 (Provisional). This exposes the company to high geographical concentration risk. Besides geography, the company will be exposed to competition and any changes in the regulatory framework, thereby impacting the credit profile of MSM microfinance Limited

Rating Sensitivity

- Movement in asset quality metrics.
- Movement in the profitability metrics.
- Movement in liquidity buffers.
- Changes in regulatory environment.

Liquidity Position Adequate

MSM's overall liquidity profile remains adequate with no negative cumulative mismatches in near to medium term as per ALM dated March 31, 2023. The company's liquidity position is supported by unencumbered Cash and Bank Balance of Rs 0.37 Cr as on September 30, 2023.

Outlook: Stable

Acuite 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.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets**	Rs. Cr.	55.78	38.02
Total Income*	Rs. Cr.	12.92	6.21
PAT	Rs. Cr.	0.82	0.04
Networth	Rs. Cr.	17.50	15.22
Return on Average Assets (RoAA)	(%)	1.74	0.09
Return on Net Worth (RoNW)	(%)	5.00	0.24
Total Debt/Tangible Net Worth (Gearing)**	Times	2.01	1.40
Gross NPA	(%)	1.44	1.01
Net NPA	(%)	0	0

*Total income equals to Total Income net off interest expense

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Jul 2023	Proposed Bank Facility	Long Term	4.50	ACUITE B+ (Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	20.00	ACUITE B+ (Issuer not co-operating*)
20 Apr 2022	Proposed Long Term Loan	Long Term	20.00	ACUITE B+ (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	4.50	ACUITE B+ (Issuer not co-operating*)
18 Jan 2021	Proposed Bank Facility	Long Term	4.50	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	20.00	ACUITE B+ (Downgraded and Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	4.50	ACUITE BB+ Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BB+ Stable Upgraded

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Akancha Singh Analyst-Rating Operations Tel: 022-49294065 akancha.singh@acuite.in	

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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