

Press Release

INNOVATIVE MICROFINANCE FOR POVERTY ALLEVIATION AND COMMUNITY TRANSFORMATION

08 January, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 24.80 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 24.80 crore bank facilities of INNOVATIVE MICROFINANCE FOR POVERTY ALLEVIATION AND COMMUNITY TRANSFORMATION (IMPACT). The outlook is '**Stable**'.

The Tamil Nadu based Innovative Microfinance for Poverty Alleviation and Community Transformation (IMPACT), was established in 2004 under section 8 of The Companies Act 2013. The Company headed by Mr. Suvisedagan Aruliah, Chief Executive Officer and with Mr. Cherian Thomas as Chair of the Board focuses on micro finance lending to Self Help Groups (SHG - Women). The borrower base comprises 16818 members as on September 30, 2017. The Company has nine branches across Tamil Nadu, Kerala and Uttar Pradesh. Plans are on to expand operations in Kerala and Chhattisgarh.

Key Rating Drivers

Strengths

- **Experienced management and moderate operational track record**

IMPACT established in 2004 is a Tamil Nadu-based not-for Profit Company registered under section 8 of The Companies Act 2013. IMPACT focuses on activities related to empowerment of women and provides training to self-help groups apart from micro finance lending. The Board of Directors comprises seven members who possess more than three decades of experience in microfinance banking, audit, and finance law and community development.

- **Moderate capitalization and comfortable liquidity position**

The comfortable capitalization of the company is reflected in the Capital Adequacy Ratio (CAR) of 31.08 per cent as on 31 March, 2017 as against 32.58 per cent in the previous year. The same stood at 29.28 percent as on September 30, 2017 (Provisional). The company has a comfortable liquidity position due to well matched maturity of assets and liabilities. The tenure of loans ranges between 12-24 months, whereas the incremental bank funding is typically for 36-60 months. IMPACT's gearing stood at 3.08 times as on 31 March, 2017 compared to 2.70 times as on 31 March, 2016.

- **Sound asset quality**

The Assets under Management (AUM) in FY2016-17 witnessed growth of 16.28 per cent over FY2015-16. The company has maintained sound asset quality of over 98.62 percent in FY2016-17 despite demonetisation. The same stood at 99.77 percent in FY2015-16. The asset quality however improved to 99.05 percent as on 30 September, 2017 (Provisional). The Gross Non-Performing Assets ratio (GNPA to Gross advances) improved to 0.85 percent as on 30 September, 2017 from 1.25 percent as on 31 March, 2017.

- **Comfortable profitability indicators**

IMPACT's net interest margins (NIMs) stood healthy at 13.14 percent in FY2016-17 compared to 13.20 percent in FY2015-16. The healthy NIMs enabled IMPACT to report comfortable Return on Average Asset (ROAA) of 2.37 percent in FY2016-17 as against 2.88 per cent in FY2015-16. IMPACT is expected to maintain a healthy profitability due to low cost on external borrowings.

SMERA Ratings Limited

Registered Office: 102, Sumer Plaza, Marol Maroshi Road, Marol, Andheri (East), Mumbai - 400 059

CIN: U74999MH2005PLC155683 | SEBI Permanent Registration No.: IN / CRA / 006 / 2011

Weaknesses

• Modest scale of operations

The credit risk profile continues to be constrained by modest scale of operations marked by outstanding loan book of Rs.23.14 crore as on 31 March, 2017 compared to Rs.19.90 crore on 31 March, 2015. The outstanding loan book stood at Rs.26.89 crore as on September 2017. The company's ability to grow its loan book while maintaining its asset quality shall be vital in improving its credit profile.

• Geographical concentration risk

The loan portfolio of the company is also exposed to risks associated with the high degree of geographical concentration arising out of its limited branch spread. The trust has 10 branches in Tamil Nadu, Kerala and Uttar Pradesh. As on September 30, 2017, over 88.07 per cent of the loan book is concentrated in Tamil Nadu. IMPACT's ability to geographically diversify its loan portfolio by increasing its branch spread shall be a key credit monitorable.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of the company.

Outlook: Stable

SMERA believes that IMPACT will maintain a Stable outlook over the medium term on account of its experienced management, healthy asset quality and comfortable capitalisation. The outlook may be revised to 'Positive' in case of sustained increase in loan book while maintaining asset quality. Conversely, the outlook may be revised to 'Negative' in case of substantial increase in Gross NPA and/or decline in profitability indicators.

About the Rated Entity - Key Financials

	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	30.90	25.06	17.41
Total Income	Rs. Cr.	3.24	2.46	1.57
PAT	Rs. Cr.	0.66	0.61	0.22
Net Worth	Rs. Cr.	7.50	6.74	5.41
Return on Assets (RoA)	(%)	2.37	2.88	2.48
Return on Net Worth (RoNW)	(%)	9.30	10.07	7.99
Total Debt/Tangible Net Worth (Gearing)	Times	3.08	2.70	2.20
Gross NPA	(%)	1.25	0.30	0.43
Net NPA	(%)	0.43	0.10	0.14
Net Worth/ Net NPA	Times	17.44	67.40	38.64

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Non - Banking Financing Entities - <https://www.smera.in/criteria-nbfc.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. Crore)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA B+ / Stable

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in Vishal Choudhary Senior Analyst - Rating Operations Tel: 022-67141159 vishal.choudhary@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.