

Press Release

Innovative Microfinance For Poverty Alleviation And Community Transformation

D-U-N-S® Number: 87-396-5488

January 04, 2019

Rating Reaffirmed

| | |
|------------------------------|--|
| Total Bank Facilities Rated* | Rs. 34.80 Cr. (Enhanced from Rs. 24.80 Cr.) |
| Long Term Rating | ACUITE B+ / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs. 34.80 crore bank facilities of Innovative Microfinance For Poverty Alleviation And Community Transformation. The outlook is '**Stable**'.

IMPACT, established in 2004, is a Tamil Nadu-based company classified 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 borrower base comprises 21896 members as on March 31, 2018. The company has 9 branches across Tamilnadu, Kerala, Chattisgarh and Uttar Pradesh.

Analytical Approach

ACUITE has considered the standalone business and financial risk profiles of Innovative Microfinance for Poverty Alleviation and Community Transformation (IMPACT) to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations**

IMPACT's management has professionals drawn from diverse fields. Company is headed by Mr. Cherian Thomas, Chairperson. The 7 member board of directors possess more than three decades of experience in the field of microfinance, banking, audit, finance, law and community development. The operating team of the company also has past experience in micro finance business which supports its operations.

- **Healthy asset quality**

Asset quality is healthy with gross non-performing assets (GNPA; on a 90+ days NPA recognition basis) ratio of 0.16 percent as on March 31, 2018 as against 0.95 percent as on March 31, 2017. 30+ portfolio at risk (PAR) also remained low at 0.19 percent. Healthy asset quality is attributed to JLG model which reduces the risk of borrowers defaulting on their repayments.

- **Moderate capitalisation**

IMPACT is moderately capitalized with net worth and gearing of Rs. 8.56 Cr and 3.73 times, respectively, as on March 31, 2018 as against Rs. 7.50 Cr and 3.08 times, respectively, as on March 31, 2017. Tier-1 capital adequacy ratio was at 25 percent as on 31st March 2018 as against 32 percent as on 31st 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 have enabled AFPL to report a 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 lower cost on external borrowings.

Weaknesses

• Moderate scale of operations with high geographical concentration

IMPACT has modest scale of operation with reported outstanding loan portfolio of Rs. 34.64 Cr as on March 31, 2018 as against Rs. 23.14 Cr a year ago. The scale of operations is constrained on account of the not-for-profit structure of IMPACT as reflected in its small networth of Rs. 8.56 Cr as on March 31, 2018 as against Rs. 7.50 Cr as on March 31, 2017. Though the company has operations in 4 states, IMPACT is still exposed to high geographical concentration risk as the portfolio is concentrated in the states of Tamil Nadu and Kerala which constitutes over 97.16 percent of loan book as on 31st March, 2018. Acuite believes that the ability of the company to increase its loan portfolio along with a geographical diversification would be key rating sensitivity factor.

• Liquidity Position:

Company has a tightly matched liquidity position with high level of repayment scheduled in FY19 at Rs. 13.02 Cr as against total bank borrowings of Rs. 31.93 Cr. Also, the company has utilized all bank lines for funding its loan portfolio. The company proposes to refinance the existing debt through new term loan sanctions and its ability to do so in a timely manner will remain a key monitorable.

Outlook: Stable

Acuite believes that IMPACT will maintain a stable risk profile over the medium term on account of its experienced management and healthy asset quality. The outlook may be revised to 'Positive' in case of sustained increase in loan Book while maintaining asset quality and profitability. The outlook may be revised to 'Negative' in case of deterioration in asset quality or profitability.

About the Rated Entity - Key Financials

| | Unit | FY18 | FY17 | FY16 |
|---|---------|-------|-------|-------|
| Total Assets | Rs. Cr. | 40.72 | 30.90 | 25.06 |
| Total Income (Net of Interest Expense) | Rs. Cr. | 3.81 | 3.24 | 2.46 |
| PAT | Rs. Cr. | 0.85 | 0.66 | 0.61 |
| Net Worth | Rs. Cr. | 8.56 | 7.50 | 6.74 |
| Return on Average Assets (RoAA) | (%) | 2.38 | 2.37 | 4.88 |
| Return on Average Net Worth (RoNW) | (%) | 10.62 | 9.29 | 18.16 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 3.73 | 3.08 | 2.70 |
| Gross NPAs | (%) | 0.16 | 0.95 | 0.21 |
| Net NPAs | (%) | 0.03 | 0.13 | 0.00 |

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

Not Applicable

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups

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. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|-----------|------------------|-------------------------------|
| 08-Jan-2018 | Term Loan | Long Term | INR 2.5 | ACUITE B+ / Stable (Assigned) |
| | Term Loan | Long Term | INR 5 | ACUITE B+ / Stable (Assigned) |
| | Term Loan | Long Term | INR 2 | ACUITE B+ / Stable (Assigned) |
| | Term Loan | Long Term | INR 5 | ACUITE B+ / Stable (Assigned) |
| | Term Loan | Long Term | INR 5 | ACUITE B+ / Stable (Assigned) |
| | Term Loan | Long Term | INR 5 | ACUITE B+ / Stable (Assigned) |
| | Proposed | Long Term | INR 0.3 | ACUITE B+ / 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 loans | Not Applicable | Not Applicable | Not Applicable | 3.75 | ACUITE B+ / Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 9.54 | ACUITE B+ / Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE B+ / Stable (Withdrawn) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 9.50 | ACUITE B+ / Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE B+ / Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE B+ / Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE B+ / Stable (Assigned) |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 0.01 | ACUITE B+ / Stable (Reaffirmed) |

Contacts

| Analytical | Rating Desk |
|--|---|
| <p>Manish Saraf Head - Financial Sector Ratings Tel: 022-67141111 manish.saraf@acuite.in</p> <p>Praveen Kumar Analyst - Rating Operations Tel: 022-67141148 praveen.kumar@acuiteratings.in</p> | <p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p> |

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.

Disclaimer: An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité.