

Press Release

Adhikar Microfinance Private Limited

January 25, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) to the Rs. 50.00 cr. bank facilities of Adhikar Microfinance Private Limited (AMPL). The outlook is '**Stable**'.

AMPL is an Odisha based NBFC-MFI, engaged in extending credit to Joint Liability Group (JLGs) and SHGs since 2008. AMPL is led by Mr. Mohammed Nooruddin Amin (Founder and MD) who has over two decades of experience in financial services sector. The company has presence in three states, namely, Odisha, Chhattisgarh and Gujarat and has recently started operations in Assam. The company operates through a network of 81 branches as on September 30, 2018.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established presence in microfinance segment:**

Established in 1997, AMPL is engaged in microfinance lending since 2008 and has established its presence since then by way of extending credit to Joint Liability Groups and Self Help Groups. The company over the years has increased its presence over four states namely Odisha, Chhattisgarh, Gujarat and Assam and operates through a network of 81 branches. AMPL is associated with 16430 Joint Liability Groups as on September 30, 2018 and has steadily grown its Assets under Management. AMPL's overall AUM stood at Rs. 228.76 Cr. on September 30, 2018, of which Rs. 132.63 Cr. is own portfolio and Rs. 96.13 Cr. is managed portfolio. The AUM has grown to Rs. 177.90 Cr as on March 31, 2018 from Rs. 116.17 Cr as on 2017. The growth is mainly on account of increased geographical presence and increased borrower base. The company has grown its managed portfolio to Rs. 96.13 Cr. as on September 30, 2018 from Rs. 57.28 Cr as on March 31, 2017 mainly due to increased Business correspondent relationship wherein the company has been appointed as sourcing and servicing agent by IDBI, Yes Bank, SBI and Reliance Capital Limited.

AMPL's board comprises of 7 members led by Mr. Mohammed Nooruddin Amin (Founder and Managing Director), who has over two decades of experience in the sector and is also associated with MFIN. The Board of Directors comprises of people with experience in social and financial services sectors and includes representation from Dia Vikas Capital Private Limited, a 43 percent equity holder.

The company benefits from established presence in the sphere of social development which enables association with various organisations and mobilisation of resources. Dia Vikas Capital Limited (DVCL), a subsidiary of Australia based global microfinance and enterprise development impact investor – Opportunity International, a member of the Opportunity International Network. DVCL is an equity holder and has also infused Rs. 1.75 Cr in the form of preference shares. Further, the company has also received funding from SIDBI in the form of long tenured preference shares (6 years to maturity) and subordinated debt of Rs. 8.00 Cr from Capital First Limited as on September 30, 2018.

Acuité believes that AMPL will continue to report steady growth in its scale of operations in the microfinance sector backed by its established presence in the segment and strong promoter background.

- **Healthy asset quality and profitability margins:**

AMPL is engaged in microfinance lending through JLGs (Joint Liability Group) primarily to women members

for income generation activities. The initial loan amount is linked to adequate cashflows of each member of the group and the repayment track record of the existing loans by the members. The subsequent loan amount is linked to the earlier loan cycles and the repayment track record therein. A detailed assessment of the borrowers is undertaken including a visit to the borrowers to assess their eligibility.

The company extends credit to SHGs under business correspondent model and undertakes detailed due diligence of the borrowers including monitoring end use of the borrowed funds.

The company reported Gross NPA of 0.25 percent as on March 31, 2018 as against 0.10 percent as on March 31, 2017. The company reported Gross NPA of 0.25 percent as on September 30, 2018. The company had maintained its collection efficiency during demonetisation period which resulted in low NPA levels. The company has demonstrated healthy collection efficiency with a track record of over ~99 percent collection on an average for the eight months ended October 31, 2018.

The company has comfortable profitability as reflected in return on average assets (RoAA) of 2.93 percent for FY2018 as against 3.53 percent in the previous year. The company's profitability is driven by its ability to maintain competitive borrowing costs which results in adequate net interest margin of 6.91 percent in FY2018 and 5.09 percent in FY2017. The ROAA albeit remaining healthy has declined in FY2018 due to significant growth in net interest income to Rs. 7.25 Cr. from Rs. 2.77 Cr. in FY2017, whereas the fee and commission income has moderated. The company reported fee and commission income of Rs. 7.25 Cr. for FY2018 as against Rs. 2.77 Cr for FY2017.

Acuité believes that AMPL will maintain healthy asset quality over the medium term supported by its JLG business model, risk management systems and processes.

Weaknesses

- **Leveraged capital structure**

AMPL has reported tangible net worth of Rs. 13.39 Cr as on March 31, 2018 as against Rs. 10.29 Cr as on March 31, 2017. This is mainly due to retained earnings. The company's earning assets have grown to Rs. 134.41 Cr. as on March 31, 2018 from Rs. 33.66 Cr. as on March 31, 2016. The growth is mainly supported by increased debt levels to Rs. 125.62 Cr as on March 31, 2018 from Rs. 27.68 Cr as on March 31, 2016. This has resulted in diluted capitalisation buffers with deterioration in leverage (Debt to equity ratio) to 9.38 times as on March 31, 2018 from 7.19 times as on March 31, 2017.

The company's overall capitalisation levels are comfortable at 20.60 percent as on September 2018 as against 21.36 percent as on March 31, 2018. Tier 1 capital stood at 14.87 percent as on September 30, 2018 (14.36 percent as on March 31, 2018) and Tier 2 capital contributed the remaining 5.73 percent and 7.01 percent as on September 2018 and March 31, 2018 respectively.

The company has considered optionally convertible preference shares (3 years and 6 years to maturity) as Tier I capital. Considering the low residual maturity and optionally convertible nature, Acuité has treated them as debt. AMPL's diluted capital structure is likely to limit the company's further debt raising ability. The company plans to infuse equity capital of upto Rs. 6.00 cr. by March 31, 2019 to partly address this issue.

Acuite believes that the company's ability to maintain prudent capital structure will remain a key rating sensitivity.

- **Exposure to inherent socio-political risk in MFI segment**

AMPL primarily extends microfinance loans wherein the borrowers' credit profile is weak. The microfinance sector has witnessed two major events in the past decade which has resulted in volatility in the income flow of the borrowers, thereby impacting their cash flows and impinged upon their repayment ability. These events have demonstrated the vulnerability of microfinance sector to regulatory and legislative risk.

Liquidity Position

AMPL manages its liquidity through an internal committee which monitors the liquidity position in the context

of disbursement plan and the upcoming debt repayments. The company had adequately matched asset liability profile as on September 30, 2018 with positive cumulative mismatch in all maturity buckets upto 1 year. The liquidity profile is supported by unencumbered fixed deposits of Rs. 11.85 Cr. and cash bank balance of Rs. 8.49 Cr as on September 30, 2018.

Outlook: Stable

Acuité believes that AMPL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to maintain asset quality and profitability. The outlook may be revised to 'Positive' in case of significant growth in loan portfolio while maintaining asset quality, profitability, and capitalisation. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality and profitability metrics. Any further deterioration in the capital structure is likely to entail a 'Negative' Outlook.

About the Rated Entity - Key Financials

Particulars	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Total Assets	Rs. Cr.	145.93	87.91	41.67
Total Income*	Rs. Cr.	15.23	11.23	7.61
PAT	Rs. Cr.	3.43	2.28	1.23
Net Worth	Rs. Cr.	13.39	10.29	7.21
Return on Average Assets (RoAA)^\wedge	(%)	2.93	3.53	5.91
Return on Average Net Worth (RoNW)	(%)	28.95	26.11	34.17
Total Debt/Tangible Net Worth (Gearing)	Times	9.38	7.19	3.84
Gross NPA	(%)	0.25	0.10	0.03
Net NPA	(%)	0.00	0.00	0.00

*Total income equals to Total Income net off interest expense

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)

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
Term Loan I	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB+ /Stable (Assigned)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB+ /Stable (Assigned)
Term Loan III	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB+ /Stable (Assigned)
Term Loan IV	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB+ /Stable (Assigned)
Term Loan V	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB+ /Stable (Assigned)
Term Loan VI	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB+ /Stable (Assigned)
Term Loan VII	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+ /Stable (Assigned)
Term Loan VIII	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB+ /Stable (Assigned)

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About Acuité Ratings & Research:

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