

Press Release

Adhikar Microfinance Private Limited

October 01, 2020



Rating Withdrawn

Total Facilities Rated*	Rs. 5.00 crore
Long Term Rating	ACUITE BB+ (Withdrawn)

*Refer annexure for details

Rating Rationale

Acuité has reviewed and withdrawn the long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs. 5.00 crore bank facilities of Adhikar Microfinance Private Limited (AMPL). The rating is in accordance with Acuité's policy on withdrawal of rating and on account of request received from the company and no dues certificate received from the bankers.

About AMPL

Odisha based, Adhikar Microfinance Private Limited (AMPL) is a non-deposit taking Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI). AMPL is engaged in extending microcredit primarily to women borrowers through (JLG) model since 2008. The company is led by Mr. Mohammed Nooruddin Amin, who has over three decades of experience in development and financial inclusion of rural areas in Odisha through his NGO Adhikar, which was established in 1991. In 2004, Mr. Amin acquired an existing NBFC Prateek Money Advisors Private Limited and renamed it as Adhikar Microfinance Private Limited.

The company operates in 26 districts of Odisha, Chhattisgarh, Assam and West Bengal with a network of 86 branches as on March 31, 2020.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of AMPL to arrive at the rating. Acuité has been guided by SEBI circular dated 30th March, 2020 (Circular No: SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/53) and RBI circular dated 27th March, 2020 (Circular No: RBI/2019-20/186 while arriving at the rating. Acuité observes that the company had received moratorium from some of its lenders. There was some delay in repayment to some of the lenders after the first moratorium. Acuité believes that this delay is attributable to the ongoing crisis and hence has not construed these slippages as a credit event while arriving at the rating decision. Acuité policy regarding this "Transitory relaxation from compliance with certain provisions under SEBI (Credit Rating Agencies) Regulations, 1999" is as follows: <https://www.acuite.in/transitory-relaxation-from-compliance-with-certain-provisions-under-SEBI.htm>

Key Rating Drivers

Strengths

- **Experienced management in micro-finance segment**

AMPL commenced its operations in 2008 extending micro-credit to women engaged in income generating activities under Joint Liability Group (JLG) model. The company also extends Micro Housing Loans and Water, Sanitation and Hygiene loans. AMPL majorly operates in Odisha catering to rural and semi-urban borrowers. The company has also expanded its presence in the states of Chhattisgarh, Assam and West Bengal. AMPL network of 86 branches is spread across 26 districts with an AUM of Rs. 183.58 crore as on March 31, 2020.

AMPL is led by Mr. Mohammed Nooruddin Amin (Managing Director) having over two decades of experience in micro finance sector. Mr. Amin has been engaged in the microfinance and rural development in Odisha through his NGO Adhikar established in 1991. In 2004 he acquired an existing NBFC

Prateek Money Advisors Private Limited and renamed it to Adhikar Microfinance Private Limited to provide an exclusive platform for financial inclusion efforts of his NGO. Mr. Amin is adequately supported by other members on the Board which 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 its 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 crore in the form of preference shares. Further, the company has also received funding from SIDBI in the form of long tenured preference shares.

Over the years, AMPL has expanded its operations to build an AUM of Rs. 183.58 crore as on March 31, 2020 (Rs. 243.16 crore as on March 31, 2019). The AUM of Rs. 183.58 crore comprised owned portfolio of Rs. 97.53 crore and off book exposure of Rs. 86.05 crore as on March 31, 2020. The company takes off-book exposure through Business Correspondence (~46 percent) and Securitization through Pass through Certificates (~1 percent) of its overall AUM as on March 31, 2020. It is a business correspondence partner for Yes Bank, IDBI, Reliance Commercial, Arohan Financial Services, Capital First Bank, State Bank of India.

Acuité believes that experience of the management and promoters will be central to support the business risk profile of the company.

Weaknesses

- Leveraged Capital Structure impacting financial flexibility; significant near term obligations adding to liquidity pressures**

AMPL is engaged in microfinance lending providing short term loans up to 12 - 24 months. The company extends micro credit through Joint Liability Group (JLG) model. The company's networth stood at Rs. 18.07 crore and total debt stood at Rs. 116.91 crore as on March 31, 2020 (provisional). AMPL's AUM stood at Rs. 183.58 crore as on March 31, 2020 as against Rs. 243.16 crore as on March 31, 2019. The company's gearing stood at 6.47 times as on March 31, 2020 (provisional) as against 9.24 times as on March 31, 2019. The debt comprises of term loans from Banks/NBFCs/FIs of Rs. 112.11 crore and optionally convertible preference shares of Rs. 4.75 crore. The borrowings from Banks accounted for ~34 percent, NBFC/FI's for ~66 percent of the total borrowings of Rs. 112.11 crore as on March 31, 2020 (provisional). In a relatively steady operating environment, the company has demonstrated fund raising ability from various Banks and NBFCs/FIs. However, the recent COVID-19 outbreak in the last quarter of FY2020 resulted in a nationwide lockdown which has led to a significant deterioration in the collection efficiency and cashflows of AMPL's borrowers. The MFIs like AMPL were required to extend a moratorium to their borrowers and they, in turn, were expecting similar support from their lenders. AMPL has also sought a similar moratorium from its lenders. The liquidity buffers will depend on the ability to scale up its collections at a level commensurate with its debt service obligation and disbursements. Any challenges in arranging for long term funding to bridge the near term mis-matches will also impact the liquidity profile. AMPL is in talks to raise funding with various existing lenders to support its liquidity profile. However, the stance of these lenders like banks who have been adopting a very selective and cautious approach to NBFC sector will make it difficult to assess.

Acuité believes that leveraged companies like AMPL could face challenges in raising additional debt due to a very selective and cautious approach adopted by Banks and FIs.

- Subdued level of business operations; risks inherent to microfinance segment**

AMPL's total Asset Under Management (AUM) stood at Rs. 183.58 crore as on March 31, 2020 as compared to Rs. 243.16 crore as on March 31, 2019. The company's on-book loan portfolio declined to Rs. 97.53 crore as on March 31, 2020 as compared to Rs. 86.05 crore as on March 31, 2019, while its off-book exposure declined to Rs. 86.05 crore as on March 31, 2020 as against Rs. 121.28 crore as on March 31, 2019. The decline in AUM was as a result of low disbursements in FY2020. The activities of microfinance companies like AMPL are exposed to concentration risks. AMPL has presence in 4 states with concentration in Odisha (95.25 percent), Chhattisgarh (2.11 percent), Assam (1.38 percent) and West Bengal (1.25 percent) of total AUM as on March 31, 2020. This exposes the company to high geographical concentration risk. While the company mostly focuses on rural areas which were less impacted by the current pandemic, however, the company's performance is expected to remain exposed to the occurrence of events such as natural

calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to any changes in the regulatory framework. The current lockdowns and economic disruptions may slow down the process of scaling up of operations, thereby, affecting the return metrics. Further, the approach of the lenders in the current scenario, especially the banks will also be critical since MFI's like AMPL has traditionally relied on NBFC/FI's for external fundings. Although AMPL has demonstrated healthy asset quality in the past with Gross Non-Performing Assets (GNPA) at 0.94 percent as on March 31, 2020, rise in delinquency is expected due to impact of COVID-19 as the credit profiles of some of the borrowers could be impaired for a much longer time.

Acuité believes, going forward, the ability of the company to mobilize additional funding through debt /sub debt and its ability to deploy the funds profitably while maintaining its asset quality will be key rating sensitivity.

Rating Sensitivity

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metrics
- Changes in regulatory environment

Material Covenants

AMPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

Liquidity: Adequate

AMPL maintained cash and cash equivalents of Rs. 6.99 crore as on March 31, 2020. The company has not made any disbursements for the month of April and May 2020 and sought moratorium from its lender under which only the interest payments are being made. While the company has maintained liquidity to take care of its day to day operation costs and interest payments. AMPL's overall collections during June, July and August 2020 were Rs. 6.44 crore, Rs. 12.82 crore and Rs. 12.65 crore respectively, i.e. ~41 percent of the scheduled collection for June, ~86 percent of the scheduled collection for July and ~90 percent of the scheduled collection for August. Considering the scale of operations and expected debt servicing commitments, tightness in liquidity will be observed. Even after considering the improvement in collections for July and August, 2020 there is limited buffer after considering the debt servicing obligations and the payouts under off book exposure.

AMPL's borrowings have an average maturity upto 36 months. As per AMPL's ALM statement as on March 31, 2020, ~51 percent of its borrowings had maturity within a year. The company's ability to maintain a stable liquidity profile will hinge on its ability to improve its collection efficiency commensurate with its debt servicing obligation and other business requirements. The company is in talks with various lenders to raise long term debt. The stance of existing lenders and the ability of AMPL to raise long term funding (equity/debt) commensurate with its near term obligations will be critical to the maintenance of a stable liquidity profile.

About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Provisional)	FY19 (Actual)
Total Assets	Rs. Cr.	138.32	171.49
Total Income*	Rs. Cr.	18.01	19.05
PAT	Rs. Cr.	1.02	3.11
Networth	Rs. Cr.	18.07	16.04
Return on Average Assets (RoAA)	(%)	0.66	1.96
Return on Net Worth (RoNW)	(%)	6.00	21.15
Total Debt/Tangible Net Worth (Gearing)	Times	6.47	9.24

Gross NPA's	(%)	0.94	0.44
Net NPA's	(%)	-	-

* Total income equals to Net interest income plus other income

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
15-Apr-2020	Term Loan	Long Term	6.00	ACUITE BB+ (Withdrawn; Issuer not cooperating*)
	Term Loan	Long Term	4.00	ACUITE BB+ (Withdrawn; Issuer not cooperating*)
	Term Loan	Long Term	7.00	ACUITE BB+ (Withdrawn; Issuer not cooperating*)
	Term Loan	Long Term	15.00	ACUITE BB+ (Withdrawn; Issuer not cooperating*)
	Term Loan	Long Term	6.00	ACUITE BB+ (Withdrawn; Issuer not cooperating*)
	Term Loan	Long Term	7.00	ACUITE BB+ (Withdrawn; Issuer not cooperating*)
	Term Loan	Long Term	2.00	ACUITE BB+ (Issuer not cooperating*)
	Term Loan	Long Term	3.00	ACUITE BB+ (Issuer not cooperating*)
25-Jan-2019	Term Loan	Long Term	6.00	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	4.00	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	7.00	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	15.00	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	6.00	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	7.00	ACUITE BB+/Stable (Assigned)

	Term Loan	Long Term	2.00	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	3.00	ACUITE BB+/Stable (Assigned)

*The issuer did not co-operate; based on best available information.

*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 Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+ (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB+ (Withdrawn)

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About Acuité Ratings & Research:

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