

## Press Release

### Arth Micro Finance Private Limited

May 30, 2019



#### Rating Assigned

|                                     |                             |
|-------------------------------------|-----------------------------|
| <b>Total Bank Facilities Rated*</b> | Rs. 100.00 Cr.              |
| <b>Long Term Rating</b>             | ACUITE BBB/ Outlook: Stable |

\* Refer Annexure for details

#### Rating Rationale

Acuité has assigned long-term rating '**ACUITE BBB**' (**read as ACUITE triple B**) to the bank facilities of Rs. 100.00 crore bank facilities of Arth Micro Finance Private Limited (AMFL). The outlook is '**Stable**'.

AMFL is an NBFC (MFI), registered with RBI to extend micro credit to women members through Joint lending groups (JLG) and shelf help group (SHG) model.. The company is promoted Mr. Pramod Paliwal and Mr. Kuldeep Kumar Arora with an objective to cater to the needs of women below poverty line. It began its operations in 2007 in Jaipur, Rajasthan and since then the company has expanded its operations to Punjab, Madhya Pradesh and Haryana. Its operations are spread across 53 branches over 33 districts, with a borrower base of 134,695 borrowers as on March 31, 2019.

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

##### Established presence in microfinance lending:

AMFL is engaged in microfinance lending in Rajasthan since 2007 and has established its presence since then by way of extending credit to Joint liability groups (JLG) and Self Help group's (SHG). Since then the company has expanded its operations to Madhya Pradesh, Punjab and Haryana and currently operates through a network of 53 branches spread across 33 districts. AMPL is associated with 134,695 customers forming 20,247 JLG's. AMFL's overall AUM stood at Rs. 243.96 crore on March 31, 2019 – off which Rs. 183.49 crore is its managed portfolio.

AMFL is promoted by Mr. Pramod Paliwal and Mr. Kuldeep Kumar Arora. Mr. Parmod Paliwal, is the Chairman at Indian Institute of Rural Development and has been actively involved in promotion of livelihood activities in the rural sector for the past two and half decades. In 2007 with the support of SIDBI the company commenced its operations as AMFL. AMFL lends mostly to JLG groups, especially women in rural and sub-urban areas for income generating activities. AMPL also organizes women into groups of 8-20 members configuring a SHG, under agreement with IDBI Bank to undertake business correspondent activities.

Acuité believes that AMFL will continue to benefit from its established position and the promoter's established presence in micro finance lending.

##### Healthy Capitalisation and sound asset quality:

AMFL primarily focuses on lending to Joint Liability Group's (JLG) of women, below poverty line, in Rajasthan, Punjab, Haryana and Madhya Pradesh. The stringent credit assessment and monitoring processes in place have enabled the company to maintain healthy asset quality, reflected in NIL GNPA and comfortable collection efficiency. The company reported NIL Gross NPA for March 31, 2019 and March 31, 2018. It has demonstrated healthy collection efficiency with a track record of over ~99.92 percent collection on an average for the twelve months ended March 31, 2019.

Capital Adequacy Ratio (CAR) improved to 37.41 per cent as on 31 March, 2019 compared to 31.76 per

cent as on 31 March, 2018. Further, AMFL has a comfortable liquidity position due to well matched maturity of assets and liabilities, the tenure for loans issued is ~12-24 months, whereas the bank funding typically has tenure of about 24-36 months.

Going ahead, Acuité expects AMFL to benefit from its healthy capitalisation and sound asset quality.

## Weaknesses

### Moderate geographic concentration

AMFL's operations are moderately concentrated with Rajasthan contributing 57.85 per cent of the total outstanding portfolio as on 31 March, 2019. Generally, the risk profile of a microfinance company with a geographically diversified portfolio is more resilient compared to that of an entity with a geographically concentrated portfolio. In order to reduce portfolio concentration level, the company has opened new branches in Madhya Pradesh, Punjab and Haryana which currently constitute around 42.15 per cent of the overall AUM as on March 31, 2019 as against 34.06 percent of the overall AUM as on March 31, 2018.

Acuité believes that the moderate geographical concentration in its portfolio will continue to weigh on its credit profile over the near to medium term.

### Susceptibility of operating performance to regulatory environment and access to funding at competitive prices

AMFL is susceptible to the changes in the regulatory framework and policies pertaining to Capital Adequacy and Provisioning norms. Further, recent NBFC crisis, coupled with cautious and selective approach adopted by banks and financial institutions has resulted in difficulties faced by players like AMFL to raise funding at competitive rates thereby pressurising profitability.

### Liquidity Position

AMFL has adequately matched cash flow as on March 31, 2019, with cumulative surplus all maturity buckets. Most of the loans are of upto two years tenure, while the borrowings are upto tenure of three years, leading to positive mismatches over the near to medium term.

### Outlook: Stable

Acuité believes that AMFL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to maintain healthy AUM (on balance sheet assets and assets under BC model) and profitability metrics. The outlook may be revised to 'Positive' in case of higher than expected growth in AUM while maintaining key operating metrics and asset quality and liquidity. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of any challenges in maintaining its asset quality, profitability metrics and capital structure.

## About the Rated Entity - Key Financials

|   | Unit    | FY19 (Prov) | FY18 (Actual) | FY17 (Actual) |
|---|---------|-------------|---------------|---------------|
| Total Assets                            | Rs. Cr. | 85.70       | 73.98         | 41.95         |
| Total Income (Net of Interest Expense)  | Rs. Cr. | 17.32       | 10.57         | 7.72          |
| PAT                                     | Rs. Cr. | 2.40        | 1.60          | 1.02          |
| Net Worth                               | Rs. Cr. | 13.61       | 10.71         | 6.52          |
| Return on Average Assets (RoAA)         | (%)     | 3.01        | 2.76          | 2.66          |
| Return on Average Net Worth (RoNW)      | (%)     | 19.73       | 18.59         | 16.34         |
| Total Debt/Tangible Net Worth (Gearing) | Times   | 4.81        | 5.21          | 4.73          |
| Gross NPAs                              | (%)     | NIL         | NIL           | NIL           |
| Net NPAs                                | (%)     | NIL         | NIL           | NIL           |

### 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              | Not Applicable   | Not Applicable | Not Applicable | 5.00                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 3.34                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 0.89                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 2.55                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 2.00                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 1.25                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 2.86                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 0.46                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 1.97                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 2.40                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 1.16                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 3.00                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 3.33                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 0.12                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 0.52                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 1.25                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 2.00                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 3.33                        | ACUITE BBB/Stable (Assigned) |
| Term loan              | Not Applicable   | Not Applicable | Not Applicable | 2.75                        | ACUITE BBB/Stable (Assigned) |

|                    |                |                |                |       |                              |
|--------------------|----------------|----------------|----------------|-------|------------------------------|
| Term loan          | Not Applicable | Not Applicable | Not Applicable | 2.88  | ACUITE BBB/Stable (Assigned) |
| Term loan          | Not Applicable | Not Applicable | Not Applicable | 0.80  | ACUITE BBB/Stable (Assigned) |
| Term loan          | Not Applicable | Not Applicable | Not Applicable | 2.92  | ACUITE BBB/Stable (Assigned) |
| Term loan          | Not Applicable | Not Applicable | Not Applicable | 2.40  | ACUITE BBB/Stable (Assigned) |
| Term loan          | Not Applicable | Not Applicable | Not Applicable | 0.76  | ACUITE BBB/Stable (Assigned) |
| Term loan          | Not Applicable | Not Applicable | Not Applicable | 2.55  | ACUITE BBB/Stable (Assigned) |
| Term loan          | Not Applicable | Not Applicable | Not Applicable | 1.66  | ACUITE BBB/Stable (Assigned) |
| Term loan          | Not Applicable | Not Applicable | Not Applicable | 2.00  | ACUITE BBB/Stable (Assigned) |
| Term loan          | Not Applicable | Not Applicable | Not Applicable | 0.80  | ACUITE BBB/Stable (Assigned) |
| Proposed Term Loan | Not Applicable | Not Applicable | Not Applicable | 43.05 | ACUITE BBB/Stable (Assigned) |

## Contacts

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|---|--|
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### About Acuité Ratings & Research:

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