

Press Release

Arth Micro Finance Private Limited

January 02, 2020



Rating Reaffirmed, Assigned and Withdrawn

Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Reaffirmed & Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and 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**'.

Further, Acuité has withdrawn long term rating of '**ACUITE BBB** (read as **ACUITE triple B**) on the Rs. 5.11 Crore bank facilities of AMFL.

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 64 branches over 33 districts, with a borrower base of 143,205 borrowers as on September 30, 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 64 branches spread across 33 districts. AMPL is associated with 143,205 customers forming 20,532 JLG's. AMFL's overall AUM stood at Rs. 275.36 crore on September 30, 2019 – off which Rs. 206.69 crore is its managed portfolio (Rs. 243.96 Cr as on March 31, 2019).

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 September 30, 2019, March 31, 2019 and March 31, 2018. It has demonstrated healthy collection efficiency with a track record of over ~99.89 percent collection on an average for the twelve months ended November 30, 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 (32.14 percent as on September 30, 2019). 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 (~58 per cent as on September 30, 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 (42 percent as on September 30, 2019).

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 September 30, 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.

Rating Sensitivities

- Further Capital infusion to support growth plans
- Scaling up of operations while maintaining healthy asset quality

Material Covenants

None

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 (Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	85.28	73.98	41.95
Total Income (Net of Interest Expense)	Rs. Cr.	18.82	10.57	7.72
PAT	Rs. Cr.	1.82	1.60	1.02
Net Worth	Rs. Cr.	13.01	10.71	6.52
Return on Average Assets (RoAA)	(%)	2.25	2.76	2.66
Return on Average Net Worth (RoNW)	(%)	15.32	18.59	16.34
Total Debt/Tangible Net Worth (Gearing)	Times	5.02	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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
30-May-2019	Term Loan	Long Term	5.00	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	3.34	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	0.89	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	2.55	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	1.25	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	2.86	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	0.46	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	1.97	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	2.40	ACUITE BBB/Stable (Assigned)

Term Loan	Long Term	3.00	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	3.33	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	0.12	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	0.52	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	1.25	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	2.00	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	3.33	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	2.75	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	2.88	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	0.80	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	2.92	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	2.40	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	0.76	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	2.55	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	1.66	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	2.00	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	0.80	ACUITE BBB/Stable (Assigned)
Term Loan	Long Term	43.05	ACUITE BBB/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 loan	Not Applicable	Not Applicable	Not Applicable	3.54	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.41	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.89	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.85	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.48	ACUITE BBB/Stable (Reaffirmed)

Term loan	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE BBB (Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.84	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.46	ACUITE BBB (Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.96	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.58	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.52	ACUITE BBB/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.16	ACUITE BBB (Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.45	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.22	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.12	ACUITE BBB/Stable (Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.52	ACUITE BBB (Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.67	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.83	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.13	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.83	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.88	ACUITE BBB/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.88	ACUITE BBB/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE BBB (Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.08	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.44	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.09	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.73	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.66	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.99	ACUITE BBB/Stable (Assigned)

Term loan	Not Applicable	Not Applicable	Not Applicable	1.30	ACUITE BBB/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE BBB (Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.89	ACUITE BBB/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE BBB/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	6.42	ACUITE BBB/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.90	ACUITE BBB/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.70	ACUITE BBB/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	23.84	ACUITE BBB/Stable (Reaffirmed)

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