

## Press Release

### People's Action for Transformation

December 11, 2020

### Rating Downgraded



<b>Total Bank Facilities Rated</b>	Rs. 50.00 Cr.
<b>Long Term Rating</b>	ACUITE BB/ Stable (Downgraded)

### Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs.50.00 Crore bank facilities of People's Action for Transformation (PAT). The outlook is '**Stable**'.

The revision in ratings takes into consideration decision of the board of trustees of PAT to transfer off book portfolio (Rs.33.60 Cr. as on March 31,2020) of PAT to PAFT Finance Ltd., (PAL) group company, focusing on financing activities through PAL with no fresh disbursements through PAT, gradually running down PAT's on book portfolio (Rs.30.47 Cr. as on March 31,2020) and focusing on developmental and welfare activities. Acuité understands that transfer of off-book portfolio is currently under progress and is expected to be completed in the near term. Further, the revision also factors in potential pressure on asset quality front due to inherent risks associated with MFIs exacerbated by COVID-19 pandemic induced nationwide lockdown and subsequent localized shutdowns.

The rating, however, continues to reflect established presence of PAT in developmental and welfare activities and management's experience in the field of microfinance, audit and finance and community development.

#### About the trust:

Tamil Nadu-based, PAT is a Non-governmental Organisation-MicroFinance Institution (NGO-MFI) registered with Indian Trust Act in 1997 and also a member of Sa-dhan, since 2007. It is promoted by Mr. Stephen Francis Xavier. The trust is engaged in microfinancing activity since 2003 and its microfinance activities are directed to the benefit of women groups/individual for enhancement of their livelihoods. As of March 31,2020, PAT has a network of sixteen branches spread across eleven districts of Tamil Nadu and its AUM stood at Rs.57.51 Cr.

#### Analytical Approach:

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

#### Key Rating Drivers

##### Strengths

##### Established presence and experienced management:

PAT focuses on activities related to empowerment of women and training of self-help groups apart from microfinance lending. The management of the trust has strong experience in the microfinance business and have been associated with various other micro-finance institutions over the past two decades. The managing committee comprises of members having more than two decades of experience in the field of microfinance, audit and finance and community development.

Acuité believes that PAT will benefit from its established track record of operations and experienced management.

## **Weaknesses**

### **Modest Scale of Operations and Geographic concentration risk :**

PAT expanded its network to 16 branches across 11 districts as on March 31, 2020 from 12 branches across 6 districts, while continuing to remain concentrated in Tamil Nadu as it continues to focus and grow its developmental and welfare activities. The branch network of PAT declined from 20 branches as on March 31, 2018 to 12 branches as on March 31, 2019 on account of management's decision to earmark 8 branches for business correspondent (BC) activities which would be carried out in the group company PAL. Moreover, in FY2021, the board of trustees of PAT decided to transfer off book portfolio (Rs.33.60 Cr. as on March 31, 2020) of PAT to PAFT Finance Ltd., (PAL) group company, concentrating on financing activities through PAL with no fresh disbursements through PAT, gradually running down its on book portfolio (Rs.30.47 Cr. as on March 31, 2020) and carrying out on developmental and welfare activities.

Further, PAT's operations are susceptible to the credit profile of its borrowers, who generally comprise the economically challenged section of society, since the credit profile of these borrowers are less resilient to credit risk. This is further heightened by the concentration of portfolio in Tamil Nadu. Generally, the risk profile of NBFCs with a geographically diversified portfolio is more resilient compared to that of an entity with a geographically concentrated portfolio.

Acuité believes that asset quality risks due to geographical concentration coupled with modest borrower profile will continue to weigh on PAT's credit profile over the near to medium term.

## **Liquidity Position: Adequate**

PAT's liquidity buffers primarily depend on its cash inflows (collections from clients, drawdowns from borrowings and equity inflows) vis. a vis. the cash outflows (disbursements, debt servicing commitments, operating expenses). The cash collections from borrowers were impacted but improving because of moratorium extended to all its borrowers, which is in line with general practice followed by other Financial Institutions. The collection efficiency for the month of November, 2020 stood at 74%. As per discussions with management, PAT will not be pursuing with any proposal for fresh new Term loans.

## **Rating Sensitivities**

Asset Quality & Collection efficiency

## **Material Covenants**

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

## **Outlook: Stable**

Acuité believes that PAT will maintain a 'Stable' outlook on account of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company demonstrates improvement in its asset quality. Conversely, the outlook may be revised to 'Negative' in case of asset quality pressures.

#### About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	40.3	38.65
Total Income (Net of Interest Expense)	Rs. Cr.	6.33	7.11
PAT	Rs. Cr.	1.48	1.5
Net Worth	Rs. Cr.	7.20	5.72
Return on Average Assets (RoAA)	(%)	3.75	4.02
Return on Average Net Worth (RoNW)	(%)	22.91	30.22
Total Debt/Tangible Net Worth (Gearing)	Times	4.45	5.56
Gross NPAs	(%)	0.08	0.02
Net NPAs	(%)	NIL	NIL

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

None

#### Any other information

Not Applicable

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating of 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 Facilities	Term	Amount (Rs Cr)	Rating Outstanding
16 September, 2019	Term Loan	Long Term	0.17	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	4.5	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	1.17	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	2.45	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	1.81	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	4	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	1.48	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	1.86	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	1.94	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	5.09	ACUITE BB+/Stable (Assigned)

	Term Loan	Long Term	0.35	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	0.33	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	1.15	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	1.88	ACUITE BB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	21.82	ACUITE BB+/Stable (Assigned)

**\*Annexure – Details of instruments rated**

Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Amount (Rs Cr.)	Ratings/Outlook
Term Loan	27-Sep-17	Not Applicable	27-Sep-19	0.17	ACUITE BB (Downgraded and withdrawn)
Term Loan	14-Feb-19	Not Applicable	14-Feb-21	2.27	ACUITE BB/Stable (Downgraded)
Term Loan	29-Dec-17	Not Applicable	29-Dec-20	1.17	ACUITE BB (Downgraded and withdrawn)
Term Loan	24-Sep-18	Not Applicable	24-Sep-20	1.27	ACUITE BB/Stable (Downgraded)
Term Loan	07-Mar-17	Not Applicable	07-Mar-20	1.81	ACUITE BB (Downgraded and withdrawn)
Term Loan	23-Mar-18	Not Applicable	23-Mar-23	3.08	ACUITE BB/Stable (Downgraded)
Term Loan	28-Jul-17	Not Applicable	28-Jul-20	1.48	ACUITE BB (Downgraded and withdrawn)
Term Loan	06-Dec-18	Not Applicable	06-Dec-21	1.86	ACUITE BB (Downgraded and withdrawn)
Term Loan	10-Feb-17	Not Applicable	10-Feb-19	1.94	ACUITE BB (Downgraded and withdrawn)
Term Loan	21-Feb-18	Not Applicable	21-Feb-20	5.09	ACUITE BB (Downgraded and withdrawn)

Term Loan	31-May-17	Not Applicable	31-May-19	0.35	ACUITE BB (Downgraded and withdrawn)
Term Loan	05-Jul-17	Not Applicable	05-Jul-19	0.33	ACUITE BB (Downgraded and withdrawn)
Term Loan	30-Dec-17	Not Applicable	30-Dec-21	0.27	ACUITE BB/Stable (Downgraded)
Term Loan	24-Jan-19	Not Applicable	24-Jan-21	1.03	ACUITE BB/Stable (Downgraded)
Proposed Bank Loan Facility	-	Not Applicable	-	42.08	ACUITE BB/Stable (Downgraded)

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### About Acuité Ratings & Research:

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