

## Press Release

**Belstar Microfinance Limited**

**February 25, 2022**



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Non-Convertible Debentures (NCD)</b>	125.00	PP-MLD   ACUITE AA   Stable   Assigned	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	125.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

## Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE PP-MLD AA**' (**read as ACUITE Principal Protected Market Linked Debentures double A**) on the Rs. 125.00 Cr proposed principal market linked debentures (PP-MLD) of Belstar Microfinance Limited (BML). The outlook is '**Stable**'.

The rating derives strength from BML's strong parentage (Muthoot Finance Ltd., MFL, holds 70% stake in BML), demonstrated capital support and expectations of continued support going forward. By virtue of majority ownership, BML also enjoys managerial and financial synergies with MFL. The rating further derives strength from BML's strategic importance for MFL given that microfinance portfolio provides business diversification and BML's healthy position in NBFC-MFI lending space (BML is one of the prominent players in terms of size, reach & branch network amongst NBFC-MFIs). Acuite also takes cognizance of MFL's intent to maintain majority ownership in BFL. So far, Muthoot Finance has invested equity of Rs.186 Cr into BML. Although, BML and MFL do not have shared brand name, BML's tagline mentions that it is a subsidiary of Muthoot Finance company which further provides financial flexibility to BML. On the managerial front, MFL is well represented on the Board through Mr. George Alexander (ED- Muthoot Group), Mr. George Muthoot Jacob (ED- Muthoot Group) and Mr. Bijimon (CGM- Muthoot Group). The rating further factors in BML's experienced Board and management team, strong liquidity buffers as well as adequate capitalization levels.

The rating of BML, is however constrained by moderation in profitability metrics as a result of high credit costs and high geographical concentration in the state of Tamil Nadu (~46.45 percent of AUM as on December 2021). The rating is also constrained by current weakness in asset quality and the inherent risks associated with micro finance lending. Going forward, majority shareholding by MFL, BML's ability to curtail asset quality risks and improve profitability are key monitorables.

## About the company

Incorporated in 1988, Belstar Micro Finance Limited (Formerly known as Belstar Investment and Finance Private Limited) is a Chennai headquartered non-banking finance company (NBFC) registered with the Reserve Bank of India (RBI). Belstar Micro Finance Limited has a wide network of more than 600+ branches across 18 states. Belstar is in the business of micro finance lending being in this field for more than 34 years, they provide financing to Self Help

Groups, PRAGTI, MSMEs i.e., Micro, Small and Medium Enterprises at attractive interest rates. The company was acquired by Hand in Hand Group (NGO) in September 2008. In 2016, Muthoot Finance Limited, the largest gold loan NBFC in the country, made an equity investment in the company and their stake is at 70 percent as on December 31, 2021.

## About the Group

Muthoot Finance Limited (MFL) is the flagship company of the Kerala-based business house, The Muthoot Group, which has diversified operations in financial services, healthcare, real estate, education, hospitality, power generation and entertainment. MFL was incorporated in 1997 and is India's largest gold loan focused NBFC spread across 4,600+ branches across India with Rs. 54,687.6 Cr Assets under management. The company derives a major proportion of its business from South India (50 percent of the total portfolio as on September 30, 2021), where gold loans have traditionally been accepted as a means of availing short-term credit, although MFL has increased its presence beyond South India over the last few years. In addition to financing gold transactions, the company offers foreign exchange services, money transfers, wealth management services, travel and tourism services and sells gold coins.

## Analytical Approach

Acuité has considered the standalone approach while assessing the business and financial risk profile of BML and has factored in the financial and managerial support it receives from Muthoot Finance Limited by virtue of being a Parent Company. Acuité has further factored in the benefits arising from the structure while arriving at the final rating.

## Key Rating Drivers

### Strength

#### **Promoter support and synergies arising from association with Muthoot Group**

By virtue of majority ownership by Muthoot Finance (Muthoot Finance holds 70 percent stake in Belstar), Belstar enjoys managerial and financial synergies with the group. Belstar is a strategic investment for Muthoot Group and as per management interaction Muthoot Group shall continue to maintain majority ownership in the company. So far, Muthoot Finance has invested equity of Rs. 225 Cr. into the company. On the managerial front, Muthoot Finance is well represented on the Board via Mr. George Alexander (ED- Muthoot Group), Mr. George Muthoot Jacob (ED- Muthoot Group) and Mr. Biju (CGM- Muthoot Group)

### Experienced Board and management team

At the helm of affairs is Dr. Kalpana Sankar who is Managing Director of Belstar. Dr. Kalpana acquired Belstar in the year and since then has been instrumental in the growth of the company. Dr. Kalpana Sankar has been involved in the self-help group movement for 21 years and also has been instrumental in setting up of Hand in Hand Consulting Services Pvt Ltd and Sarvam Financial Inclusion Trust. As on Dec 31, 2021, Dr. Kalpana held 0.27 percent in the company and is one of trustees of The Sarvam Trust, holding 17.52 percent in BML. The management team of Belstar comprises of experienced and competent professionals.

### **Comfortable resources raising ability, adequate capitalization levels**

Belstar Microfinance Limited has strong parentage support from Muthoot Finance Limited. It has been able to raise Rs. 186 Cr. since 2016 till YTD. BML's capital structure comprises of Networth of Rs. 554.98 Cr., Total Debt of Rs. 3829.00 Cr. and resultant gearing of 5.94 times as on December 31, 2021. Over the past three years, BML's gearing levels has significantly increased. As per the management, Rs. 275 Cr. will be infused in March 2022 by the South Korean investors and few existing investors which will bring down its gearing level. In total, the company has plans to raise Rs. 380 Cr. by April 2022. Further, it has been able to borrow at lower rates from major banks and NBFCs which comprises of Term Loans, PTC Transactions,

NCD and Sub debt. The capitalization level stood moderate at 17.62 percent during 9M-FY2022. In FY2021, CRAR stood at 22.24 percent as compared to 25.68 percent in FY2020. This capital infusion will also help in improving their capitalization level.

## **Weakness**

### **Moderation in profitability parameters**

Net Interest Income for FY2021 stood at Rs. 307.95 Cr. as against Rs. 283.46 Cr. in FY2020. For 9M-FY2022, NII stood at Rs. 265.52 Cr. Though, NII had improved but the profitability had declined on account of higher operating costs and credit costs. PAT stood at Rs. 46.65 Cr. in FY2021 (ROAA: - 1.56 percent) as compared to Rs. 99 Cr. in FY2020 (ROAA: - 4.35 percent). PAT for 9M-FY2022 stood at Rs. 15.86 Cr, translating into ROAA 0.58 percent (annualized). Consequently, Operating Expense to Earning Assets had improved to 6.16 percent in FY2021 as compared to 7.19 percent in FY2020. The same stood at 6.41 percent as on December 31, 2021.

Acuité believes that the growth in AUM on account of increasing disbursements will be a key factor in the scalability of a business while maintaining the profitability.

### **Weakening asset quality metrics**

The asset quality remained healthy from FY2019 to FY2021, however, it saw some deterioration during 9M-FY2022. As on December 31, 2021, BML's on time portfolio stood at 88.15 percent as compared to 95.14 percent as on March 31, 2021 and 98.58 percent as on March 31, 2020. Belstar's upto 30 dpd bucket considerably increased from 0.84 percent as on March 31, 2021 to 3.78 percent as on December 31, 2021. Consequently, GNPA level increased to 5.89 percent as on December 31, 2021 as against 2.72 percent as on March 31, 2021 and 1.12 percent as on March 31, 2020. The corresponding NNPA stood at 2.71 percent as on December 31, 2021 as compared to 0.60 percent as on March 31, 2021 and 0.11 percent as on March 31, 2020. However, Belstar's restructured portfolio stood at Rs. 391.55 crore as on January 31, 2021 (9.74 percent of the loan portfolio outstanding). The company has done 20 percent provisioning on restructured book.

### **Geographical concentration in state of Tamil Nadu**

Belstar has presence in 170 districts through 675 branches as on December 31, 2021. The loan portfolio outstanding as on December 31, 2021 is at Rs. 3834.8 Cr as compared to Rs. 3298.73 Cr in FY2021 and Rs. 2630.10 Cr in FY2020. The concentration of loan is majorly in rural areas with 99.68 percent of the loan portfolio outstanding being unsecured loans coupled with repayment frequency being monthly. SHG and JLG forms major part of the portfolio together contributing 90.98 percent of the total portfolio outstanding as on December 31, 2021. Top three states i.e. Tamil Nadu, Karnataka and MP accounts for 62 percent of the portfolio outstanding as on December 2021, where Tamil Nadu continues to be the top concentrated state (46.45 percent of the AUM). However, the concentration in Tamil Nadu is reducing over the years.

Acuité believes that constraining additional slippages while scaling up geographically will be crucial.

## **ESG Factors Relevant for Rating**

BML is one of the largest non-bank (NBFC-MFI) microfinance lending institution in India. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, socially responsible investments and green products/services. The industry, by nature has a low exposure to environmental risks.

BML has a mix of executive /non-executive and independent directors. The board of directors of the company comprise of 4 independent directors out of a total of 10 directors with female director as CEO. The entity has documented policy put in public domain for

corporate governance, nomination and remuneration, code for responsible lending, related party transaction and code of conduct for BOD and senior management. As per Reserve Bank of India (RBI) guidelines, the NBFC has an IT policy to oversee its cybersecurity. BML aims to empower entrepreneurs that have limited access to the banking sector in India, hence making an economic contribution by way of financial inclusion. BML in association with Hand and Hand in India continues to work on several community development initiatives through its corporate social responsibility projects.

### Rating Sensitivity

- Continued parent support
- Movement in asset quality & Profitability metrics
- Sustained growth in business volumes
- Changes in regulatory environment

### Material Covenants

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

### Liquidity Position

#### Strong

The liquidity statement of BML was well-matched as on December 31, 2021. During Q3FY22, company had quarterly debt obligations of Rs. 589 Cr. and operating costs of Rs. 54.5 Cr. as against quarterly collections of Rs. 711 Cr. Additionally, BML had Rs. 271.48 Cr. of encumbered cash balance as on December 31, 2021 and Rs. 1150 Cr. of Unutilized lines as on January 2022.

### Outlook:

Acuité believes that BML will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to grow its AUM while maintaining healthy asset quality. The outlook may be revised to 'Positive' in case of higher than expected growth in AUM while maintaining key operating metrics, asset quality and liquidity. The outlook may be revised to 'Negative' in case of any challenges in maintaining its asset quality, profitability metrics and capital adequacy parameters.

### Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20(Actual)
Total Assets	Rs. Cr.	3447.70	2514.14
Total Income*	Rs. Cr.	315.37	315.38
PAT	Rs. Cr.	46.65	99.00
Networth	Rs. Cr.	541.72	497.83
Return on Average Assets (RoAA)	(%)	1.56	4.35
Return on Net Worth (RoNW)	(%)	8.98	22.05
Total Debt/Tangible Net Worth (Gearing)	Times	5.16	3.81
Gross NPA's	(%)	2.72	1.12
Net NPA's	(%)	0.60	0.11

\*Total Income includes Net Interest Income plus Other Income

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

Not applicable

**Any other information**

Not applicable

**Applicable Criteria**

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

**Note on complexity levels of the rated instrument**

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

**Annexure - Details of instruments rated**

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed principal protected market linked debentures	Not Applicable	Not Applicable	Not Applicable	125.00	PP-MLD   ACUITE AA   Stable   Assigned

## Contacts

Analytical	Rating Desk
<p>Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:mohit.jain@acuite.in">mohit.jain@acuite.in</a></p>	<p>Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p>
<p>Meghali Parmar Management Trainee-Rating Operations Tel: 022-49294065 <a href="mailto:meghali.parmar@acuite.in">meghali.parmar@acuite.in</a></p>	

### About Acuité Ratings & Research

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