

## Press Release

### Belstar Microfinance Limited

February 25, 2023

### Rating Reaffirmed



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

### Rating Rationale

Acuite has reaffirmed 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. principal market linked debentures (PP-MLD) of Belstar Microfinance Limited (BML). The outlook is **'Stable'**.

#### Rating Rationale

The rating derives strength from BML's strong parentage (Muthoot Finance Ltd., MFL, holds 56.97 percent 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 BML. So far, Muthoot Finance has invested equity of ~Rs. 345 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 (ED - 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 (~47.21 percent of AUM as on December 2022). 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 Microfinance 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 Microfinance Limited has a wide network of more than 800+ 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, **Acuite Ratings & Research Limited**

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Muthoot Finance Limited, the largest gold loan NBFC in the country, made an equity investment in the company and their stake is at 56.97 percent as on December 31, 2022.

## 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. 57,731.1 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, 2022), 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.

## Standalone (Unsupported) Rating

ACUITE A-

## 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 56.97 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. 345 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. Bijimon (CGM- Muthoot Group)

#### Experienced Board and management team

At the helm of affairs is Dr. Kalpana Sankar, the 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 December 31, 2022, Dr. Kalpana held 0.09 percent in the company and is one of trustees of The Sarvam Trust, holding 12.26 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. 345 Cr. since 2016 till YTD. BML's capital structure comprises of Networth of Rs. 1011.03 Cr., Total Debt of Rs. 3,995.85 Cr. and resultant gearing of 3.95 times as on December 31, 2022. Over the past three years, BML's gearing levels had significantly increased. BML raised capital in the form of equity during FY2022 to the tune of Rs. 275 Cr. from new investor Affirma Capital through Arum Holdings Limited and existing investors Muthoot Finance and Maj Invest and further Rs. 110 Cr. from Affirma Capital during June

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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 improved to 22.74 percent as on December 31, 2022 from 17.62 percent as on December 31, 2021. This capital infusion has helped BML in improving their capitalization level.

## **Weakness**

### **Weakening asset quality metrics impacting profitability parameters**

BML mainly operates in rural and semi-urban centers with agriculture and allied activities accounting for around 60 percent of its portfolio as on December 31, 2022. The weakening in asset quality continues to be seen with Gross Non-Performing Asset (GNPA) rising to 7.37 percent as on December 31, 2022 and 6.65 percent as on March 31, 2022 (GNPA as on December 31, 2021: 5.89 percent & March 31, 2021: 2.72 percent). The company wrote-off Rs. 103.09 Cr. of portfolio during 9M FY2023. As on December 31, 2022 BML's outstanding restructured portfolio stood at Rs. 233.91 Cr. which accounted for ~4.4 percent of the total AUM. BML however, has shown improvement in its on-time portfolio which stood at 91.34 percent as on December 31, 2022. These steps along with collection efforts has aided in improvement in collection efficiency (against scheduled demand for current month) at 91.42 percent as on December 31, 2022 but the total collection efficiency (including overdues) remained low at ~54.65 percent during the same period. BML has made provisions to mitigate some of the asset quality risks.

Net Interest Income (NII) for FY2022 stood at Rs. 383.03 Cr. as compared to Rs. 307.95 Cr. for FY2021. NII for 9M FY2023 improved to Rs. 372.60 Cr. Though NII had improved but the profitability remained subdued on account of higher credit costs. PAT stood at Rs. 45.13 Cr. for FY2022 as compared to Rs. 46.65 Cr. for FY2021, translating into Return on Average Assets (RoAA) of 1.13 percent and 1.56 percent for FY2022 and FY2021 respectively. PAT and RoAA for 9M FY2023 stood at Rs. 48.82 Cr. and 1.35 percent (annualized) respectively.

Acuité believes BML's ability to demonstrate growth in loan assets while containing asset quality risks will be crucial.

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

Belstar has presence in 210 districts through 821 branches as on December 31, 2022. The loan portfolio outstanding as on December 31, 2022 is at Rs. 5,340.33 Cr as compared to Rs. 4364.91 Cr. in FY2022 and Rs. 3298.73 Cr in FY2021. The concentration of loan is majorly in rural areas with ~90 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 89.98 percent of the total portfolio outstanding as on December 31, 2022. Top three states i.e. Tamil Nadu, Karnataka and MP accounts for ~61 percent of the portfolio outstanding as on December 2022, where Tamil Nadu continues to be the top concentrated state (47.21 percent of the AUM). However, the concentration in Tamil Nadu is gradually 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 11 directors with female director as Managing Director. 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, 2022, no negative cumulative mis-matches were observed. BML has Rs. 787 Cr. of cash and cash equivalents as on December 31, 2022.

### Outlook: Stable

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.

### Other Factors affecting Rating None

### Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets*	Rs. Cr.	4508.83	3447.70
Total Income**	Rs. Cr.	433.47	315.37
PAT	Rs. Cr.	45.13	46.65
Networth	Rs. Cr.	855.93	541.72
Return on Average Assets (RoAA)	(%)	1.13	1.56
Return on Net Worth (RoNW)	(%)	6.46	8.98
Total Debt/Tangible Net Worth (Gearing)	Times	4.16	5.16
Gross NPA's	(%)	6.65	2.72
Net NPA's	(%)	2.32	0.60

\*Total Assets excludes deferred tax assets

\*\*Total Income equals Net Interest Income plus Other Income  
Ratio's as per Acuité's calculations

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

None

**Any other information**

None

**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>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Feb 2022	Proposed principal protected market linked debentures	Long Term	125.00	ACUITE PP-MLD AA   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE443L07158	Principal protected market linked debentures	28 Feb 2022	Not Applicable	28 Feb 2024	Complex	125.00	PP-MLD   ACUITE AA   Stable   Reaffirmed



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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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