



**Press Release**  
**Belstar Microfinance Limited**  
**February 23, 2024**  
**Rating Reaffirmed**

| Product                                       | Quantum<br>(Rs. Cr) | Long Term Rating                            | Short Term<br>Rating |
|---|---------------------|---|----------------------|
| <b>Non Convertible<br/>Debentures (NCD)</b>   | 125.00              | PP-MLD   ACUITE AA   Stable  <br>Reaffirmed | -                    |
| <b>Total Outstanding<br/>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 protected market linked debentures (PP-MLD) of Belstar Microfinance Limited (BML). The outlook is **'Stable'**.

**Rationale for rating**

The rating derives strength from BML's strong parentage (Muthoot Finance Ltd., MFL, holds 56.97 percent stake in BML as on 31 March 2023), 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. 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 high credit costs and high geographical concentration in the state of Tamil Nadu (~49 percent of AUM as on Sep 2023). 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 monitorable.

**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 900+ branches across 19 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 56.97 percent as on March 31, 2023.

## 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 4,700+ branches across India with Rs. 71,182 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, 2023), 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.

## **Unsupported Rating**

Acuite A/ Stable

## **Analytical Approach**

Acuite 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. Acuite 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 as on March 31, 2023), 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 March 31, 2023, 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. 1,323.69 Cr, Total Debt of Rs. 6424.18 Cr. and resultant gearing of 4.85 times as on December 31, 2023. 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 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 at 18.64 percent as on December 31, 2023.

#### **Improving Earning Profile.**

BML's earning profile has seen significant improvement in the recent quarters and previous fiscal year owing to the increasing NIM. BML reported a PAT of Rs 130.33 Cr and a ROA of 2.43 percent in FY2023. The improvement in NIM was seen post the revised regulatory framework. BML's PAT further improved to Rs 235 Cr and ROAA improved to 3.30 percent in 9MFY2024.

Though the improvement in earning profile BML's credit cost remains to be on the higher side. 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.

### **Weakness**

#### **Moderate asset quality; albeit improving**

BML mainly operates in rural and semi-urban centres with agriculture and allied activities accounting for ~65 percent of its portfolio as on September 30, 2023. The asset quality continues to be moderate albeit improving with Gross Non-Performing Asset (GNPA) improving to 1.88 percent as on December 31, 2023 and 2.42 percent as on March 31, 2023 (GNPA as on March 31, 2022: 6.65 percent & March 31, 2021: 2.72 percent). The improvement in asset quality was aided by the sale of restructured portfolio and 180+ dpd portfolio to the ARC in tune of Rs 251 Cr for a consideration of Rs 83 Cr (haircut of 67%). BML's outstanding restructured portfolio stood at Rs. 30.48 Cr. which accounted for less than 2 percent of the total AUM. BML has shown improvement in its on-time portfolio which stood at 96.35 percent as on March 31, 2023. These steps along with collection efforts has aided in improvement in collection efficiency.

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

#### **Geographical concentration**

Belstar has presence in 19 states through 945 branches as on September 30, 2023. The loan portfolio outstanding as on December 31, 2023 is at Rs. 8,834 Cr as compared to Rs. 6192 Cr. in FY2023 and Rs. 4365 Cr in FY2022. 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 ~90 percent of the total portfolio outstanding as on September 30, 2023. Top three states i.e. Tamil Nadu, Karnataka and MP accounts for ~63 percent of the portfolio outstanding as on September 2023, where Tamil Nadu continues to be the top concentrated state (49 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

## Liquidity Position Strong

The liquidity statement of BML was well-matched as on September 30, 2023, no negative cumulative mis-matches were observed. BML has Rs. 588.50 Cr. of cash and cash equivalents as on December 31, 2023.

## 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       | FY23<br>(Actual) | FY22<br>(Actual) |
|---|------------|------------------|------------------|
| Total Assets*                           | Rs.<br>Cr. | 6210.14          | 4508.83          |
| Total Income**                          | Rs.<br>Cr. | 660.79           | 433.47           |
| PAT                                     | Rs.<br>Cr. | 130.33           | 45.13            |
| Networth                                | Rs.<br>Cr. | 1092.30          | 855.93           |
| Return on Average Assets (RoAA)         | (%)        | 2.43             | 1.13             |
| Return on Net Worth (RoNW)              | (%)        | 13.38            | 6.46             |
| Total Debt/Tangible Net Worth (Gearing) | Times      | 4.42             | 4.16             |
| Gross NPA's                             | (%)        | 2.42             | 6.65             |
| Net NPA's                               | (%)        | 0.66             | 2.32             |

\*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):

Not Applicable

## 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, Acuité 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<br>(Rs. Cr) | Rating/Outlook                         |
|-------------|---|-----------|--------------------|--|
| 25 Feb 2023 | Principal protected market linked debentures          | Long Term | 125.00             | ACUITE PP-MLD AA   Stable (Reaffirmed) |
| 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 avl. / Not appl. | 28 Feb 2024   | Complex          | 125.00            | PP-MLD   ACUITE AA   Stable   Reaffirmed |

### \*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

| Sr No | Company Name            | Relationship |
|-------|-------------------------|--------------|
| 1     | Muthoot Finance Limited | Parent       |



## Contacts

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|--|--|
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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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