

## Press Release

### Magenta Finance Services Private Limited

August 17, 2022



### Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BB   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	10.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has Assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs. 10.00 crore bank facilities of Magenta Finance Services Private Limited (MFSPL). The outlook is '**Stable**'.

The rating factors in experienced management, healthy capitalization level and nascent stage of operation of Magenta Finance Services Private Limited. Magenta's Capital Adequacy Ratio (CAR) stood at 45.17 percent as on March 31, 2022 (Provisional) which improved from 44.58 percent as on March 31, 2021. The rating is however constrained by modest scale of operations coupled with modest financial performance, geographic concentration, low overall collection efficiency and risks inherent to microfinance sector. Given the asset quality challenges in the micro finance sector, the company's on time portfolio stood at a healthy 95.72 percent as of March 31, 2022 (Provisional) [March 31, 21: 92.82%] with a GNPA of 3.90 percent as of March 31, 2022 (Provisional) [March 31, 21: 3.98%]. Magenta's average overall collection efficiency for 6 months ended March 31, 2022 for scheduled demand stood at ~70 percent. The fall in collection efficiency is majorly due to the delinquencies because of the pandemic but the collection efficiency of the portfolio disbursed after the pandemic is strong as evident from the company's monthly collection efficiency which stood at ~97 percent on March 31, 2022. Further, MFSPL's restructured book stood at Rs. 0.86 Cr. as on March 31, 2022 (Provisional). Going forward, the ability of the company to scale up its operations, raise capital, movement of delinquencies across different time buckets and resultant impact on profitability would remain key monitorable.

### About the company

Incorporated in 2010, Magenta Finance Services Private Limited is a Delhi based privately held NBFC - MFI. The company received its NBFC – MFI license from the Reserve Bank of India in 2017. The company is promoted by Nellcome Limited, which is based out of Isle of Man, and Gulab Unity Trust and operates as an MFI engaged in extending credit through Self-help groups and Joint Liability groups model since May 2018. The company has presence in two states Haryana and Punjab and has three branches as on July, 2022.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of Magenta Finance

Services Private Limited to arrive at the rating.

## Key Rating Drivers

### Strength

#### Established management in micro-finance segment

Magenta Finance Services is engaged in extending microfinance in rural, semi-urban and urban areas for income generating activities under Joint Liability Group (JLG). It operates in 2 districts of Haryana and 1 district of Punjab with its network of 3 branches, one in each of the three districts. The company's loan portfolio stood at Rs. 16.34 Cr. as on March 31, 2022 (Provisional) as compared to Rs. 15.36 Cr. as on March 31, 2021 and Rs. 14.55 Cr. as on March 31, 2020. Magenta Finance Service's promoters have over two decades of experience in micro finance lending.

Magenta Finance Services Private Limited is promoted by Nellcome Ltd. and Gulab Unity Trust. Magenta benefits in the form of financial support and board representation from its promoters. Mr. Rajkumar Singh, the director, representing Gulab Unity Trust, has close to two decades of experience more than a decade is in the micro finance industry. Magenta also have Mr. Kim Peter Hansen, representing Nellcome Ltd., who has more than two decades of experience in trading and trade finance. They also have Mr. Asokkumar Rathnam who has served as AGM in SBI and DGM in Axis Bank and has more than four decades of experience. Mr. Jal Karan Singh Kharb, one of the directors, was Ex. Executive Director Allahabad Bank and also associated with Dena bank and regional rural bank. They also have Mr. Tribikram Nayak, who has more than two decades of experience in training, teaching and social welfare activities as a member of board of directors.

The prudent policies adopted by the management has enabled the company to improve the asset quality with an on-time portfolio at 95.72 percent as on March 31, 2022 (Provisional). Acuité believes that established presence of the promoters in the microfinance segment will be central to support the business risk profile of the company in the near to medium term.

### Weakness

#### Modest scale of operations and the Financial Risk profile

Magenta has been in the micro-finance lending segment since 2018. The company has been able to build a portfolio of Rs. 16.34 Cr. as on March 31, 2022 (Provisional). The company had done rescheduling of the loans to some of the borrowers during FY2022 (Provisional) amounting to Rs. 0.86 Crs.. Magenta reported ROAA of 3.14 percent during FY2022 (Provisional) as compared to 1.97 percent in FY2021. Even though there is an improvement in ROAA, it still remains at modest levels. Similarly, PAT also stood at a modest levels of Rs. 0.52 Cr. in FY2022 (Provisional) from Rs. 0.31 Cr. in FY2021. Going forward the ability of the company to access timely capital infusion and its ability to mobilize low cost debt, will be a key factor in the scalability of a business.

#### Risk inherent to the microfinance segment; moderate asset quality

The activities of microfinance companies like Magenta are exposed to the concentration risks. The company has presence in 2 states with a concentration in Haryana (~66 percent) and Punjab (~34 percent) of total portfolio as on March 31, 2022 (Provisional). This exposes the company to high geographical concentration risk. While the company reported 95.72 percent of portfolio as on-time as on FY2022 (Provisional) (P.Y.: 92.82 percent), its GNPA (90+dpd) stood at 3.9 percent as on March 31, 2022 (Provisional) from 3.98 percent as on March 31, 2021. During Covid times NPA had gone up. Thus, the company's performance is expected to remain exposed to the competitive landscape in these regions and the occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework, thereby impacting the credit profile of Magenta Finance Services Private Limited.

Acuité believes that constraining additional slippages while maintaining the growth in the loan portfolio will be crucial.

## Rating Sensitivity

- Impact of natural calamities on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in profitability metrics
- Ability to raise funds
- Scalability in operations

## Material Covenants

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

## Liquidity Position

### Adequate

Magenta Finance Services Private Limited's overall liquidity profile remains moderate in near to medium term. Magenta's borrowings stood at ~Rs. 8.72 crore, of which Rs.7.05 crore is from the parent company, with a gearing of ~1.19 times as on March 31, 2022 (Provisional). The company has a term loan facility were Rs.0.50 Cr. Is yet to be availed. It has maintained cash and bank balance of ~Rs. 0.46 crore as on March 31, 2022 (Provisional). As per ALM statement dated March 31, 2022 (Provisional), the company's assets and liabilities are well matched with no cumulative deficit in any of the time buckets upto 5 years.

## Outlook : Stable

Acuité believes that Magenta Finance Services Private Limited will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment. The outlook may be revised to 'Positive' in case of higher than expected growth in the loan portfolio while maintaining asset quality and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality, thereby impacting profitability metrics.

## Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Provisional)	FY21 (Actual)
Total Assets	Rs. Cr.	17.05	15.90
Total Income*	Rs. Cr.	2.25	2.42
PAT	Rs. Cr.	0.52	0.31
Net Worth	Rs. Cr.	7.30	6.78
Return on Average Assets (RoAA)	(%)	3.14	1.97
Return on Average Net Worth (RoNW)	(%)	7.34	4.55
Total Debt/Tangible Net worth (Gearing)	Times	1.19	1.20
Gross NPA	(%)	3.90	3.98
Net NPA	(%)	0	0

\*Total income equals to Net Interest Income plus other income.

## 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>
- 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>

**Rating History:**

Not applicable

**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 Long Term Loan	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE BB   Stable   Assigned
Eclear Leasing & Finance Private	Not Applicable	Term Loan	Not available	15.25	Not available	2.00	ACUITE BB   Stable   Assigned
SHARE BAZAR FINANCIAL SERVICES LTD	Not Applicable	Term Loan	Not available	14.00	Not available	0.50	ACUITE BB   Stable   Assigned
Usha Financial Services Private Limited	Not Applicable	Term Loan	Not available	15.50	Not available	1.00	ACUITE BB   Stable   Assigned

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### About Acuité Ratings & Research

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