

Press Release

Mahasemam Trust

September 21, 2022

Rating Assigned



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|---------------------------------|-------------------|
| Bank Loan Ratings | 50.00 | ACUITE BBB- Stable Assigned | - |
| Total Outstanding Quantum (Rs. Cr) | 50.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has assigned the long-term rating to '**ACUITE BBB-**' (read as **ACUITE Triple B Minus**) on the Rs. 50.00 Cr. bank facilities of Mahasemam Trust (MT). The outlook is '**Stable**'.

The rating takes into account trust's experienced management team, comfortable asset quality, healthy earnings profile and significant growth in AUM during FY2022. MT's AUM increased to Rs 178.48 Cr as on March 31, 2022 as compared to Rs 117.17 Cr as on March 31, 2021. The increase in AUM was on account of healthy disbursements in FY2022, with the total disbursements increasing to ~Rs 283 Cr. in FY2022 as compared to ~Rs 176 Cr. in FY2021. The company reported sound asset quality with GNPA at 0.04 percent as on March 31, 2022 as against 0.28 percent as on March 31, 2021. The rating is, however, constrained by MT's geographically concentrated portfolio with a single state presence in Tamil Nadu, further the top 5 districts contribute to 68 percent of the AUM. The rating also factors in relatively high leveraged capital structure with a gearing of 3.99 times as on March 31, 2022. Acuite takes cognizance of the trust's limited access to credit bureaus and being an unregulated non-profit entity, it's limitations of capital raising ability.

About the company

Mahasemam Trust (MT), incorporated in 1999, is a Madurai, Tamil Nadu-based trust engaged in microfinance activities. The trust is promoted by Dr.N.Sethuraman. The trust provides personal unsecured loans to its members across Tamil Nadu. MT follows a group based individual (JLG) lending methodology. Its borrowers primarily consist of artisans, MSME's and entrepreneurs both in rural and urban areas. The borrowers are organised in groups of 5-10 and each woman takes joint liability for other group members.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of Mahasemam Trust to arrive at the rating.

Key Rating Drivers

Strength

Experienced Management Team

Dr. N Sethuraman, President and Trustee of Mahasemam Trust, has over 2 decades of experience in the microfinance sector and has a strong understanding of the local markets and customer segments in Tamil Nadu. Dr. Sethuraman has an established track record in the NBFC-MFI space, after initially commencing the microfinance activities with MT, he set up a NBFC-MFI named S.M.I.L.E Microfinance Limited. However presently MT and S.M.I.L.E function independently of each other. Dr. Sethuraman is supported by six trustees on board of trustees and the trust is presently run by Mr. Chandravel Rajan, CEO who is supported by Ms. Aseena Begum to manage day to day operations. Over the years, Mahasemam Trust has successfully expanded its operation to 74 branches spread across 12 districts in Tamil Nadu. The company's AUM has grown from Rs 178.48 Cr as on March 31, 2022 as compared to Rs 117.17 Cr as on March 31, 2021. The AUM stood at Rs 162.90 Cr as on June 2022

Acuité believes that the company's growth prospects will be supported by the promoters experience in the industry

Adequate financial risk profile with diversified funding mix

MT's networth stood at ~Rs. 46 Cr. as on June 30, 2022 and reported a healthy capital adequacy ratio (CAR) of 28.40 percent. The trust has been reporting profits over the past years, the trust reported a PAT of Rs 6.12 Cr during FY2022 improving from Rs 4.41 Cr during FY2021. Although the PAT levels of the trust were slightly affected during the pandemic in FY2021 as compared to Rs 5.94 Cr for FY2020, However, the trust reported healthy earnings profile in comparison with other NBFC-MFIs. Consequently, improvement in RoAA and NIM were observed during the year, with the RoAA improving to 3.24 percent as compared to 2.60 in FY2021. The trust has a strong lender profile comprising majorly public sector banks. MT has demonstrated access to funding from public sector banks and has been able to obtain disbursements of ~Rs 110 Cr for FY2022 in the form of Term loans.

Acuité believes, going forward, the ability of the company to mobilize low cost funding through debt to deploy the funds profitably will be a key rating monitorable.

Weakness

Geographical Concentration Risk

Mahasemam Trust's operations are entirely based in Tamil Nadu, spread across 12 districts. And the top 5 districts account for more than 65 percent of the total AUM. This exposes the trust to high geographic concentration risk. The trust's performance is expected to remain exposed to competitive or political landscape in these regions and occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the trust will be exposed to competition and any changes in the regulatory framework thereby impacting credit profile of Mahasemam Trust.

Acuité believes that geographic concentration in its portfolio coupled with the inherent risk in microfinance segment will continue to weigh on the trust's credit profile over the near to medium term.

Risk inherent in the business model; limited access to capital & credit bureaus

Mahasemam Trust (MT) is a Madurai, Tamil Nadu-based trust engaged in microfinance activities. The trust provides personal unsecured loans to its members across Tamil Nadu. MT, being an unregulated non-profit entity, has substantial limitations in terms of equity raising capabilities, any additional capital required is met by the trustees and the internal accruals of the trust. MT operates on a trust model, and therefore, cannot enlist its borrowers to credit bureaus, which enhances the risk of the borrowing profile. As per management discussion, to mitigate these risks the trust has an arrangement with an NBFC-MFI through which they access the microcredit report of their borrowers. The trust pays a nominal fees for obtaining the reports to the NBFC.

Acuité believes that the trusts might face challenges to scale up their operations or expand into newer geographies due to its inability to access credit bureaus and its limited access to

capital raising could

Rating Sensitivity

- Movement in capital structure and gearing levels
- Movement in asset quality and profitability metrics
- Changes in regulatory environment
- Movement in liquidity buffers

Material Covenants

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

Liquidity Position Adequate

The trust has cash and bank balance of Rs 31.12 Cr as on March 31, 2022. The company has positive cumulative mismatches across time buckets as per ALM as on June 30, 2022. Further its collection efficiency for current month due stood at an average of 99.93 percent for 6 months ended May 2022.

Outlook - Stable

Acuité believes that MT will maintain a 'stable' outlook over the medium term, as it will benefit from its experienced promoters and management team and comfortable capitalisation buffers. The outlook may be revised to 'Positive' if there is significantly higher than expected growth in AUM while maintaining asset quality and improving profitability metrics. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in asset quality, profitability parameters or case of challenges faced in raising fresh capital shall lead to a negative rating bias.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

| Particulars | Unit | FY22 (Actual) | FY21(Actual) |
|--|------------|------------------|--------------|
| Total Assets | Rs. Cr. | 218.46 | 159.45 |
| Total Income (Net of Interest Expense) | Rs. Cr. | 28.20 | 24.85 |
| PAT | Rs. Cr. | 6.12 | 4.41 |
| Net Worth | Rs. Cr. | 43.30 | 37.19 |
| Return on Average Assets (RoAA) | (%) | 3.24 | 2.60 |
| Return on Average Net Worth (RoNW) | (%) | 15.22 | 12.61 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 3.99 | 3.20 |
| Gross NPAs | (%) | 0.04 | 0.28 |

| | | | |
|----------|-----|---|---|
| Net NPAs | (%) | - | - |
|----------|-----|---|---|

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>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.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 |
|---------------------|----------------|------------|------------------|---------------|---------------|-------------------|---------------------------------|
| Canara Bank | Not Applicable | Term Loan | Not available | Not available | Not available | 23.53 | ACUITE BBB- Stable Assigned |
| State Bank of India | Not Applicable | Term Loan | Not available | Not available | Not available | 22.00 | ACUITE BBB- Stable Assigned |
| Indian Bank | Not Applicable | Term Loan | Not available | Not available | Not available | 2.37 | ACUITE BBB- Stable Assigned |
| Bank of Maharashtra | Not Applicable | Term Loan | Not available | Not available | Not available | 2.10 | ACUITE BBB- Stable Assigned |

Contacts

| Analytical | Rating Desk |
|--|--|
| Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294041 mohit.jain@acuite.in Nitin Chavan Analyst-Rating Operations Tel: 022-49294065 nitin.chavan@acuite.in | Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in |

About Acuité Ratings & Research

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