

Press Release
Mahasemam Trust

December 05, 2022

Rating Assigned and Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	126.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	50.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	176.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

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Rationale for the rating

The rating continues to take 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 AUM further stood at Rs. 206.43 Cr as on October 31, 2022. 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 more than 60 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 MT 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 206.43 Cr as on October 31, 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 October 31, 2022 and reported a capital adequacy ratio (CAR) of 22.47 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. For H1FY23, the PAT stood at Rs. 2.27 Cr. Consequently, improvement in RoAA and NIM were observed during the year, with the RoAA improving to 3.24 percent in FY2022 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. The trust has further raised fresh debt Rs. 81 Cr as on September 30, 2022.

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 60 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 38.46 Cr as on September 30, 2022. The company has positive cumulative mismatches across time buckets as per ALM as on June 30, 2022

Outlook - Stable

Acuité believes that MT 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*	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
Debt/Equity	Times	3.99	3.20
Gross NPA (Owned portfolio)	(%)	0.04	0.28
Net NPA (Owned portfolio)	(%)	0.00	0.00

*Total income equals to Net Interest Income plus other

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

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Sep 2022	Term Loan	Long Term	2.10	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	22.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	23.53	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	2.37	ACUITE BBB- 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	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	0.70	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	0.02	ACUITE BBB- Stable Assigned
Bank of Baroda	Not Applicable	Term Loan	Jan 30 2020 12:00AM	Not available	Jan 31 2023 12:00AM	Simple	0.07	ACUITE BBB- Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Term Loan	Mar 31 2020 12:00AM	Not available	Mar 31 2023 12:00AM	Simple	0.74	ACUITE BBB- Stable Reaffirmed
Dhanlaxmi Bank Ltd	Not Applicable	Term Loan	Sep 27 2019 12:00AM	Not available	Nov 30 2022 12:00AM	Simple	0.10	ACUITE BBB- Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	Dec 29 2020 12:00AM	Not available	Mar 31 2023 12:00AM	Simple	4.05	ACUITE BBB- Stable Reaffirmed
UCO Bank	Not Applicable	Term Loan	Feb 13 2020 12:00AM	Not available	Jan 30 2023 12:00AM	Simple	0.80	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Aug 13 2021 12:00AM	Not available	Aug 13 2024 12:00AM	Simple	19.79	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Mar 8 2022 12:00AM	Not available	Mar 7 2025 12:00AM	Simple	20.37	ACUITE BBB- Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	Sep 23 2019 12:00AM	Not available	Dec 31 2022 12:00AM	Simple	1.50	ACUITE BBB- Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Term Loan	Sep 13 2021 12:00AM	Not available	Sep 30 2024 12:00AM	Simple	1.88	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Mar 31 2021 12:00AM	Not available	Mar 31 2024 12:00AM	Simple	5.03	ACUITE BBB- Stable Assigned
Catholic Syrian Bank	Not Applicable	Term Loan	Mar 25 2020 12:00AM	Not available	Mar 22 2023 12:00AM	Simple	2.22	ACUITE BBB- Stable Assigned

Dhanlaxmi Bank Ltd	Not Applicable	Term Loan	Mar 30 2022 12:00AM	Not available	Mar 31 2025 12:00AM	Simple	2.72	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Feb 1 2022 12:00AM	Not available	Jul 31 2023 12:00AM	Simple	5.29	ACUITE BBB- Stable Assigned
Indian Bank	Not Applicable	Term Loan	Nov 17 2021 12:00AM	Not available	Nov 30 2024 12:00AM	Simple	14.61	ACUITE BBB- Stable Assigned
Indian Bank	Not Applicable	Term Loan	Aug 30 2022 12:00AM	Not available	Aug 30 2025 12:00AM	Simple	25.98	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Term Loan	Aug 26 2022 12:00AM	Not available	Jun 15 2025 12:00AM	Simple	49.95	ACUITE BBB- Stable Assigned
Tamilnad Mercantile Bank Limited	Not Applicable	Term Loan	Oct 29 2022 12:00AM	Not available	Oct 29 2025 12:00AM	Simple	5.00	ACUITE BBB- Stable Assigned
UCO Bank	Not Applicable	Term Loan	Mar 24 2022 12:00AM	Not available	Mar 31 2025 12:00AM	Simple	8.70	ACUITE BBB- Stable Assigned
Union Bank of India	Not Applicable	Term Loan	Oct 1 2021 12:00AM	Not available	Oct 1 2024 12:00AM	Simple	6.48	ACUITE BBB- Stable Assigned

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 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

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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