

Asirvad Micro Finance Limited

August 09, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities (Proposed)	100.00 (Rupees One Hundred crore only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Non-Convertible Debenture II	70.00 (Rupees Seventy crore only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Non-Convertible Debenture III	33.00 (Rupees Thirty Three crore only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Non-Convertible Debenture IV	40.00 (Rupees Forty crore only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Non-Convertible Debenture V (Proposed)	-	-	Withdrawn

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the long-term bank facilities and debt instruments of Asirvad Micro Finance Limited (AMFL) continues to factor in the benefits derived from being part of the Manappuram group, experience of the management, adequate loan appraisal system along with good MIS, adequate capitalisation levels and fairly diversified resource profile. The ratings also factor in improvement witnessed in scale of operations and geographical diversification and reduction in NPA levels during FY18 (refers to the period April 01 to March 31). The ratings are however constrained by moderation in profitability with loss reported during FY18 due to higher provisions and write-offs, regulatory & inherent socio-political risks in micro finance industry.

Going forward, ability of the company to further diversify the portfolio in terms of geography, improve its asset quality and profitability and maintain capitalization at comfortable level while growing its operations would be the key rating sensitivities.

CARE has withdrawn the rating assigned to the NCD issue V amounting to Rs.34 crore of AMFL with immediate effect, at the request of AMFL for withdrawal of rating assigned by CARE. The company has not placed the NCD issue and there is no amount outstanding against the rated instrument as on date.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and benefits derived from being part of Manappuram group

AMFL is a subsidiary of Manappuram Finance Limited (MFL, rated CARE AA; Stable/CARE A1+), the flagship company of Manappuram Group. AMFL being a subsidiary of MFL is expected to derive significant benefits in the form of managerial, financial and operational support. This is likely to aid AMFL in expanding the branch network to new geographies in which MFL has presence, enhancing the IT infrastructure and high level of financial flexibility on account of being a subsidiary of MFL. Supported by the group's strong resource raising ability, the company is expected to mobilize funds from various avenues by widening the lenders' base and attract new investors which will enable them to secure funds at competitive rate.

Experienced board and management team

AMFL was promoted by Mr. S.V Raja Vaidyanathan, who is currently the Managing Director of AMFL, is an IIT-IIM alumnus with more than 30 years of experience in the field of financial services, retail and infrastructure. The board of AMFL comprises five independent directors and four directors with extensive experience in financial services, rural banking and operations. The Managing Director of MFL, Mr.V.P.Nandakumar is the chairman of the board and also deputed one of the senior people, Mr. Raveendra Babu on the board of AMFL as Executive Director. The day to day operations are handled by experienced management including Mr.S.Ramachandran (Chief Operations Officer) who has more than two decades of experience in financial services industry. The strategic decisions and the business plan approvals takes place at the board level which also includes representatives of MFL.

Adequate loan appraisal, Risk monitoring and collection systems along with good MIS

AMFL operates under the JLG lending model in which the group undergoes training programs (Compulsory Group Training-CGT) and Group recognition Test (GRT) before getting qualified for loan. The Credit Bureau Checks are done at

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

the field level to assess the eligibility of the borrowers for loan approval. The loan approval process is decentralized at the branch level where Area Manager who is in charge of 4-5 branches approves the loan amount. Post demonetization, 100% disbursements are done through fund transfer via NEFT, RTGS to the borrowers account. Every borrower is given with the repayment schedule indicating the due dates and the passbook for the loan account. The portfolio is monitored on an on-going basis by post disbursement verification of assets created out of loan amount. AMFL follows 4 week (28 days) collection model. The collections happen in the center meetings wherein the installments are collected by FDOs. AMFL has adequate structure to monitor the operations at different levels. It has defined credit appraisal, collection and monitoring systems. The company has an internal audit team who conducts operational audit every month at all the branches. The audit team also visits center meetings and do random checks to ensure compliance of the process. MIS systems generates reports in connection with JLG, Portfolio management, Staff performance, training and other services, overdue reports etc., All branches are connected with HO through network. At the HO, various reports like PAR report, DCB report, Attendance details, repayment schedule, etc., can be generated.

Improvement in scale of operations supported by geographical expansion into new areas

AUM witnessed growth of 36% from Rs.1,796 crore as on March 31, 2017 to Rs.2,438 crore as on March 31, 2018 backed by disbursement growth of 36% from Rs.2,108 crore during FY17 to Rs.2,873 crore during FY18. As on March 31, 2018, the company is operating in 245 districts (PY: 230) in 20 states (PY: 17) with 832 branches (PY: 765). During FY18, the company has diversified into new states like Gujarat, Assam and Tripura and increased their scale in the states like Odisha, Bihar, Rajasthan, Maharashtra, Uttarakhand and West Bengal. On account of increase in disbursements in the new states, the share of TN has come down from 39% as on March 31, 2017 to 30% as on March 31, 2018. The growth in disbursement in new branches is likely to increase and the proportion in TN is expected to come down further. The share of top 3 states decreased from 63% of the AUM as on March 31, 2017 to 53% of the AUM as on March 31, 2018.

Adequate capitalization levels

AMFL had networth of Rs.247 crore as on March 31, 2018 as against Rs.242 crore as on March 31, 2017. CAR and Tier I CAR stood at 15.19% and 10.42% as on March 31, 2018 as compared to 20.60% and 14.02% as on March 31, 2017. During April 2018, the company has received equity of Rs.100 crore through rights issue, of which Rs. 90 crore from MFL.

Fairly diversified Resource Profile

AMFL's major source of funding is bank borrowings which constituted around 50% of the total borrowings as on March 31, 2018 as against 41% as on March 31, 2017. NCDs constitute 34% of the total borrowings followed by term loans from financial institutions (15%) and short term commercial paper (1%).

Industry Outlook and Prospects

Post the AP crisis and regulatory intervention by RBI, the microfinance sector has seen strong growth in loan portfolio on account of improving funding profile, control over operating expenses, improving margins and moderate leverage levels. RBI has revised the lending norms for the MFI sector, post Andhra Pradesh (AP) crisis in 2010 and Malegam Committee Report on NBFC-MFI in 2011. The sector has evolved with the advent of credit bureaus in the sector and subsequent control over asset quality. However, on account of various events post demonetization, collection efficiency of the MFIs had deteriorated during FY17. This has impacted the asset quality of the MFIs leading to increase in credit costs during FY17 and FY18. However with improvement in the scenarios during FY18, the overall industry had grown by around 50% during FY18 in terms of AUM and collection efficiency of the overall industry improved during FY18 with 30+dpd improved to 4.44% as on March 31, 2018 from 11.05% as on March 31, 2017 (source: MFIN).

With further improvement expected in the overall MFI industry over the medium term, the ability to withstand event risks and avoid further deterioration in the asset quality leading to impact in the overall profitability will be the key considerations.

Key Rating Weaknesses

Reduction in NPA levels on account of write-offs

During FY18, the company had written off bad assets amounting to Rs.143 crore due to which the Gross NPA and Net NPA reduced from 4.47% and 1.34% as on March 31, 2017 to 2.33% and 0.24% as on March 31, 2018. Net NPA to Networth reduced from 9.66% as on March 31, 2017 to 2.30% as on March 31, 2018. Overall Collection efficiency has improved from 91% in August 2017 to 99% in May 2018. Also, the collection efficiency of the loans disbursed post demonetization stood above 99%.

Moderation in profitability on account of interest reversals and write off

During FY18, the company reported total income of Rs.468 crore (PY: Rs.363 crore). However, the company incurred a net loss of Rs.32 crore which was mainly due to provisions and write-offs of Rs.158 crore during FY18. Loan loss provisions and write-offs to average total assets increased from 3.50% in FY17 to 7.25% in FY18. Also, Yield has reduced from 21.51% in FY17 to 18.32% on account of interest reversal due to NPA accounts and correspondingly, NIM also reduced from 10.51% in FY17 to 8.19% in FY18. However, the overall Cost of borrowings reduced from 13.07% in FY17 to 11.65% in FY18. Opex to average total assets reduced to 6.58% in FY18 from 7.02% in FY17.

Analytical approach:

Standalone approach also factoring in the linkages with parent

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios-Financial Sector](#)

[CARE's Rating Methodology for Non-Banking Finance Companies \(NBFCs\)](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Policy on Withdrawal of ratings](#)

About the Company

Asirvad Micro Finance Limited (AMFL) is a Chennai based Non-Banking Finance Company-Microfinance Institution (NBFC-MFI) incorporated in August 2007 and registered with the Reserve Bank of India in December 2007. The microfinance operations commenced in January 2008 and the company was reclassified as NBFC-MFI effective from October 2013. AMFL was promoted by Mr. S.V. Raja Vaidyanathan and during February 2015, Manappuram Finance Limited (MFL, rated 'CARE AA; Stable/CARE A1+') acquired 85% stake in AMFL through combination of acquisition of shares from existing investors (including PE investor Lok Capital) & erstwhile promoters and fresh issue of equity shares. As on June 30, 2018, Manappuram Finance Limited (MFL) holds 92.30% stake in AMFL and 6.84% is held by Mr. S. V. Raja Vaidyanathan and the rest is held by individuals (0.86%).

AMFL caters primarily to economically backward women and provides microcredit loans under the Joint Liability Group (JLG) model. As on March 31, 2018, AMFL operates in 20 states with 832 branches and an active membership of 15,01,575 with AUM of Rs.2,438 crore.

During FY18, the company reported net loss of Rs.32 crore on a total income of Rs.468 crore as against PAT of Rs.34 crore on a total income of Rs.363 crore during FY17.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	363	468
PAT	34	(32)
Interest coverage (times)	1.34	NM
Total Assets	1,940	2,462
Net NPA (%)	1.34	0.24
ROTA (%)	2.30	NM

A: Audited

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Proposed fund based limits	-	-	-	100.00	CARE A+; Stable
Debentures-Non Convertible Debentures II	March 28, 2016	12.53	March 29, 2021	70.00	CARE A+; Stable
Debentures-Non Convertible Debentures III	May 19, 2016	12.53	May 19, 2021	33.00	CARE A+; Stable
Debentures-Non Convertible Debentures IV	July 13, 2016	13.50	July 12, 2022	40.00	CARE A+; Stable
Debentures-Non Convertible Debentures V (Proposed)	-	-	-	-	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Proposed fund based limits	LT	100.00	CARE A+; Stable	-	1)CARE A+; Stable (25-Sep-17)	1)CARE A+ (21-Oct-16)	1)CARE A- (22-Jun-15)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (25-Sep-17)	1)CARE A+ (21-Oct-16)	1)CARE A- (18-Aug-15)
3.	Debentures-Non Convertible Debentures	LT	70.00	CARE A+; Stable	-	1)CARE A+; Stable (25-Sep-17)	1)CARE A+ (21-Oct-16)	1)CARE A- (21-Mar-16)
4.	Debentures-Non Convertible Debentures	LT	33.00	CARE A+; Stable	-	1)CARE A+; Stable (25-Sep-17)	1)CARE A+ (21-Oct-16) 2)CARE A- (29-Apr-16)	-
5.	Debentures-Non Convertible Debentures	LT	40.00	CARE A+; Stable	-	1)CARE A+; Stable (25-Sep-17)	1)CARE A+ (21-Oct-16) 2)CARE A- (14-Jul-16)	-
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A+; Stable (25-Sep-17)	1)CARE A+ (21-Oct-16) 2)CARE A- (29-Jul-16)	-

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