Mentor Home Loans India Ltd.

November 24, 2017

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term bank facilities	200 (enhanced from 136.38)	**CARE BBB; Stable [Triple B; Outlook: Stable]**	**Revised from CARE BBB- ;Stable (Triple B Minus; Outlook: Stable)**
Total Facilities	**200 (Rupees Two Hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in the rating of Mentor Home Loans India Ltd. (MHIL) factors in the continuous improvement in scale of operations with improvement in profitability and further diversification of resource base in FY17 (refers to the period April 1 to March 31) as well as in H1FY18. The rating continuous to factor in the experience of the promoters in various businesses, secured and diversified nature of its loan portfolio and adequate risk management system along with its moderate capital adequacy and liquidity profile.

The rating, however, continues to be constrained by the moderate scale of operations of MHIL, moderation in asset quality and capital structure, low geographical diversification of its loan portfolio, high exposure to the relatively risky self-employed segment and low seasoning of loan portfolio.

Asset quality and capital structure will be the key rating monitorables and MHIL is expected to maintain its Net NPA to Net-worth level below 10% and overall gearing below 6 times over the medium term. The rating may be reviewed in case of any breach in these parameters. Further, business growth with greater geographical diversification will also act as key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: Both the key promoters of the company, MrBasant Kumar Goyal (Executive Director) and MrPawan Kumar Goyal (Managing Director) have an experience of over two decades in various lines of business, including managing MHIL and have been instrumental in driving the growth of the company since its inception.

Secured and diversified nature of portfolio with low LTV Ratio: MHIL's portfolio as on March 31, 2017 comprised housing and mortgage loans apart from vehicle loans (commercial vehicle and two-wheeler loans) and thus, the entire portfolio of MHIL is secured in nature. The company reduces its risk by maintaining low LTV ratio of up-to 50% for 90% of the cases in total outstanding loan portfolio.

Moderate capital adequacy: The Capital Adequacy Ratio (CAR) of MHIL improved and remained comfortable at 66.02% as on March 31, 2017 as against 57.23% as on March 31, 2016.

Growth in scale of operations in FY17 with improvement in profitability: MHIL's asset size has increased significantly from Rs.103.73 crore as on March 31, 2016 to Rs.196.95 crore as on March 31, 2017 and further to Rs.251.02 crore as on September 30, 2017 on the back of increase in housing and mortgage disbursements. ROTA has also improved to 3.99% during FY17 from 3.14% during FY16 due to change in policy to one-time accounting of processing fees charged from clients at the time of disbursement as against earlier practice in which the processing charges were spread out over the period of term loan advanced.

Expansion of resource base: MHIL has expanded its resource base by adding more banks and financial institutions. Presently, the company has availed loans from 10 banks and 4 financial institutions apart from raising funds through issue of subordinated NCDs.

Moderate liquidity profile: MHIL has resorted to term loan from banks and financial institutions in recent times for a door to door tenor of 84 months. Against this, the average tenor of loans advanced by the company was 60-84 months resulting in no mismatches in the near future. The company's average utilization of fund-based limits stood at 65.40% during last 12 months ending October 31, 2017 which also provides cushion to the liquidity profile.

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

Adequate internal control systems and MIS: MHIL has established proper systems in-house for loan appraisal and sanction as well as for recovery. The company is in the process of installing advanced online lending software which facilitates connectivity of the branches with the Head Office at Jaipur with information updation happening on a real time basis.

Key Rating Weaknesses

Deterioration in asset quality and capital structure: MHIL's Gross Non-Performing Assets (NPA)% and Net NPA% deteriorated to 1.64% and 1.35% respectively as on March 31, 2017 from 0.99% and 0.77% as on March 31, 2016 mainly on account of impact of demonetization. Further, Gross NPA stood at 1.57% as on September 30, 2017. Net NPA to Net-worth has also deteriorated to 7.27% as on March 31, 2017 from 3.38% as on March 31, 2016 and expected to remain below 10% going forward. Further, overall gearing has deteriorated to 5.34 times as on September 30, 2017 from 3.40 times as on March 31, 2016. Going forward, Net NPA to net-worth and overall gearing are expected to remain below 10% and 6 times respectively over the medium term.

High regional concentration: MHIL's majority of operations (around 88% of loan portfolio) were concentrated within Rajasthan as on September 30, 2017 with balance contribution coming from M.P. region. However, the company has diversified geographically by opening branch in Gujarat during H1FY18 and plans to expand its operations further in M.P. and Gujarat in the near future.

High exposure to relatively risky self-employed segment and unseasoned portfolio: MHIL is primarily lending towards the housing finance needs of the self-employed segment of customers in the lower to middle income category, which is un-serviced by banking sector, at high rates of interest. Lending to self-employed segment constituted 60% of the total outstanding portfolio as on March 31, 2017. Since this segment is highly susceptible to the impact of economic downturn, asset quality is a key monitorable. Further, since a significant chunk of housing loans were disbursed during FY17 and H1FY18, majority of the company's mortgage portfolio is unseasoned. The asset quality performance of MHIL's recently built mortgage portfolio through different economic cycles and geographies is yet to be established.

Industry Outlook: In the past few years, both National Housing Board (NHB) and the government have announced regulatory changes specifically for the affordable housing segment. The revision of risk weights for housing loans, the grant of infrastructure status to the affordable housing segment in Budget 2017, and the "Credit Linked Subsidy Scheme" (CLSS) under the Pradhan MantriAwasYojana (PMAY) are expected to help spur demand and lower the cost of funding which are expected to provide impetus to the affordable housing segment. Going forward, affordable housing segment is expected to be the major driver of growth for housing finance companies.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]

[CARE's Policy on Default Recognition]

[Rating Methodology-Housing Finance Company]

[Financial Sector Ratios]

About the Company

Mentor Home Loans India Ltd. (MHIL), formerly known as Mentor India Ltd., was promoted by MrBasant Kumar Goyal and his brother MrPawan Kumar Goyal in 1995. The company was initially registered as a non-deposit taking Non-Banking Finance Company (NBFC) with Reserve Bank of India (RBI) as an Asset finance company and subsequently has got registered with National Housing Bank (NHB) as non-deposit taking Housing Finance company (HFC) in August, 2014.

The company is headquartered in Jaipur and is engaged in financing of housing loans and LAP apart from vehicle loans (CV, MUV, Passenger Vehicle) within Rajasthan. As on September 30, 2017, AUM of MHIL stood at Rs.251.02 crore having around 5700 active borrowers. The company operates out of its network of 28 branches of which 21 are located in Rajasthan, 6 in Madhya Pradesh and 1 in Gujarat as on September 30, 2017. Majority of the business of MHIL is concentrated in urban, semi-urban and rural areas of Jaipur district within Rajasthan.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	17.31	32.67
PAT	2.64	6.00
Interest coverage (times)	1.50	1.64
Total Assets	103.73	196.95
Net NPA (%)	0.77	1.35
ROTA (%)	3.14	3.99

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: None

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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-Cash Credit	-	-	-	25.00	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	June, 2025	175.00	CARE BBB; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (16-Mar-17) 2)CARE BBB- (13-Sep-16) 3)CARE BBB- (02-Sep-16)	1)CARE BB+ (07-Aug-15)	1)Suspended (30-Mar-15)
2.	Fund-based - LT-Term Loan	LT	175.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (16-Mar-17) 2)CARE BBB- (13-Sep-16) 3)CARE BBB- (02-Sep-16)	1)CARE BB+ (07-Aug-15)	-

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