Press Release

Prayatna Microfinance Limited

July 16 2021

Rating

Sl. No.	Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Long Term Bank Facilities	50.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed
	Total	**50.00 (Rs. Fifty Crore Only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of rating assigned to the bank facilities of Prayatna Microfinance Limited (PML) continues to derive comfort from its experienced and professional management team, adequate systems and processes, comfortable capital adequacy ratio, stable asset quality andadequate liquidity profile. These rating strengths continues to remain partially offset by its short track record and small scale of operation with thin profitability, monoline nature of operations with relatively risky target segmentand leveraged capital structure, limited funding diversity and exposure to regulatory & socio-political risks inherent in the industry.

Rating Sensitivities

Upward factors

- Growth in scale of operations and growth in asset under management with improvement in profitability while maintaining its asset quality on a sustained basis
- Diversification in funding profile

Downward Factors

- Moderation in scale of operations with decline in profitability on a sustained basis
- Deterioration in the asset quality
- Failure to infuse required equity as envisaged and/or more than expected moderation in the capital structure

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced and professional management team**

  PML is managed by a four-directors board headed by Mr. P. S. Hooda (MD). All the directors are well versed with the intricacies of the business operation of microfinance and NBFC. The day-to-day affairs is handled by Mr. Hooda having more about four decades of experience in the Banking and MFI sector.

- **Adequate systems and processes**

  PML has installed good tracking and MIS systems, which are adequate to support future growth expansion. Further, the company has installed monitoring systems to ensure credit bureau checks and loan utilisation checks being conducted in all cases. This enabled PML to report good asset quality. It has invested significantly in technology to ensure the real-time availability of collection data, e-verification of customer details and cashless disbursements. Internal audits are conducted regularly, and the scope and coverage are in line with industry practices. Going forward, the company's ability to recruit and train employees as it scales up its operations would be important from a rating perspective. Additionally, the ability to maintain prudent lending policies while growing at the envisaged pace will be a key rating monitorable.

- **Comfortable capital adequacy ratio**

  PML has maintained a healthy capital adequacy ratio (CAR) over the years. As on March 31, 2021, CAR was healthy at 20.95% (21.73% as on March 31, 2020). In Infomeric's opinion, PML would require additional equity capital to grow at the envisaged pace while maintaining prudent capitalisation levels.

- **Stable asset quality**

  PML has managed to keep its collection efficiency ~93% in the last financial year despite spread of pandemic and thereby lockdown coupled with turmoil in the domestic MFI sector. PML though remain exposed to risks associated with the MFI business able to maintain a stable asset quality backed by its strong loan monitoring and adequate credit appraisal process. The GNPA and NNPA remained below 1% and NNPA on Net Worth remained moderate at 3.35% as on March 31, 2021. The company's ability to improve and maintain the asset quality in the new originations and maintain field discipline will be important from a credit perspective.

- **Comfortable liquidity profile**

  Liquidity position of PML, as on March 31, 2021 has been comfortable with positive cumulative mismatches in the short term (upto 1 year) bucket. This is mainly due to weekly collections followed by PML and the tenure of loan given being one year as against major liabilities being term loans availed.

Key Rating Weaknesses

- **Short track record with thin profitability**

  The company started its operation from May 2018, thus having only about three years of operational track record. Owing to its short track record, the company suffers from lower seasoning of its loan portfolio. Due to lockdown on spreading on pandemic, lending process was slower during Q1FY21, resulted in decline in TOI by 3.15% in FY21 (prov.) to Rs.10.99 crore. The profitability of the company remained thin with a ROTA of 1.02% in FY21 (Prov). The thin profitability was mainly attributable to its high credit cost owing to its dependence on FI's.

- **Monoline nature of operations; relatively risky target segment**

  PML's product diversification remains low being concentrated only in the microfinance segment. Further, unsecured lending to the marginal borrower profile and the political & operational risks associated with microfinance lending may result in high volatility in the asset quality indicators. PML's ability to maintain the asset quality indicators through economic cycles remains a key rating monitorable.

- **Small scale of operations and leveraged capital structure**

  The scale of operations of PML remained small with AUM of Rs.70.62 crore as on March 31, 2021 (Own loan portfolio: Rs.38.85 crore + BC loan portfolio: Rs.31.77 crore). With the spreading of pandemic and lockdown, MFI sector was badly hit, which resulted in lowering of AUM from previous year. The company had anoverall gearing at 3.80x as on March 31, 2021. However, treating the loan from its associate company as neither debt not equity the overall gearing stood at 1.34x as on March 31,2021.

- **Limited funding diversity**

  The funding profile of the company mainly comprised Non-banking financial institutions and loan from an associate company is characterised by loans from banks and FIs constituting ~28% and ~65%, respectively, of the total debt as on March 31, 2021. Other sources of funding include optionally convertible debentures (~2%). Ability to secure funds from diverse sources is important to maintain business growth and reduce credit cost. Going forward, it will be crucial to improve the funding diversity at competitive rates to ensure a comfortable liquidity profile as the business expands.

- **Exposure to regulatory & socio-political risks inherent in the industry**

  MFI industry is highly prone to regulatory risks & socio-political risks mainly on account of its unique collateral free debt nature. Earlier events like demonetization have affected the industry to a great extent where the collection efficiency of the MFI's has got impacted. However, given the market potential due to demand of micro loans in rural segments, the sector is likely to maintain its high growth.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Financial institution/NBFCs

Financial Ratios & Interpretation (Financial sector)

Liquidity: Adequate

The company had liquidity in the form of unencumbered cash and liquid balances of Rs.1.36 crore, as on March 31, 2021. As the advances comprise relatively shorter-tenure microfinance loans compared to the tenure of the borrowed funds, the asset liability maturity profile remains adequate. It will be important for PML to maintain its collection efficiency while ensuring the regular flow of funds to meet its internal growth projections.

About the Company

Prayatna Microfinance Limited (PML) was incorporated in August 2017 by one Ms. Mala Srivastava and Ms Sushmita Srivastava to initiate a Micro Finance activity. However, the company received RBI registration of Micro Finance Activities in May 2018 and commenced business operation since then. Currently PML is registered as Non-Banking Finance Company – Microfinance Institution (NBFC-MFI) and provides microfinance service to women oriented Joint Liability Groups (JLG). The company covers 17 districts of six states in India, namely, Uttar Pradesh, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh and Delhi/NCR with largest base in Uttar Pradesh. The company has total 55 branches across these states. Beside direct lending, the company also entered into Business Correspondence (BC) model.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	11.34	10.99
PAT	0.26	0.39
Tangible Net worth	9.05	9.55
Total Asset	48.37	47.11
Ratios		
ROTA (%)	0.87	1.02
Interest Coverage (times)	1.09	1.14
Total CAR (%)	21.73	20.95
Gross NPA (%)	Nil	0.80
Net NPA (%)	Nil	0.80

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Mr. S.C Sinha who is a rating committee member INFOMERICS is also on the Board of PML. However, Mr. Sinha did not participate in the rating exercise for this Company, including the rating decision of Infomerics.

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Proposed Term Loan	Long Term	50.00	IVR BBB-; Stable Under	IVR BBB-/Stable (May26, 2020)	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loans (Proposed)	-	-	NA	50.00	IVR BBB-; Stable

Annexure 2: Facility wise lender details: https://www.infomerics.com/admin/prfiles/PML-02-02-22-Lender.pdf