Press Release

Prayatna Microfinance Limited (PML)

October 05, 2023

Ratings

Instruments	Amount (Rs. crore)	Current Ratings	Previous Rating	Rating Action	Complexity Indicator
Long Term Fund Based Facility – Term Loan	73.09	IVR BBB/Stable Outlook (IVR Triple B with stable outlook)	IVR BBB-/Positive Outlook (IVR Triple B Minus with Positive outlook)	Upgraded	Simple
Proposed Long Term Fund Based facility – Term Loan	126.91	IVR BBB/Stable Outlook (IVR Triple B with stable outlook)	IVR BBB-/Positive Outlook (IVR Triple B Minus with Positive outlook)	Upgraded	Simple
Total	**200.00**				

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. Further, the rating note was also not shared to Mr. S.C Sinha.

Details of instruments are in Annexure 1

Detailed Rationale

The upgradation to the bank facilities of Prayatna Microfinance Limited (PML) continues to derives comfort from its experienced board and management team, ability to maintain the asset quality, adequate capital structure, improving collection efficiency supported with increasing operating income, comfortable borrowing profile with diversified product portfolio along with increasing geographical presence. However, the rating strengths are partially offset by moderate profitability, competitive nature of industry, regulatory and socio-political risks inherent in the industry.

As the company was able to sustain its performance backed by improvement in its overall scale of operation, Asset Under Management (AUM), collection efficiency and expected improvement in its Net Interest Margin (NIM). Additionally, the company's bank limits also got enhance along with the expected inflow of equity from the private equity player which in all will improve its adequacy ratio in the projected period.

Key Rating Sensitivities

Upward Factors

- Growth in scale of operations and growth in asset under management with improvement in profitability while improving its asset quality
- Diversification in funding profile
- Improvement in the capital structure with rise in CAR to over 20%

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 moderation in the capital structure with deterioration in overall gearing to over 7.00x

Key Rating Drivers with detailed description

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. Infomerics notes that PML is targeting significant portfolio growth annually in the medium term with the growth being driven by network expansion by setting up new branches and recruiting manpower. 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.

- **Growth in operation in FY23**

  During FY23, the company has increased its branch strength to 75 which has helped the company to grow its number of borrowers. Further, since H2FY23 the demand of loans has increased attributable to rise in economic activities driven by gradual reduction in impact of covid pandemic. Rise in number of borrowers and consequent rise in loan disbursement and rise in own loan portfolio resulted in steady Y-O-Y growth of ~73.04% in total income (Interest income + Fee Income + Other operating Income) of the company in FY23. Total AUM also improved to Rs.156.31 crore as on March 31,2023 to Rs.111.56 crore as on March 31,2022, driven by rise in own loan portfolio to Rs.145.80 crore as on March 31,2023 to Rs.85.27 crore as on March 31,2022. The company has earned a revenue of ~Rs.9.94 crore in Q1FY24

- **Moderate capital adequacy ratio**

  PML has maintained a moderate capital adequacy ratio (CAR) over the years. As on March 31, 2023, the CAR remained moderate at 16.20% and as on March 31, 2022 the same was around 17.22%. 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 ~99% in the last financial year despite 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 remained ~ 1.36% in FY23.

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, 2023, 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 monoline nature of operations; relatively risky target segment**

  The company started its operation from May 2018, thus having only four years of operational track record. Owing to its short track record, the company experience from lower seasoning of its loan portfolio. Further, 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, though remained small, has increased with AUM of Rs.156.31 crore as on March 31, 2023 (Own Rs.145.80 cr + BC Rs.10.51 cr) to Rs.111.56 crore as on March 31, 2022 (Own Rs.85.27 cr + BC Rs.26.29 cr).. The company had an overall gearing at 7.02x as on March 31, 2023.
- **Thin profitability**

  Notwithstanding the growth in total income profit margins of the company moderated in FY23 mainly due to moderation in net spread attributable to rise in cost of fund and rise in operating expenses mainly for newly opened branches coupled with rise in salary expenses. The ROTA moderated to 0.30% in FY23 from 0.63% in FY22. However, most of the growth in loan portfolio was came during H2FY23, hence the benefit of loan growth was not fully reflected in the profitability.

- **Limited funding diversity**

  The funding profile of the company mainly comprised of Banks, Non-banking financial institutions and loan from an associate company is characterised by loans from banks and FIs constituting ~65% and ~31%, respectively, of the total debt as on March 31, 2023. Other sources of funding include optionally convertible debentures (~4%). 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.

- **Regulatory risks & 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 Institutions/NBFCs
Financial Ratios & Interpretation (Financial Sector)
Criteria for rating outlook

Liquidity: Adequate

The company had adequate liquidity in the form of unencumbered cash and liquid balances of Rs. 5.72 crore as on March 31, 2023. 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 Mrs. Mala Srivastava and Mrs 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).

Financials: Standalone **(Rs. Crore)**

For the year ended/ As On*	31-3-2022 (Audited)	31-3-2023 (Audited)
Total Operating Income	17.93	31.03
Interest Expenses	7.39	14.99
PAT	0.37	0.33
Total Debt	83.80	142.26
Tangible Net-worth	15.00	20.26
Total Loan Assets	85.27	145.65
Ratios (%)		
PAT Margin (%)	2.61	1.32
Overall Gearing Ratio (x)	5.59x	7.02x
Total CAR (%)	17.22	16.20
Gross NPA (%)	1.23%	1.36%
Net NPA (%)	0.00	0.00

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: None

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. Further, the rating note was also not shared to Mr. S.C Sinha.*

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Nov 09, 2022)	Date(s) & Rating(s) assigned in 2022-23 (June 14, 2022)	Date(s) & Rating(s) assigned in 2021-22 (July 16, 2021)	Date(s) & Rating(s) assigned in 2020-21 (May 26, 2020)
1.	Long Term Fund Based Facility – Term Loan	Long Term	73.09	IVR BBB/Stable Outlook (IVR Triple B with stable outlook)	IVR BBB-/Positive Outlook (IVR Triple B Minus with Positive outlook)	IVR BBB-/Stable Outlook (IVR Triple B Minus with stable outlook)	IVR BBB-/Stable Outlook (IVR Triple B Minus with stable outlook)	IVR BBB-/Stable Outlook (IVR Triple B Minus with stable outlook)
3.	Proposed Long Term Fund Based facility – Term Loan	Long Term	126.91	IVR BBB/Stable Outlook (IVR Triple B with stable outlook)	IVR BBB-/Positive Outlook (IVR Triple B Minus with Positive outlook)	IVR BBB-/Stable Outlook (IVR Triple B Minus with stable outlook)	IVR BBB-/Stable Outlook (IVR Triple B Minus with stable outlook)	IVR BBB-/Stable Outlook (IVR Triple B Minus with stable outlook)

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About Infomerics:

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Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility	Rating Assigned/

				(Rs. Crore)	Outlook
Term Loan	--	--	-	73.09	IVR BBB/Stable Outlook (IVR Triple B with stable outlook)
Proposed Term Loan	--	--	--	126.91	IVR BBB/Stable Outlook (IVR Triple B with stable outlook)

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Prayatna-oct23_.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:

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.