# Press Release

## Prayatna Microfinance Limited

## May 26, 2020

**Rating**

| Sl. No. | Instrument/Facility | Amount (Rs. Crore) | Rating Assigned |
|---|---|---|---|
| 1 | Long TermBank Facilities | 50.00 | IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook) |
| | **Total** | **50.00 (Rs. Fifty Crore Only)** | |

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The rating assigned to the bank facilities of Prayatna Microfinance Limited (PML) derives comfort from its experienced and professional management team, adequate systems and processes, comfortable capital adequacy ratio, stable asset quality, comfortable liquidity profile and growth in total income in FY20 (Prov.). The rating strengths are partially offset by its short track record with thin profitability, monoline nature of operations with relatively risky target segment, small scale of operations and leveraged capital structure, limited funding diversity and regulatory risks & socio-political risks inherent in the industry.

**Rating Sensitivities**

**Upward factors**

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

**Downward Factors**

- Decline in profitability
- 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. 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.

- **Comfortable capital adequacy ratio**

  PML has maintained a healthy capital adequacy ratio (CAR) over the years. As on March 31, 2020, CAR was healthy at 21.73% (20.96% as on March 31, 2019). In Infomerics' opinion, PML would require additional equity capital to grow at the envisaged pace while maintaining prudent capitalisation levels. The company management has certified that Rs.1.5 crore of equity capital will be infused into the entity each quarter in FY21.

- **Stable asset quality**

  PML has managed to keep its collection efficiency ~100% in the last two financial years 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 and NNPA is about nil as on March 31, 2020. The company's ability to 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, 2020 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.

- **Growth in total income in FY20 (Prov.)**

  PML's total operating income increased from Rs.3.01 crore in FY19 to Rs.11.32 crore in FY20 (Prov.) driven by increase in interest income backed by increase in owned loan portfolio (~ Rs.43 crore as on March 31, 2020 as compared to ~Rs.23.82 crore as on March 31, 2019) along with increase in commission income from Rs.0.32 crore in FY19 to Rs.2.27 crore in FY20 on the back of increase in managed portfolio (increased from ~Rs.21 crore in Mar'19 to ~Rs.30 crore in Mar'20).

## Key Rating Weaknesses

- **Short track record with thin profitability**

  The company started its operation from May 2018, thus having only about two years of operational track record. Owing to its short track record, the company suffers from lower seasoning of its loan portfolio. The profitability of the company remained thin with a ROTA of 0.98% in FY20 (Prov). The thin profitability was mainly attributable to its high credit cost owing to its dependence on FI's.

- **Monoline nature of operations with 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 a loan portfolio of Rs.72.16 crore as on March 31, 2020. However, with growth in its owned loan portfolio the company has achieved growth by ~79% during FY20. The company had an overall gearing at 4.10x as on March 31, 2020. However, treating the loan from its associate company as neither debt not equity, the overall gearing stood at 1.90x as on March 31,2020.

- **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 44% and ~54%, respectively, of the total debt as on March 31, 2019. 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.

- **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 Institution/NBFCs

Financial Ratios & Interpretation (Financial Sector)

**Liquidity: Adequate**

The company had liquidity in the form of unencumbered cash and liquid balances of Rs.0.27 crore, as on March 31, 2020. As the advances comprise relatively shorter-tenure microfinance loans compared to the tenure of the borrowed funds, the asset liability maturity profile remains adequate. While Infomerics expects the company to meet its debt obligations in a timely manner, given the adequate expected inflow from loan repayments. It would 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 16 districts of five states in India, namely, Uttar Pradesh, Bihar, Chhattisgarh, Jharkhand and Madhya Pradesh with largest base in Uttar Pradesh. The company has total 50 branches across these states. Beside direct lending, the company entered into Business Correspondence (BC) model of portfolio. As on March 31, 2020, PML is managing a total loan portfolio of Rs.72.17 crore. Currently, the operations of the company are managed by Mr. P. S. Hooda (MD), along with other three directors and a team of experienced personnel.

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

| For the year ended* / As On | 31-03-2019 | 31-03-2020 |
|---|---|---|
| | Audited | Provisional |
| Total Operating Income | 3.01 | 11.32 |
| PAT | (0.37) | 0.37 |
| Tangible Net Worth | 5.74 | 9.23 |
| Total Assets | 27.16 | 48.15 |
| ROTA% | Not Meaningful | 0.98 |
| Interest Coverage (times) | 0.76 | 1.15 |
| Total CAR % | 20.96 | 21.73 |
| Gross NPA % | Nil | Nil |
| Net NPA % | Nil | Nil |

*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 2020-21) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 |
| 1. | Proposed Term Loan | Long Term | 50.00 | IVR BBB-/Stable | - | - | - |

**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.

**Name and Contact Details of the Rating Analyst:**

| | |
|---|---|
| Name: Mr. Sanmoy Lahiri<br>Tel: (033) 46022266<br>Email: slahiri@infomerics.com | Name: Mr. Avik Podder<br>Tel: (033) 46022266<br>Email: apodder@infomerics.com |

**About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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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 |
|---|---|---|---|---|---|
| Long Term Fund Based Limits - Term Loan (proposed) | - | - | NA | 50.00 | IVR BBB-/Stable |