



Press Release

Prayatna Microfinance Limited (PML)

October 28, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	<u>Complexity Indicator</u>
Fund Based Bank facilities – Term Loan	90.91	IVR BBB / Stable (IVR Triple B with Stable Outlook)	IVR BBB / Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Fund Based Bank Facilities - Proposed	109.09	IVR BBB / Stable (IVR Triple B with Stable Outlook)	IVR BBB / Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Total	200.00 (Rupees Two Hundred Crore only)				

Mr S.C Sinha is a RC member of IVRPL is on the Board of this entity as a director. He is not involved in the rating process in any manner and the rating note has not been sent to him.

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale:

Infomerics Ratings has reaffirmed the ratings assigned to the bank facilities of PML which continues to derive strength from growth in income levels coupled with improvement in NIM albeit low profitability, adequate capitalisation levels, experienced & professional team and moderation in AUM growth. The ratings are however partially constrained by average asset quality, highly leveraged capital structure and inherent risks associated with MFI industry coupled with intense competition.

Infomerics Ratings expects outlook to remain stable on the expectations of adequate capitalisation levels, sustained growth in income levels coupled with healthy NIM and improvement in asset quality on account of reduction in leveraging of MFI borrowers improving their repayment capability.



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Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in scale of operations along with maintaining and/or improving capitalization levels & asset quality.

Downward Factors

- Substantial deterioration in the scale of operations.
- Significant deterioration in leverage indicators, asset quality and/or profitability metrics from the current levels.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Growth in income levels coupled with improvement in NIM albeit low net profitability:** PML's net interest margin improved to 11.62% in FY24 (refers to period 1st April 2023 to 31st March 2024) (FY23: 11.04%) on back of higher net interest spread. This led to PML's net interest income improving y-o-y by ~37% to Rs. 17.40 crore in FY24 (FY23: Rs. 12.66 crore). Additionally, PML's other operating income stood at Rs. 6.94 crore in FY24 (FY23: Rs. 4.63 crore) which primarily includes processing fees and income from business correspondence services whereas its ROTA improved to 0.61% in FY24 (FY23: 0.30%) on back of improvement in profitability. However, despite improvement, PML's profitability continues to remain thin marked by PAT in absolute terms which stood at Rs. 1.06 crore in FY24 (FY23: Rs. 0.40 crore). This is on account of PML's high cost to income ratio which improved marginally but continues to remain high at 84.38% in FY24 (FY23: 88.81%). Infomerics Ratings expects growth in income levels coupled with improvement in NIM & net profitability on back of growth in loan assets, higher income from BC services and higher net interest spread.
- **Moderation in AUM growth:** PML's own book portfolio grew modestly by ~8% to Rs. 155.30 crore in FY24 (FY23: Rs. 144.12 crore) on back of growth in small business loan. PML's moderation in AUM growth in FY24 is on account of PML adopting conservative approach due to the expectations of higher expected credit loss (ECL) in the MFI segment. Additionally, PML's off book portfolio stood at Rs. 38.83 crore in



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FY24 (FY23: Rs. 10.57 crore). Going forward, PML's ability to grow its AUM amidst maintaining credit costs will be a key rating monitorable.

- **Adequate capitalization levels:** PML's capitalization levels are adequate, marked by capital adequacy ratio which stood at 20.14% as on 30th September 2024 (FY23: 15.65%, FY24: 18.66%) supported by the equity infusion from the promoters with expected equity infusion of ~Rs. 5.50 crore in FY25. Infomerics Ratings expects capitalization levels to remain adequate in FY25 on back of expected infusion from the promoters.
- **Experienced and professional management team:** PML is overseen by a board of four directors, led by Mr. P. S. Hooda (Managing Director), who has nearly 40 years of experience in the banking and microfinance sectors. Other directors have a deep understanding of the complexities involved in the operations of microfinance and non-banking financial companies (NBFCs).

Key Rating Weaknesses

- **Average Asset Quality:** PML's asset quality is average marked by GNPA and NNPA which stood at 2.95% & 0.92% respectively as on 30th September 2024 (As on 31st March 2023: 1.36% & 0.08%; As on 31st March 2024: 1.92% & 1.18%). The deterioration in asset quality is due to heatwaves, floods, general elections and lower collection efficiency particularly in states like Uttar Pradesh & Jharkhand due to overleveraging of MFI borrowers impacting their repayment capability. Going forward, PML's ability to maintain healthy asset quality by improving its collection efficiency will remain a key rating monitorable.
- **Highly Leveraged Capital Structure:** PML's capital structure is highly leveraged marked by overall gearing ratio which marginally improved but continues to remain high and at 6.48x at the end of FY24 (FY23: 7.04x). The high gearing is due to relatively high debt funded growth as compared to equity infusion. Infomerics notes that, PML's ability to improve its capital structure will remain a key rating monitorable.



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- **Inherent risks associated with MFI industry coupled with intense competition:**
MFI industry is highly prone to regulatory risks & socio-political risks mainly on account of its unique collateral free debt nature. Any external events may negatively impact the collection efficiencies of MFI. However, given the market potential due to demand of micro loans in rural segments, the sector is likely to maintain its high growth. MIFSL also faces intense competition from other larger NBFC-MFIs.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Financial Institutions/NBFCs](#)

[Financial Ratios and Interpretation \(Financial Sector\)](#)

[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)

Liquidity –Adequate

PML had adequate liquidity in the form of unencumbered cash and liquid balances of Rs. 14.16 crore as on March 31, 2024. 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

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 for Micro Finance Activities in May 2018 and commenced business operation since then. Currently, PML is registered as NBFC-MFI and provides microfinance service to women oriented Joint Liability Groups (JLG).



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Financials (Standalone):

For the year ended* / As on	(Rs. crore)	
	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	31.62	43.93
PAT	0.40	1.06
Tangible Net worth	20.22	24.84
Total Loan Assets	144.12	155.30
Ratios		
NIM (%)	11.04	11.62
ROTA (%)	0.30	0.61
Interest Coverage (times)	1.06	1.07
Total CAR (%)	15.65	18.66
Gross NPA [Stage III] (%)	1.36	1.92
Net NPA [Stage III] (%)	0.08	1.18

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (2024-25)			Rating History for the past 3 years			
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023 - 24	Date(s) & Rating(s) assigned in 2022 -23		Date(s) & Rating(s) assigned in 2021-22
					Oct 05, 2023	June 14, 2022	Nov 09, 2022	July 16, 2021
1.	Fund Based Bank facilities – Term Loan	Long Term	90.91	IVR BBB / Stable	IVR BBB / Stable	IVR BBB- / Stable	IVR BBB- / Positive	IVR BBB- / Stable
2.	Fund Based Bank Facilities - Proposed	Long Term	109.09	IVR BBB /	IVR BBB / Stable	IVR BBB- /	IVR BBB- /	IVR BBB- / Stable



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					Oct 05, 2023	June 14, 2022	Nov 09, 2022	July 16, 2021
				Stable		Stable	Positive	

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About Infomerics:

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.



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For more information and definition of ratings please visit www.infomerics.com.

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Fund Based Bank facilities – Term Loan	--	--	--	--	90.91	IVR BBB / Stable
Fund Based Bank Facilities - Proposed	--	--	--	--	109.09	IVR BBB / Stable

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-Prayatna-Microfinance-oct24.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

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.