



Press Release

IQRA Microfinance Federation

October 20, 2021

Rating

Sl. No.	Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Long-Term Bank Facilities (Proposed)	3.00	IVR BB-; Stable (IVR Double B Minus with Stable Outlook)	Assigned
	Total	3.00 (Rs. Three crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of IQRA Microfinance Federation (IQRA) derives comfort from its experienced management team, comfortable capital adequacy ratio, adequate asset quality, comfortable liquidity profile couple with comfortable leverage ratio and satisfactory profitability. These rating strengths are partially offset by its short track record and small scale of operations, monoline nature of operations; relatively risky target segment and exposure to regulatory & socio-political risks inherent in the industry, limited funding diversity and geographical concentration risk.

Rating Sensitivities

Upward factors

- Healthy growth in scale of operations and growth in asset under management with improvement in profitability while maintaining its asset quality
- Diversification in funding profile and reduction in geographical concentration

Downward Factors

- Moderation in scale of operations with moderation in profitability
- Deterioration in the asset quality
- More than expected moderation in the capital structure

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced management team**

IQRA is managed by a two-directors board headed by Mr. C M Ojha. All the directors are well versed with the intricacies of the business operation of NBFC. The day-to-day affairs are



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handled by Mr. Ojha along with other director Mr Shambhu Saran Srivastava, who are having more than a decade of experience in the Banking and NBFC sector.

- **Comfortable capital adequacy ratio and adequate asset quality**

IQRA has maintained a healthy capital adequacy ratio (CAR) over the years. As on March 31, 2021, CAR was healthy at 79.80%. In Infomerics's opinion, IQRA has adequate room to raise capital to grow while maintaining prudent capitalisation levels. The asset quality of the entity remained satisfactory marked by nil GNPA and NNPA. The entity's ability to improve and maintain the asset quality in the new originations and maintain operation discipline will be important from a credit perspective.

- **Comfortable liquidity profile couple with comfortable leverage ratio and satisfactory profitability**

Liquidity position of IQRA, 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 monthly collection followed by IQRA and the tenure of loan given being within one year as against no major outside liabilities. This apart, leverage ratio was comfortable in absence of major borrowings, marked by overall gearing ratio at 0.08x as on March 31, 2021. Interest coverage ratio was at 1.20x in FY21. Furthermore, profitability of the company was also comfortable. The company posted a net profit in FY21 with a PAT margin of 10.08% and ROTA at 1.19% in FY21.

Key Rating Weaknesses:

- **Short track record and small scale of operations**

The company started its main operation from FY18, 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. Further, scale of operations of IQRA remained small with AUM of Rs.3.33 crore as on March 31, 2021.

- **Monoline nature of operations; relatively risky target segment and regulatory & socio-political risks inherent in the industry**

IQRA's product diversification remains low being concentrated only in the microfinance segment. Unsecured lending to the marginal borrower profile, and the political and operational risks associated with microlending may lead to high volatility in the asset quality indicators. The microfinance industry is prone to socio-political and operational risks, which could



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negatively impact the company's operations and thus its financial position. 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. The company's ability to on-board borrowers with good credit history, recruit and retain employees and maintain geographical diversity would be key for managing high growth rates.

- **Limited funding diversity**

The funding profile of the company mainly comprised of equity and a small portion from unsecured loan from associates. Ability to secure funds from diverse sources is important to maintain business growth and reduce credit cost. Going forward, with growth in operations it will be crucial to improve the funding diversity at competitive rates to ensure a comfortable liquidity profile.

- **Geographical concentration risk**

IQRA operations are concentrated majorly around Varanasi in Uttar Pradesh. State concentration exposes the IQRA to high geographical concentration risk.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Financial institution/NBFCs
Financial Ratios & Interpretation (Financial sector)

Liquidity: Adequate

The company has adequate liquidity marked by its conservative capital structure with insignificant term debts repayment obligation. Further, the company has unencumbered cash and cash equivalent balance of ~Rs.0.05 crore, as on March 31, 2021.

About the Company

IQRA Microfinance Federation (IQRA) is a Non-Banking Financial Company – Microfinance Institution (NBFC-MFI) registered under Reserve Bank of India (RBI) incorporated on March 16, 2017, under Section 8 of Companies Act 2013. IQRA has a social vision and business orientation aims to provide underprivileged women with economic opportunities to transform the quality of their lives. IQRA is presently working only around Varanasi, UP with a single branch. As on March 31, 2021, AUM was of Rs.3.33 crore. Currently, the operations of the



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company are managed by Mr. C M Ojha (Director) along with other director Mr. Shambhu Saran Srivastava and a team of experienced personnel.

Financials (Standalone):

For the year ended* / As on	(Rs. crore)	
	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	0.56	0.39
PAT	0.16	0.04
Tangible Net worth	2.81	2.91
Total Asset	3.13	3.41
Ratios		
ROTA (%)	5.98	1.19
Interest Coverage (times)	2.01	1.20
Total CAR (%)	86.29%	79.79%
Gross NPA (%)	Nil	Nil
Net NPA (%)	Nil	Nil

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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	Term Loan (proposed)	LT	3.00	IVR BB-; Stable	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Mr. Sanmoy Lahiri Tel: (033) 46022266 Email: slahiri@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com
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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



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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
Term Loan (proposed)	-	-	-	3.00	IVR BB-; Stable

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-IQRA-Microfinance-Federation.pdf>

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities:

Not Applicable

Annexure 4: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Term Loan	Simple

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.