Press Release

Prayatna Microfinance Limited

November 09, 2022

Rating

Facility	Amount (Rs. Crore)	Rating	Rating Action	Complexity Indicator
Long Term Bank Facilities	200.00 (enhanced from 50.00)	IVR BBB-/Positive (IVR Triple B Minus with Positive Outlook)	Reaffirmed and Outlook revised from Stable to Positive	Simple
Total	**200.00 (Rs. Two hundred crore only)**			

Details of Facilities are in Annexure

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, its adequate systems and processes, growth in operation in FY22 and in H1FY23, stable asset quality and its comfortable liquidity profile. These rating strengths continues to remain partially offset by its short track record and monoline nature of operations with relatively risky target segment, small scale of operations, thin profitability and leveraged capital structure, limited funding diversity and exposure to regulatory risks & socio-political risks inherent in the industry. The rating also note its moderate capital adequacy ratio. The outlook has been revised from stable to positive on the back of expected improvement in the financial performance of the company in the near term.

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
- 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 7x

List of 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 FY22 and in H1FY23**

  During FY22, the company has increased its branch strength to 70 which has helped the company to grow its number of borrowers. Further, since H2FY22 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 ~64% in total income (Interest income + Fee Income + Other operating Income) of the company in FY22. Total AUM also improved from Rs.70.62 crore as on March 31,2021 to Rs.111.56 crore as on March 31,2022, driven by rise in own loan portfolio from Rs.38.86 crore as on March 31,2021 to Rs.85.27 crore as on March 31,2022. AUM has further improved to Rs.125.34 crore (provisional) as on September 30, 2022, with increase in own portfolio to Rs.109.56 crore. The company has earned a revenue of ~Rs.7.18 crore in Q1FY23 and the same has increased to Rs.14.39 crore in H1FY23 (prov.)

- **Moderate capital adequacy ratio**

  PML has maintained a moderate capital adequacy ratio (CAR) over the years. As on June 30, 2022, the CAR remained moderate at 16.37% as on June 30, 2022 and the same was at 16.08% as on September 30, 2022. 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 ~98% 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 ~ 2% in FY22 and which has improved to 1.12% as on June 30, 2022. 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, 2022, 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 suffers 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.111.56 crore as on March 31, 2022 (Own Rs.85.27 cr + BC Rs.26.29 cr) to Rs.125.34 crore as on September 30, 2022 (Own Rs.109.56 cr + BC Rs.15.78 cr). With the spreading of pandemic and lockdown, MFI sector was badly hit during FY21, However, since Q2FY22, post pandemic scenario, demand of microfinance has increased in India. The company had an overall gearing at 5.59x as on March 31, 2022.

- **Thin profitability**

  Notwithstanding the growth in total income profit margins of the company moderated in FY22 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 0.63% in FY22 from 0.93% in FY21. However, most of the growth in loan portfolio was came during H2FY22, 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, 2022. 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 institution/NBFCs

Criteria for assigning rating outlook

Liquidity: Adequate

The company had adequate liquidity in the form of unencumbered cash and liquid balances of Rs.8.83 crore as on March 31, 2022. 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 19 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 70 branches across these states. Beside direct lending, the company also entered Business Correspondence (BC) model.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	10.92	17.93
PAT	0.35	0.37
Tangible Net worth	9.49	15.00
Total Asset	47.10	101.17
Ratios		
ROTA (%)	0.93	0.63
Interest Coverage (times)	1.12	1.10
Total CAR (%)	20.82	17.22
Gross NPA (%)	1.26%	2.07%
Net NPA (%)	1.26%	2.07%

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Mr. S.C Sinha, 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. Also, the rating note was not sent to Mr. S.C Sinha.

Rating History for last three years:

Sr. No.	**Name of Instrument/ Facilities**	**Current Rating (Year 2022-23)**			**Rating History for the past 3 years**		
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2022-23**	**Date(s) & Rating(s) assigned in 2021-22**	**Date(s) & Rating(s) assigned in 2020-21**
1.	Term Loan (including proposed)	Long Term	200.00	IVR BBB-; Positive	IVR BBB-/Stable (June 14, 2022)	IVR BBB-/Stable (July 16, 2021)	IVR BBB-/Stable (May 26, 2020)

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

About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com

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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 (including Proposed limit)	-	-	Jan. 2025	200.00	IVR BBB-/ Positive

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Prayatna-Microfinance-feb23.pdf

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Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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