

Rating Rationale

August 31, 2023 | Mumbai

Hindusthan Microfinance Private Limited

Rating reaffirmed at 'CRISIL BB+/Stable'

Rating Action

Total Bank Loan Facilities Rated	Rs.50 Crore
Long Term Rating	CRISIL BB+/Stable (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its rating on the long-term bank facilities of Hindusthan Microfinance Private Limited (Hindusthan Microfinance) at 'CRISIL BB+/Stable'.

The rating continue to factor in company's ability to maintain strong tie-up with co-operative societies, its adequate capital position and the extensive experience of management in microfinance space. These strengths are partially offset by the moderate scale of operations within on-book portfolio and potential risk from local socio-political issues in the microfinance sector.

The company has seen consistent growth in its assets under management (AUM) to reach Rs 366 crores as on March 31, 2023 as compared to Rs 284 crore as on March 31, 2022, i.e. a 23.4% growth Y-o-Y. The AUM further grew to Rs 366 crores as on June 30, 2023. The company has managed this growth by maintaining strong relationship with co-operative societies which has helped them scale up their business correspondent (BC) portfolio. The capital position of the company continues to remain adequate for its current scale of operation at Rs 12 crore and gearing at 2 times as on June 30, 2023 (Rs 13 crore and 1.8 times as on March 31, 2022). Networth has reduced as the company had issued 9% cumulative OCPS of Rs 10/- each to SIDBI during FY17, the same was due for redemption on 30th June 2022, thus the company has redeemed 10,00,000 OCPS at Rs 10/- each on 29th June 2022 out of divisible profit. Nevertheless, CRISIL Ratings understand that SIDBI will further invest Rs 1 crore by way of OCPS by end of August 2023.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has evaluated the standalone business and financial risk profile of Hindusthan Microfinance

Key Rating Drivers & Detailed Description

Strengths:

- Strong management team with experience in lending space**

Hindusthan Microfinance was established by Mr Anil Jadhav with view to provide financial services through JLG (Joint Liability Group loans). The prime business of the company involves acting as banking correspondent (BC) wherein the counterparties are mainly co-operative credit societies. Prior to the establishment of Hindusthan Microfinance, Mr Jadhav was associated with many co-operative societies and helped them to roll out newer financing products. He has total experience of over 4 decades in working with co-operative societies. Prior to starting NBFC, in the year 1992, Mr Jadhav established Hindusthan Cooperative Credit Society. This society was an early entrant to start microfinance loans for the urban borrowers in the year 2003. Later, Mr Jadhav established Hindusthan Microfinance (NBFC-MFI) and started microfinance operations (on-book as well as BC) through this company. Mr. Satishkumar Rao has also joined as one of the key management personnel on the board of Hindusthan Microfinance. Mr Rao has been associated with banking industry for more than 2 decades and has worked with many large domestic and foreign banks. Mr Rao looks after some of the critical verticals that includes risk management, audit, IT systems, etc. He is also responsible for managing the treasury (primarily debt funding and equity) for Hindusthan Microfinance.

- Adequate capital position**

As on March 31, 2023, the networth of the company stood at Rs 12 crore. Given the 93% of the overall AUM is under BC portfolio the company doesn't rely majorly on any external borrowings. The gearing of the company has slightly increased from previous levels and stood at 2 times as on June 30, 2023 as compared to 1.8 times as on March 31, 2022 on account of scaling up of on-book portfolio supported by fund raising. The arrangement between societies and that of Hindusthan Microfinance is such that in case of delays or default, the company is not liable for any credit losses. CRISIL Rating, therefore, believes that its current capital position is adequate for managing the on-book portfolio. Furthermore, since the company has been consistently reporting profits, these gradual accretions are expected to strengthen the capital position over the medium term. Nevertheless, since the company also endeavors to grow its on-book portfolio, its ability to raise capital will remain key monitorable factor.

- **Improving asset quality backed by risk-free business model**

Hindusthan Microfinance acts as BC for 5 co-operative credit societies and manages portfolio of around Rs 366 crore as of June 30, 2023. The company has been having unique arrangements with co-operative societies wherein there is no FLDG (First Loss Default Guarantee) or any other upfront commitment provided in event of credit losses. As per the terms and conditions of BC arrangement, Hindusthan Microfinance carries out entire operational process i.e. from origination to collections for microfinance book. However, in the event of default from borrowers (normal cause), the ultimate responsibility of credit loss will lie upto the respective co-operative societies. Nevertheless, Hindusthan Microfinance will be liable to face credit losses only in case of 2 instances i.e. in case of death of borrower (which is anyways covered by credit insurance) or loss occurring due to fraud committed by the employee. Nevertheless, the business model of Hindusthan Microfinance is linked with interest-sharing that is done by co-operative societies. Therefore, while the chances of credit losses are limited or nil, the revenue generating capability is linked with collection efficiency. The asset quality in terms of 90+ dpd improved to 1.34% as of June 30, 2023, from 9.8% as on March 31, 2022, against 2.6% as of March 2021. In terms of collection efficiency, it has remained in the range of 99-101% during last 9 months (post fading out impact of Covid). CRISIL Ratings believes that the ability of the company to maintain its asset quality, particularly in its on-book portfolio (which the company endeavors to grow) will remain key monitorable.

Weaknesses:

- **Moderate scale of operations within on-book portfolio**

Hindusthan Microfinance's on-book portfolio that has been de-growing over the past years has witnessed growth since last 3 fiscals. The on-book size of the company has increased to Rs 30 crore as compared to Rs 13 crore in fiscal 2019. The growth has been achieved on account of raising adequate resources to fund its portfolio. The management is expected to gradually increase its on book portfolio to ~Rs 40 crore by fiscal 2024, however the primary focus of the company would be on building its business correspondence portfolio which is expected to cross Rs 400 crore by end of Fiscal 2024 resulting in overall AUM of ~ Rs 440 crore. The company has faced limitations in raising adequate resources to fund its on-book portfolio. This has in-turn resulted in having higher dependence on BC business both in terms of market position and profitability. Nevertheless, this focus on off-book portfolio has been resulting in generating higher revenues in comparison to revenues that otherwise would have generated from on-book portfolio. CRISIL Ratings, however believes that ability of the company to raise funds in order to achieve its projected on-book portfolio. Furthermore, the growth of on book portfolio will be critical to provide stability to its overall credit profile.

- **Susceptibility to potential risk from socio-political issues in the microfinance sector and inherently modest credit profile of the borrowers**

Over the past decade, the microfinance sector has witnessed two major disruptive events - the ordinance passed by the government of Andhra Pradesh (AP) in 2010, and demonetisation in 2016. Promulgation of the ordinance on MFIs by the AP government demonstrated their vulnerability to regulatory and legislative risk. The ordinance triggered a chain of events that adversely affected business models of MFIs, by hurting their growth, asset quality, profitability, and solvency. The sector saw high delinquencies post demonetisation and subsequent socio-political events. Additionally, announcement of loan waivers – similar to MFI Bill, 2020 passed by the Assam Assembly – could worsen the situation, by impacting repayment discipline. The sector also remains susceptible to events such as local elections, natural calamities, and borrower protests among others, which may result in a momentary spurt in delinquencies. This indicates the fragility of the business model to external risk. As the business involves lending to the poor and downtrodden sections of society, MFIs will remain vulnerable to socially sensitive factors, including high interest rates, tighter regulations, and legislation.

Microfinance customers generally have below-average credit risk profiles with lack of access to formal credit and high seasonality in income. Their income flow remains volatile and dependent on the local economy. Slowdown in economic activity post the pandemic, could exert pressure on cash flows of borrowers, thereby affecting their repayment capability.

Liquidity: Adequate

Hindusthan Microfinance's liquidity has been adequate primarily because of lower debt that the company has been having on its books. As on July 30, 2023, the company had liquidity of Rs 8.4 crore. Against this, total debt obligation (including operating expense) is around Rs 12.3 crore upto October 31, 2023. This represents liquidity cover of 5.9 time (including 70% collection).

Outlook: Stable

CRISIL Ratings believes Hindusthan Microfinance will continue to benefit from its adequate capital position and its extensive experience of its management in microfinance space.

Rating Sensitivity factors

Upward factors

- Significant scale-up of on-book portfolio while maintaining operational cost
- Sustainable improvement in asset quality in both on-book and BC book with 90+ dpd improving to below 2%
- Improvement in capital position with increase in networth and gearing maintained below 3 times
- Sustained relationship with co-operative societies in order ensure growth of BC portfolio

Downward factors

- Closure of relationship with any of co-operative society leading substantial fall in BC portfolio and its consequent impact on overall credit profile
- Deterioration in asset quality, with 90+ dpd at AUM level (including BC) increasing to above 6%
- Earnings profile remaining average with RoMA of less than 0.5%

About the Company

Hindusthan Microfinance is a registered NBFC-MFI with RBI. The company was established in year 2008, however majority of its operations started since 2015. Hindusthan Microfinance provides income-generating loan to enterprising low-income clients. The prime business of the company involves acting as banking correspondent (BC) wherein the counterparties are mainly co-operative credit societies. Mr Jadhav established Hindusthan Microfinance (NBFC-MFI) and started microfinance operations (on-book as well as BC) through this company. Presently, Hindusthan Microfinance acts as BC for 5 co-operative credit societies and manages portfolio of around Rs 366 crore as of March 31,2023. The overall AUM is diversified across 7 states Maharashtra, Karnataka, Gujarat, Rajasthan, Madhya Pradesh, Telangana & Andhra Pradesh.

Key Financial Indicators

As on for the period ended,	Unit	Jun-23/ Q1 fiscal 2024	Mar-23	Mar-22
Total managed assets	Rs crore	384.3	372.0	300.6
Total income	Rs crore	10.0	34.6	27.2
PAT	Rs crore	0.1	0.8	0.3
Return on managed assets	%	0.1	0.2	0.1
Gross NPA (On-book)	%	0.84	0.54	0.01
Gross NPA (Off-book)	%	1.38	1.63	10.84
Gearing	Times	2.0	2.3	1.8

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Cr)	Complexity Level	Rating assigned with outlook
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	24.83	NA	CRISIL BB+/Stable
NA	Term Loan	NA	NA	25-Mar-24	5	NA	CRISIL BB+/Stable
NA	Term Loan	NA	NA	29-Sep-22	8	NA	CRISIL BB+/Stable
NA	Term Loan	NA	NA	29-Sep-24	10.67	NA	CRISIL BB+/Stable
NA	Cash Credit	NA	NA	NA	1.5	NA	CRISIL BB+/Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	50.0	CRISIL BB+/Stable	17-01-23	CRISIL BB+/Stable	13-06-22	CRISIL BB+/Stable	11-03-21	CRISIL BB/Stable		--	--
			--		--	30-05-22	CRISIL BB+/Stable		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	1.5	State Bank of India	CRISIL BB+/Stable
Proposed Long Term Bank Loan Facility	24.83	Not Applicable	CRISIL BB+/Stable
Term Loan	5	IDFC FIRST Bank Limited	CRISIL BB+/Stable
Term Loan	8	Union Bank of India	CRISIL BB+/Stable
Term Loan	10.67	Bank of Baroda	CRISIL BB+/Stable

Criteria Details

Links to related criteria
Rating Criteria for Finance Companies
CRISILs Bank Loan Ratings - process, scale and default recognition

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com</p> <p>Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com</p> <p>Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com</p>	<p>Krishnan Sitaraman Senior Director and Chief Ratings Officer CRISIL Ratings Limited B:+91 22 3342 3000 krishnan.sitaraman@crisil.com</p> <p>Prashant Pratap Mane Associate Director CRISIL Ratings Limited B:+91 22 3342 3000 prashant.mane@crisil.com</p> <p>Pratibha Sahoo Rating Analyst CRISIL Ratings Limited B:+91 22 3342 3000 Pratibha.Sahoo@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesks@crisil.com</p>

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites and portals.

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We may use your contact information, such as your name, address and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') that is provided by CRISIL Ratings Limited ('CRISIL Ratings'). To avoid doubt, the term 'report' includes the information, ratings and other content forming part of the report. The report is intended for the jurisdiction of India only. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings providing or intending to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

We are not aware that any user intends to rely on the report or of the manner in which a user intends to use the report. In preparing our report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the report is not intended to and does not constitute an investment advice. The report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Ratings are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL Ratings assumes no obligation to update its opinions following publication in any form or format although CRISIL Ratings may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment

and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. CRISIL Ratings or its associates may have other commercial transactions with the entity to which the report pertains.

Neither CRISIL Ratings nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively, 'CRISIL Ratings Parties') guarantee the accuracy, completeness or adequacy of the report, and no CRISIL Ratings Party shall have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. EACH CRISIL RATINGS PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Ratings Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. Public ratings and analysis by CRISIL Ratings, as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any), are made available on its website, www.crisilratings.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee - more details about ratings by CRISIL Ratings are available here: www.crisilratings.com.

CRISIL Ratings and its affiliates do not act as a fiduciary. While CRISIL Ratings has obtained information from sources it believes to be reliable, CRISIL Ratings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/or relies on in its reports. CRISIL Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL Ratings has in place a ratings code of conduct and policies for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>.

Rating criteria by CRISIL Ratings are generally available without charge to the public on the CRISIL Ratings public website, www.crisilratings.com. For latest rating information on any instrument of any company rated by CRISIL Ratings, you may contact the CRISIL Ratings desk at crisilratingdesk@crisil.com, or at (0091) 1800 267 1301.

This report should not be reproduced or redistributed to any other person or in any form without prior written consent from CRISIL Ratings.

All rights reserved @ CRISIL Ratings Limited. CRISIL Ratings is a wholly owned subsidiary of CRISIL Limited.

CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: <https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html>