

Rating Rationale

November 28, 2024 | 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)

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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 Banks, NBFC and multistate 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 486 crores as on March 31, 2024, as compared to Rs 355 crore as on March 31, 2023, i.e. a 32.9% growth Y-o-Y. The AUM further grew to Rs 578.3 crores as on September 30, 2024. The company has managed this growth by maintaining strong relationship with Banks, NBFC and multistate 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 15.9 crore and gearing at 1.0 times as on September 30, 2024 (Rs 14.8 crore and 1.4 times as on March 31, 2024 as compared to Rs 12.5 crore as on March 31, 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 Banks, NBFCs and multi-state 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 September 30, 2024, the networth of the company stood at Rs 15.9 crore. Given the 96% of the overall AUM is under BC portfolio the company doesn't rely majorly on any external borrowings. The gearing of the company stood at 1.0 times as on September 30, 2024 (1.4 times as on March 31, 2024 as compared to 2.3 times as on March 31, 2023). The arrangement between societies and that of HMPL 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 serves as a Business Correspondent (BC) for a diverse range of financial institutions, including two co-operative credit societies (Godavari Nanded Multistate Urban Co-operative Society Limited and Buldana Urban Co-op Credit Society Ltd), two commercial banks (CSB Bank and IDBI Bank Ltd), one small finance bank (ESAF Small Finance Bank Ltd), and three NBFCs (Axis Finance Ltd, Avanti Finance Ltd, and RICHMAX Finvest Pvt Ltd). As of September 30, 2024, the company manages an Assets Under Management (AUM) of ₹578 crores, with ₹262 crores (45.33%) of the loan portfolio attributed to Micro LAP (Secured Loan) offerings. The remaining portfolio is focused on Joint Liability Group (JLG) products.

The company has been having unique arrangements with 2 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 stood at 0.9% as of September 30, 2024, against 0.8% as of March 31, 2024 which improved from 9.8% as on March 31, 2022. In terms of collection efficiency, it has remained in the range of 99-101% during last 9 months. 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 since last 3 fiscals. The on-book size of the company has decreased to Rs 18.5 crore as on September 30, 2024 as compared to Rs 30.6 crore in fiscal 2022. The primary focus of the company continues to be on building its business correspondence portfolio given 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 in the ability of the company to raise funds in order to achieve its projected off-book portfolio. Furthermore, the growth of off book portfolio and on book portfolio will be critical to provide stability to its overall credit profile.
- **Susceptibility to potential risk from sociopolitical issues in the microfinance sector and inherently modest credit risk profile of borrowers:** The microfinance sector has witnessed various events over the years, including regulatory and legislative challenges that have disrupted operations. Some of these events include the Andhra crisis, demonetisation in 2016, Covid-19 pandemic and sociopolitical issues in certain states. These events have adversely affected the sector, elevating delinquencies and hurting the profitability and capitalisation metrics of non-banking financial company microfinance institutions (NBFC-MFIs). These challenges underscore the vulnerability of the microfinance business model to external risks. Covid-19 introduced new challenges, aggravating existing vulnerabilities in the microfinance sector by heightening credit risks and the likelihood of loan default by borrowers. While the sector has navigated these events, it remains susceptible to issues, including local elections, natural calamities, and borrower protests, which may increase delinquencies for a while. Nevertheless, the company was able to manage its portfolio fairly well without significant impact on recoveries. However, MFIs remain vulnerable to socially sensitive factors and the macroeconomic scenario. Further, the sector is regulated by multiple bodies which, from time to time, have been providing several directives to maintain credit discipline and avoid over indebtedness for borrowers. Hence, the ability to maintain profitable business growth will remain key monitorable

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 October 31, 2024, the company had liquidity of Rs 6.08 crore. Against this, total debt obligation (including operating expense) is around Rs 17.23 crore upto January 31, 2025. This represents liquidity cover of 4.5 time (including 75% 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 network 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, a registered NBFC-MFI with the Reserve Bank of India (RBI), was established in 2008, though its major operations commenced in 2015. The company primarily provides income-generating loans to enterprising low-income clients. Its core business involves acting as a Banking Correspondent (BC), with its key counterparties being co-operative credit societies.

Hindusthan Microfinance operates both on-book lending and BC services. As of September 30, 2024, the company manages a loan portfolio of approximately ₹578 crore, diversified across seven states: Maharashtra, Karnataka, Gujarat, Rajasthan, Madhya Pradesh, Telangana, and Andhra Pradesh.

The company offers two primary products, i.e., Joint Liability Group (JLG) loans and Micro LAP (Secured Loan).

Key Financial Indicators

As on for the period ended,	Unit	Sep-24	Mar-24	Mar-23
Total managed assets	Rs crore	578.30	487.79	354.74
Total income	Rs crore	26.1	45.65	34.49
PAT	Rs crore	0.78	0.59	0.36
Return on managed assets	%	0.3	0.1	0.2
Gross NPA (On-book)	%	0.98	0.72	0.54
Gross NPA (Off-book)	%	1.20	0.95	1.63
Gearing	Times	1.0	1.4	2.3

Status of non cooperation with previous CRA:

Hindusthan Microfinance has not cooperated with Acuite Ratings and Research Limited and Brickwork Ratings India Private Limited which has classified it as Issuer non cooperative vide release dated 17-Dec-2020 and 24-Sep-2020 respectively. The reason provided by Acuite Ratings and Research Limited and Brickwork Ratings India Private Limited is absence of adequate information from the firm.

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.

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Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Cash Credit	NA	NA	NA	1.50	NA	CRISIL BB+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	24.83	NA	CRISIL BB+/Stable
NA	Term Loan	NA	NA	25-Mar-24	5.00	NA	CRISIL BB+/Stable
NA	Term Loan	NA	NA	29-Sep-22	8.00	NA	CRISIL BB+/Stable
NA	Term Loan	NA	NA	29-Sep-24	10.67	NA	CRISIL BB+/Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	50.0	CRISIL BB+/Stable		--	31-08-23	CRISIL BB+/Stable	13-06-22	CRISIL BB+/Stable	11-03-21	CRISIL BB/Stable	--
			--		--	17-01-23	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	10.67	Bank of Baroda	CRISIL BB+/Stable
Term Loan	8	Union Bank of India	CRISIL BB+/Stable
Term Loan	5	IDFC FIRST Bank Limited	CRISIL BB+/Stable

Criteria Details

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

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