April 18, 2023

Cashpor Micro Credit: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loan	397.00	397.00	[ICRA]A- (Stable); reaffirmed
Total	**397.00**	**397.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation factors in Cashpor Micro Credit's (CMC) established track record of microfinance operations and the steady growth in its scale of operations. Moreover, the company has been able to report healthy collection efficiency (CE) and asset quality indicators over the last few years, given its strong borrower connect. The rating also factors in the strong financial flexibility and fairly diversified borrowing profile with borrowings from different lenders comprising a good mix of private and public sector banks and non-banking financial companies (NBFCs)/financial institutions (FIs).

The company reported a decline in its assets under management (AUM) in H1 FY2023 because of lower disbursements as it took time to align its systems and processes with the revised microfinance guidelines issued by the Reserve Bank of India (RBI). However, with the pickup in disbursements from Q2 FY2023, CMC reported a growth of around 11% in its AUM in FY2023, with the same reaching Rs. 4,624 crore as on March 31, 2023. CMC has been able to report healthy CE and asset quality indicators with gross non-performing assets (GNPAs)[1] of 0.93% as on December 31, 2022 (0.96% as on March 31, 2022), which remains comfortable and better than the industry average. ICRA expects the company to maintain healthy asset quality indicators, going forward as well. The rating also factors in the company's adequate loan origination, collection and monitoring systems, supported by the experience of its promoters and management personnel.

The rating is, however, constrained by CMC's high leverage amid challenges in raising equity capital, given its constitution as a not-for-profit company. Its on-book gearing was high at 5.29 times as on December 31, 2022, Further, its adjusted gearing[2] and managed gearing[3] remained high at 6.85 times and 8.29 times, respectively, as on December 31, 2022. Moreover, the operations are geographically concentrated with Uttar Pradesh accounting for 49% of the AUM as on December 31, 2022, followed by Bihar (33%). The rating also factors in the risks associated with the unsecured nature of microfinance loans, the marginal borrower profile, which is susceptible to income shocks, and the political and operational risks inherent in the microfinance business.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that CMC will be able to maintain its credit profile, while steadily growing its scale of operations and keeping its asset quality indicators and earnings profile at a healthy level.

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[1] Refers to on-book GNPA; GNPA on overall portfolio as on December 31, 2022 was 0.63% (0.55% as on March 31, 2022)

[2] On-book debt/(Net worth – First loss default guarantee)

[3] (On-book debt + Off-book portfolio)/Net worth

Key rating drivers and their description

Credit strengths

Established track record of operations in microfinance – CMC is an established player in the microfinance industry with a track record of more than 20 years. It draws upon the experience of its promoters and management personnel, some of whom have remained with the company for long, and upon the instituted policies, operational infrastructure and guidance therefrom. Further, its predominantly weekly collection model enables closer engagement levels with its borrower base. This, along with the provision of education and healthcare services to its borrowers/families, has helped CMC maintain steady growth in its scale and healthy asset quality metrics.

Steady growth in scale of operations – CMC witnessed a dip in disbursements in Q1 FY2023 on account of the challenges faced by the company and the time taken by it to align its processes and systems to the RBI's revised microfinance regulations. However, with the pickup in disbursements from Q2 FY2023, the company reported a growth of 11% in FY2023 (27% in FY2022) with the AUM increasing to Rs. 4,624 crore (provisional) as on March 31, 2023 from Rs. 4,179 crore as on March 31, 2022. CMC is also operating as a business correspondent (BC) on behalf of five banks/FIs, wherein it is responsible for the sourcing and collection of microfinance loans on behalf of the lenders. The share of the BC book in the overall portfolio declined to 39% as on March 31, 2023 from 44% as on March 31, 2022 because of low disbursements under this book as the BC banks also took time to align their processes and systems as per the revised guidelines. ICRA also notes the decrease in the active borrowers count to 11.37 lakh as on December 31, 2022 from 11.97 lakh as on March 31, 2022 because of the company's focus on disbursing to the existing customers in 9M FY2023. CMC's ability to increase the AUM, the share of the BC book and the borrower base will remain a monitorable.

Healthy collections and asset quality profile – CMC maintained the current CE above 99% in 9M FY2023 because of its strong connect with its borrowers as it charges a comparatively lower rate of interest from its borrowers and also provides healthcare and education facilities, thereby motivating them to pay their instalments on time. As a result, the company's asset quality numbers are better than the industry with reported GNPAs at 0.93% as on December 31, 2022 (0.96% as on March 31, 2022). However, its ability to maintain a healthy asset quality profile will remain a monitorable.

Strong financial flexibility and diversified borrowing profile – The company's funding profile remains fairly diversified with borrowings from different lenders, comprising a good mix of private and public sector banks and NBFCs/FIs. The borrowing profile comprised loans from banks (48%), NBFCs/FIs (15%), debt securities (1%) and BC/direct assignment (36%) as on December 31, 2022. CMC has demonstrated strong financial flexibility and raised debt capital through term loans from different lenders. The cost of average interest-bearing funds increased to 9.3% in 9M FY2023 from 8.9% in FY2022 because of the rising interest rate scenario.

Credit challenges

High leverage amid challenges in raising equity capital, given its constitution as a not-for-profit company – CMC's reported capital adequacy ratio of 17.9%, as on December 31, 2022 (16.8% as on March 31, 2022), was above the regulatory requirement of 15%. However, its gearing (on-book) was high at 5.29 times as on December 31, 2022, given the challenges in raising equity as it is a not-for-profit organisation. Further, its adjusted[4] and managed gearing[5] remained high at 6.85 times and 8.29 times, respectively, as on December 31, 2022, though it declined from 7.83 times and 10.29 times, respectively, as on March 31, 2022, given the increase in the net worth through internal accruals. CMC's ability to grow its net worth through internal profit generation will remain a monitorable.

[4] *On-book debt/(Net worth – First loss default guarantee)*

[5] (*On-book debt + Off-book portfolio)/Net worth*

Geographically concentrated portfolio – As on December 31, 2022, CMC's operations were spread across 91 districts in 6 states with Uttar Pradesh (49%) and Bihar (33%) being the top 2 states. The concentration in the top 10 and top 20 districts reduced marginally to 33% and 56%, respectively, of the AUM as on December 31, 2022 from 34% and 59%, respectively, as on March 31, 2022. The company started its operations in Odisha in 9M FY2023 and plans to open more branches in states other than UP and Bihar. However, CMC maintains that the concentration in UP and Bihar will remain relatively high as both are large states with the poor segment of the population accounting for a significant share. Moreover, the company's objective is to serve the poor. Going forward, CMC's ability to diversify geographically while increasing its scale of operations will remain important from a credit perspective.

Ability to manage political, communal, and other risks, given the marginal borrower profile – Microfinance remains susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations. Further, political and operational risks associated with microfinance may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political, climatic and operational risks, which could negatively impact its operations. CMC's ability to onboard borrowers with a good credit history, recruit and retain employees as well as improve the geographical diversity of its operations would be the key rating sensitivity.

Liquidity position: Adequate

As on December 31, 2022, the company had a free cash and bank balance of Rs. 363 crore and scheduled inflows from advances of Rs. 1,571 crore against scheduled debt repayments of Rs. 1,087 crore during January 01, 2023, to June 30, 2023. Factoring in the expected collections from advances, the liquidity profile is expected to remain adequate to meet the debt obligations in a timely manner. Nevertheless, given its growth plans, CMC would require additional funding to support the envisaged disbursements and would have to grow its BC book.

Rating sensitivities

Positive factors – A significant increase and diversification in the scale of operations along with the ability to maintain good asset quality and profitability indicators and an improvement in the capitalisation structure could lead to a rating upgrade.

Negative factors – ICRA could change the outlook to Negative or downgrade the rating if the company witnesses an increase in its leverage or a significant deterioration in the asset quality or weakening of the profitability with a return on managed assets (RoMA) <1% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

CMC is a not-for-profit company formed in 2002 under Section 8 of the Companies Act, 2013 and is registered as a non-banking financial company-microfinance institution (NBFC-MFI). It provides microfinance exclusively to women below the poverty line in Uttar Pradesh, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh and Odisha. The company provides microcredit for incomegenerating activities. It also provides credit for the improvement of social infrastructure like the construction of toilets, purchasing smokeless stoves, getting LPG connections, etc.

The company is a part of the Cashpor Group, which comprises Cashpor Trust, Cashpor Financial and Technical Services Pvt Ltd and CMC. As on March 24, 2023, CMC had received its NBFC-MFI registration from the RBI. As on December 31, 2022, the company operated through a network of 677 branches spread over 6 states serving 11.4 lakh active clients. It reported a profit after tax (PAT) of Rs. 78.9 crore in 9M FY2023 on a managed portfolio of Rs. 4,185 crore as on December 31, 2022 and a PAT of Rs. 97.9 crore in FY2022 on a managed portfolio of Rs. 4,179 crore as on March 31, 2022. As on March 31, 2023, the company reported an AUM of Rs. 4,624 crore.

Key financial indicators (audited)

Cashpor Micro Credit	FY2021	FY2022	9M FY2023*
Accounting as per	**Ind-AS**	**Ind-AS**	**Ind-AS**
Net interest income	143	189	177
Profit after tax	72	98	79
Net worth	322	420	497
Assets under management	3,297	4,179	4,185
PAT / Average managed assets	1.97%	2.24%	2.21%
PAT / Average net worth	25.02%	26.41%	22.94%
Gross NPAs	1.40%	0.96%	0.93%
Net NPAs	1.34%	0.24%	0.03%
Capital adequacy ratio	18.04%	16.78%	17.90%
Gearing (reported; times)	6.41	5.80	5.29
Gearing (managed; times)	10.94	10.29	8.29

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; *Limited review; Amount in Rs. crore*
Managed gearing = (On-book debt + Off-book portfolio) / Net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Apr 18, 2023	Apr 6, 2023	-	-
1	**Long-term fund-based term loan**	Long term	397.00	157.00	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans**	Feb-21 to Sep-21	MCLR + 1.5% to MCLR + 2.0%	Aug-23 to Sep-24	157.00	[ICRA]A- (Stable)
NA	**Term loans – Unallocated**	NA	NA	NA	240.00	[ICRA]A- (Stable)

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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