

March 04, 2024

Cashpor Micro Credit: [ICRA]A- (Stable) reaffirmed and assigned to Rs. 25-crore subordinated debt programme

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	32.71	[ICRA]A- (Stable); reaffirmed and rated limits reduced
Subordinated debt	-	25.00	[ICRA]A- (Stable); assigned
Total	397.00	57.71	

*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 its comfortable asset quality. 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 adequately 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).

CMC's assets under management (AUM) stood at Rs. 4,731 crore as on December 31, 2023 (Rs. 4,624 crore as on March 31, 2023). Although the AUM growth was slow at 3% (annualised) in 9M FY2024, ICRA expects disbursements to increase in Q4 FY2024 and the growth rate for FY2024 to be similar to FY2023. CMC has been able to report healthy CE and asset quality indicators with the gross non-performing assets (GNPAs)¹ at 0.59% as on December 31, 2023 (0.62% as on March 31, 2023), 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 considers CMC's adequate loan origination, collection and monitoring systems, supported by the experience of its promoters and management.

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 moderate at 4.33 times as on December 31, 2023 while its adjusted gearing² and managed gearing³ remained high at 5.43 times and 8.15 times, respectively. Moreover, the operations are geographically concentrated with Uttar Pradesh accounting for 49% of the AUM as on December 31, 2023, followed by Bihar (34%). 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 healthy levels.

¹ Refers to on-book GNPA; GNPA on overall portfolio was 0.41% as on December 31, 2023 (0.39% as on March 31, 2023)

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. CMC also provides education and healthcare services to its borrowers/families. As on December 31, 2023, its operations were spread across 107 districts in 6 states with an AUM of Rs. 4,731 crore.

Comfortable asset quality profile – CMC maintained the current CE above 99% in 9M FY2024 because of its strong connect with its borrowers as it charges a comparatively lower rate of interest and provides healthcare and education facilities, thereby motivating them to pay their instalments on time. Further, its predominantly weekly collection model enables closer engagement levels with its borrower base. As a result, the company's asset quality numbers are better than the industry with the reported GNPA's at 0.59% as on December 31, 2023 (0.62% as on March 31, 2023). However, given the geographically concentrated operations and the marginal borrower profile, the asset quality remains a monitorable.

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 23.7%, as on December 31, 2023 (17.9% as on March 31, 2023), was above the regulatory requirement of 15%. However, its gearing (on-book) was moderate at 4.33 times as on December 31, 2023, given the challenges in raising equity as it is a not-for-profit organisation. Further, its adjusted⁴ and managed⁵ gearing remained high at 5.43 times and 8.15 times, respectively, as on December 31, 2023. CMC's ability to maintain a prudent capitalisation profile as it scales up its operations further remains a monitorable.

Geographically concentrated portfolio – As on December 31, 2023, CMC's operations were spread across 107 districts in 6 states with the top 3 states accounting for 91% of the portfolio (92% as on March 31, 2023). The AUM remains concentrated with a high share in Uttar Pradesh (49%) and Bihar (34%) as on December 31, 2023. The company commenced operations in Odisha in FY2023 and will focus on opening more branches in states other than Uttar Pradesh and Bihar to reduce portfolio concentration. The district-level concentration also remains high with the top 10 and top 20 districts comprising 33% and 55% of the AUM, respectively, as on December 31, 2023 (33% and 57%, respectively, as on March 31, 2023). Going forward, the company's ability to diversify its operations geographically while increasing its scale of operations will remain important from a credit perspective.

Political, communal and other risks in microfinance sector, 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 a key rating sensitivity.

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

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

Liquidity position: Adequate

As on December 31, 2023, the company had a free cash and bank balance of Rs. 516 crore and scheduled inflows from advances of Rs. 2,015 crore against scheduled debt repayments of Rs. 1,724 crore during January 01, 2024 to December 31, 2024. 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. The company has demonstrated good financial flexibility and raised debt capital through term loans from different lenders even during the Covid-19 pandemic.

Rating sensitivities

Positive factors – A significant increase and diversification in the scale of operations along with comfortable asset quality and profitability indicators and an improvement in the capitalisation structure could positively impact the rating.

Negative factors – A significant deterioration in the asset quality, leading to the weakening of the profitability with a return on managed assets (RoMA) of less than 1%, or an increase in the leverage on a sustained basis could put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

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 income-generating 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 Reserve Bank of India (RBI). As on December 31, 2023, the company operated through a network of 781 branches spread over 6 states serving 12.7 lakh active borrowers. It reported a profit after tax (PAT) of Rs. 73 crore in 9M FY2024 on a managed portfolio of Rs. 4,731 crore as on December 31, 2023 compared to a PAT of Rs. 89 crore in FY2023 on a managed portfolio of Rs. 4,624 crore as on March 31, 2023.

Key financial indicators (audited)

Cashpor Micro Credit	FY2022	FY2023	9M FY2024*
Accounting as per	Ind-AS	Ind-AS	Ind-AS
Total income	529.7	617.1	529.4
Profit after tax	97.9	88.6	72.8
Total managed assets (grossed up for provisions)	4,816.5	5,238.3	5,399.6
Gearing (managed; times)	10.3	9.1	8.2
Gross non-performing assets	0.96%	0.62%	0.59%
CRAR	16.78%	17.94%	23.66%

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 January 31, 2024 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Mar 04, 2024	Apr 18, 2023			
1	Long-term fund-based term loan	Long term	32.71	32.71	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-
2	Subordinated debt	Long term	25.00	25.00	[ICRA]A- (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based term loan	Simple
Subordinated debt	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	32.71	[ICRA]A- (Stable)
NA	Subordinated debt*	Aug-23	LTLR – 9.05%	Apr-29	25.00	[ICRA]A- (Stable)

*Term loan

[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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Branches



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