Cashpor Micro Credit

Instrument	Amount (in Rs crore)	Rating Action
Non Convertible Debenture (NCD) Programme	25.00	[ICRA]BBB- (Stable); Reaffirmed

ICRA has reaffirmed the [ICRA]BBB- (pronounced ICRA triple B minus) rating assigned to the Rs 25 crore NCD Programme of Cashpor Micro Credit (CASHPOR) [1]. The outlook on the rating is 'Stable'.

The rating factors in Cashpor's long-track record in microfinance activities, presence of institutional nominees on its Board of Directors (BoD), experienced management team, established & good processes for loan origination, collection and monitoring supported by strong systems and processes which have helped Cashpor report good asset quality indicators(0+ delinquency of 0.28% as on March 2016). ICRA has also noted Cashpor's diversified funding profile at competitive rates and good profitability indicators (PAT/AMA[2] of 1.1% and return on net worth of ~18% in FY16). ICRA has noted the relatively lower portfolio growth for the Cashpor in FY16 (managed loan[3] book grew by 10% in FY16 owing to slowdown in disbursements for ~5 Months (June to Oct 2015) owing to the adoption of new growth strategy adopted by Cashpor, the key highlights being enhanced focus on quality and customer service with the creation of a new department named risk and quality control department which would be responsible for improving quality of operations and monitor the emerging issues arising out of high pace of growth for the industry, multiple lending and overleveraging. This coupled with change in reporting of area managers from business department to the risk and quality control, and most of the incremental growth expected to come from underpenetrated areas, coupled with increase in maximum ticket sizes, introduction of emergency loans, credit plus activities[4] offered by Cashpor are likely to strengthen relationship with borrowers as well as support the growth going forward. The rating is however constrained on , Cashpor's limitations on increasing core capital (it being a section 25 company), higher leveraging (adjusted net worth[5]/ on balance sheet loan book of ~10.4%) and higher geographical concentration of loan book(~61% of portfolio in UP).

As for the company's business plan, the company intends to grow at a CAGR of ~25-30% over the next three years and in ICRA's view while the ability of the company, to manage such growth, recruit and train personnel in line with the growth plans and replacing existing employees especially at field level for the existing attrition rates, remain high. Cashpor share of less capital intensive Business Correspondent (BC) loan book increased from 28% as on March 2014 to 44% as on March 2016 and management intends to maintain the same to ~50% over short to medium term. Increasing share of less capital intensive BC model reduces concern on capitalisation profile to some extent but still capitalization is expected to be inferior to peer MFIs. Also, Cashpor has been able to raise subordinated debt from social cum financial investors at lower cost (~5%-10%) which along with increasing share of BC book, adequate internal capital generation are expected to support its growth plans. Cashpor also opens deposit account of its BC borrowers with respective banks and provide service to the depositors (withdrawal, deposits) in these accounts on behalf of bank which enhances Cashpor's importance for these banks. Also, deposit offering to clients along with Cashpor' lower lending rates and processing fees, ability to grow in under penetrated areas (rural areas) and development activities it undertakes in its area of operations are expected to strengthen Cashpor's relationship with borrowers thus could have indirect positive impact on its asset quality over medium to long term.

Cashpor has access to large number of lenders, although primarily banks/NBFCs for meeting its funding requirements. As for funding profile, around 44% of book is in the form of BC arrangement with four banks; on balance book is funded primarily through loans from banks. As on March 2016, Cashpor borrowings[6] comprised loans from sixteen banks (84% of total borrowings), four FI (8%), six social/financial investors (Sub-

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[1] For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications
[2] Average Managed Assets
[3] Includes on book portfolio, Business Correspondent portfolio and Securitization
[4] Cashpor provides various non credit services to its borrowers in various fields like Education, Health and Financial Literacy
[5] Net worth minus credit enhancement on off balance sheet book
[6] Excludes BC/Assignment/Securitization amount

debt) (6%) and others (2%). Cashpor cost of funds remains lower than most of the peer MFIs (effective incremental cost in the range of ~12-13% from various sources).

Cashpor's profitability profile is good (PAT/AMA of 1.1% in FY16 and Return on Networth of ~18%). On an overall basis, profitability is supported by healthy growth in off book portfolio, relatively lower cost of funds, control on asset quality and nil income tax expenses (as it is registered u/s 12A of the Income Tax Act). Cashpor's incremental profitability is expected to remain at adequate levels provided Cashpor maintains strict control on asset quality profile & controls its operating expenses (Operating Expenses/Managed Advances of 8.3%).

About the Company

CASHPOR Micro Credit (CASHPOR) is poverty focused, not-for-profit Company that provides microfinance exclusively to Below Poverty Line (BPL) women in the states of Uttar Pradesh, Bihar, Chhattisgarh, Jharkhand and Madhya Pradesh. The company is a part of the CASHPOR group which comprises of CASHPOR Trust, CASHPOR Financial and Technical Services Pvt Ltd (CFTS), CASHPOR Micro Credit (CASHPOR) and CASHPOR Financial Services Pvt Ltd (CFS). CASHPOR started its operations in eastern parts of UP in 1997 through CFTS. In December 2002, CASHPOR Micro Credit was set up as a Section 25 company and CFTS transferred its microfinance activities to CASHPOR Micro Credit. CASHPOR's focus is to provide financial services to the poorest of the poor, with inadequate access to credit from the organized segment. The company uses its own index viz. CASHPOR Housing Index (CHI) to assess the poverty level of the clients. The core product of the company is Group loan, for which it implements the Joint Group Liability (JLG) model. Additionally, the company offers multiple credit plus products catering to healthcare, women empowerment, power and sanitation.

As on March 2016, ~61% of company's portfolio was in Uttar Pradesh (UP), ~33% in Bihar, ~3% in Chhattisgarh, ~2% in Jharkhand and negligible in Madhya Pradesh. The company is looking to increase share of non-UP states in total portfolio which would reduce geographical concentration risk to some extent.

As on March 2016, CASHPOR had a network of 494 branches spread over five states (UP, Bihar, Chhattisgarh, Jharkhand & Madhya Pradesh) serving about 8.8 lakh active clients and has total managed portfolio of Rs. 1014 crore. CASHPOR reported a profit after tax (PAT) of Rs 13.5 crore in FY16 on an managed asset base of Rs. 1241 crore and PAT of Rs 12.27 crore in FY15 on managed asset base of Rs. 1100 crore. Cashpor reported CRAR of 17.9%(Tier I Capital of 13.4%) as on March 2016, however as the company does not knock off credit enhancement provided in off balance sheet book from its capital funds & only include in risk weighted assets, its reported CRAR is overstated vis-a-vis NBFC-MFI.

June 2016

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