

July 21, 2023

Belstar Microfinance Limited: Long-term rating upgraded to [ICRA]AA- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt	7.00	7.00	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable)
	25.00	0.00	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable) & withdrawn
Total	32.00	7.00	

*Instrument details are provided in Annexure I

Rationale

The rating upgrade factors in the improvement in Belstar Microfinance Limited's (Belstar) asset quality and earnings performance in FY2023, with the company coming out of the Covid-19 pandemic-induced stress, and ICRA's expectation of a sustained performance going forward. The gross non-performing assets (GNPAs) and net non-performing assets (NNPAs) improved to 2.5% and 0.7%, respectively, as of March 2023 from 6.0% and 1.5%, respectively, as of March 2022. The company reduced its NPAs via write-offs and loan sales to an asset reconstruction company (ARC) in FY2023. ICRA notes that Belstar's credit losses during the pandemic years compare well in relation to other peers. As such, the portfolio originated post July 2021, which constituted 97.9% of Belstar's assets under management (AUM) as of March 2023, has minimal delinquencies with 90+ days past due (dpd) of 1.0% as of March 2023. The collection efficiency (collections against the current month's demand) also improved to 96.7% as of April 2023 from 86.7% as of April 2022.

Belstar's net profitability (return on average managed assets; RoMA) improved to 2.0% in FY2023 from 1.0% in FY2022, supported by the moderation in credit costs (credit and provisions costs stood at 2.1% as of March 2023 compared to 3.1% as of March 2022) and income from loan assignment transactions. ICRA expects Belstar's earnings performance to improve steadily going forward, with the moderation in credit costs and the improvement in the portfolio yields in a steady-state environment.

The rating continues to factor in the financial, operational, and managerial support from Muthoot Finance Limited (MFL; rated [ICRA]AA+ (Stable)/[ICRA]A1+), which held an equity stake of about 57% in March 2023 (down from about 70% in March 2021 on account of equity infusions from other investors in FY2023). MFL is expected to provide timely funding and capital support if required. Belstar's board of directors has representatives from MFL's senior management team, who are actively involved in the company's strategic and key operational decisions. Belstar has an established presence in the microfinance industry, catering to more than 23 lakh borrowers through a network of 853 branches spread across 216 districts and 18 states and Union Territories and managing a portfolio of Rs. 6,192 crore as on March 31, 2023 (Rs. 4,365 crore as on March 31, 2022).

The rating also factors in Belstar's moderate capitalisation profile with a managed gearing¹ of 6.0 times as of March 2023 (4.9 times as of March 2022). It is expected to increase its AUM at a compound annual growth rate (CAGR) of about 35-40% over the next three years. The company's capital profile was supported by equity infusions of Rs. 275 crore in FY2022 and Rs. 110 crore in FY2023 from existing as well as new investors. While the capitalisation profile is expected to be moderate in the near-

¹ (total debt + assigned book)/net worth

to-medium term, ICRA expects Belstar to raise capital from MFL and other external investors, as and when required, to support its steep growth plans.

ICRA has upgraded the long-term rating on the Rs. 250.00-crore subordinated debt programme to [ICRA]AA- (Stable) from [ICRA]A+ (Stable) and has subsequently withdrawn the rating as the instrument has been fully redeemed with no amount outstanding against the same. The rating was withdrawn as per ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Improving asset quality and profitability – Belstar's GNPA's improved to 2.5% as of March 2023 from 6.0% as of March 2022. ICRA notes that the company sold Rs. 250.0 crore of its stressed portfolio (>180+dpd) to an ARC and it wrote off Rs. 271.9 crore of its loan portfolio in FY2023. Following this, its exposure to the pandemic-impacted portfolio has reduced significantly. As of March 2023, Belstar was carrying provisions of Rs. 95.7 crore (GNPA provisions stood at Rs. 84.0 crore; 73.3% of provision coverage ratio). The NNPA's improved to 0.7% as of March 2023 from 1.5% as of March 2022.

The company had augmented its collection infrastructure in FY2023 by incorporating a separate collections team to make collections from delinquent loan accounts. The collection efficiency improved subsequently (collections against only the current month's demand) to 90.5% as of September 2022 and 96.7% as of April 2023 from 86.7% as of April 2022. ICRA notes that the portfolio originated after July 2021 (97.9% of Belstar's AUM as of March 2023) has minimal delinquencies with 90+dpd of 1.0% as of March 2023.

Belstar reported a profit after tax (PAT) of Rs. 130.3 crore, translating into a RoMA of 2.0% as of March 2023 (PAT and RoMA stood at Rs. 45.1 crore and 1.0%, respectively, as of March 2022). Following the revised regulatory framework, the company has increased its lending rate by ~300-400 basis points (bps); the improvement in the lending yields would support its earnings profile, going forward. In FY2023, Belstar's profitability was also supported by the one-time income from direct assignment transactions (Rs. 140.3 crore as of March 2023; ~14% of total income as of March 2023). Going forward, ICRA expects Belstar's earnings performance to improve steadily, backed by the moderation in credit costs and the improvement in the portfolio yields in a steady-state environment.

Support from MFL – Belstar was acquired by MFL in FY2017 as a part of its diversification strategy and the microfinance business contributed 8.7% to MFL's consolidated AUM as on March 31, 2023 (6.8% as of March 31, 2022). As of March 2023, MFL held a majority stake of ~57% in Belstar with overall capital infusion of Rs. 276.87 crore (including Rs. 65.04 crore of secondary transactions) since FY2017. ICRA expects MFL to provide timely support to Belstar as and when required. Belstar has a 11-member board, including 3 representatives from MFL – Mr. George Muthoot Jacob (Deputy Managing Director, MFL), Mr. George Alexander (Deputy Managing Director, MFL) and Mr. KR Bijimon (Executive Director and Chief Operating Officer, MFL). MFL's promoters and representatives on Belstar's board are actively involved in its strategic and key operational decisions. Currently, Belstar's branch operations are independent of MFL considering the disparate nature of their product offerings. However, it can leverage MFL's vast presence and geographical knowledge for its geographical expansion plans.

Credit challenges

Moderate capitalisation profile; regular capital infusions support growth – Belstar's capital profile moderated in FY2023 due to strong AUM growth. The managed gearing increased to 6.0 times as of March 2023 from 4.9 times as of March 2022 (6.1 times as of March 2021). The growth was supported by the timely infusion of equity capital; Belstar had raised equity capital of Rs. 275 crore in Q4 FY2022 from its existing investors (MFL and Maj Invest Financial Inclusion Fund II K/S) and a new investor (Arum Holdings Ltd; fund managed by Affirma Capital). The company raised Rs. 110 crore from Arum Holdings Ltd and Augusta Investments Zero Pte Ltd in Q1 FY2023.

Supported by the capital infusions and internal accruals, the company's net worth increased to Rs. 855.9 crore as of March 2022 and further to Rs. 1,092.3 crore as of March 2023 from Rs. 541.7 crore as of March 2021. It is expected to increase its

AUM at a CAGR of about 35-40% over the next three years. The company is expected to raise additional equity capital in the next 12-18 months, which would support its medium-term growth plans.

Geographical concentration risk – Belstar’s portfolio is concentrated in Tamil Nadu (49.1% as of March 2023 and 45.7% as of March 2022) while Karnataka (7.9% as of March 2023) and Madhya Pradesh (5.5% as of March 2023) are the other two large areas of operations. The top 5 and top 10 districts (all in Tamil Nadu) stood at 17.7% and 32.1% of the AUM, respectively, as of March 2023. The company is focusing on expanding in other states (Bihar, West Bengal and Madhya Pradesh) and reducing the concentration in Tamil Nadu to ~40% by FY2026.

Belstar’s AUM grew by 41.9% year-on-year (YoY) to Rs. 6,192.0 crore in March 2023 from Rs. 4,365 crore in March 2022 (Rs. 3,299 crore in March 2021). The number of active borrowers grew by 33.1% between FY2022 and FY2023 and disbursements improved by 63.4% YoY during this period. Going forward, Belstar’s ability to diversify its operations geographically, as it scales up, would remain crucial from a rating perspective.

Risk associated with microfinance business – The rating factors in the risks associated with the marginal borrower profile, unsecured lending, business and political risks, along with the challenges associated with a high pace of growth and attrition. Belstar’s ability to manage such risks while expanding across new geographies would be crucial. The company’s ability to onboard borrowers with a good credit history, recruit and retain employees and maintain a geographically diversified portfolio would be key for managing high growth rates. While credit bureau checks and the regulatory ceiling on borrower repayment capacity reduce concerns on overleveraging, issues related to the policy of microfinance institutions (MFIs), regarding their underwriting practices, borrowers’ income and leverage assessment, multiple identity proof as well as gaps in the information available with the bureaus remain. The revised guidelines for the microfinance industry are expected to provide the players, including Belstar, with better pricing ability in view of the underlying risks.

Liquidity position: Adequate

The company had a cash and bank balance of Rs. 353 crore and unutilised sanctioned credit lines of about Rs. 1,470 crore as on May 31, 2023. Debt obligations (including pass-through certificate (PTC)/DA payouts) and operating expenses between June 2023 and August 2023 amount to Rs. 1,440.0 crore. The asset-liability maturity (ALM) profile, as of March 2023, was characterised by positive cumulative mismatches across the maturity buckets. The average monthly collections between January 2023 and April 2023 (including arrear collections) stood at about Rs. 433 crore. ICRA also expects timely liquidity support from MFL, if required.

As on March 31, 2023, Belstar had funding relationships with 47 lenders, including 35 banks. The funding profile (including DA transactions) comprised bank loans (59.3%), loans from financial institutions (FIs)/non-banking financial companies (NBFCs; 0.5%), non-convertible debentures (NCDs) and subordinated debt (12.5%), external commercial borrowings (4.3%) and borrowings through the DA route (23.5%).

Rating sensitivities

Positive factors – ICRA may revise the outlook to Positive or upgrade the rating if the company is able to maintain good asset quality and a profitable growth on a sustained basis and demonstrate a steady improvement in its geographical diversification.

Negative factors – The outlook may be revised to Negative or the rating may be downgraded in case of lower-than-expected support from MFL or in case of a deterioration in MFL’s credit risk profile. A managed gearing of more than 6.0 times on a sustained basis or a significant deterioration in Belstar’s asset quality, thereby impacting the earnings, would also negatively affect the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-Banking Finance Companies Rating Approach – Implicit Support from Parent or Group Policy on Withdrawal of Credit Ratings
Parent/Group support	Parent: Muthoot Finance Limited (MFL) The rating factors in the high likelihood of financial support from the parent, MFL, given Belstar’s strategic importance for meeting MFL’s product diversification objective
Consolidation/Standalone	The rating is based on the standalone financials of Belstar

About the company

Belstar Microfinance Limited (Belstar) was incorporated in January 1988 in Bengaluru. The company was registered as an NBFC with the Reserve Bank of India (RBI) in March 2001 and later as an NBFC-microfinance institution (NBFC-MFI) in December 2013. Belstar was acquired by the Hand in Hand India (HIHI) group in September 2008 to provide microfinance services to the members of the HIHI self-help group (SHG) programme. HIHI is a non-governmental organisation (NGO) promoted by Dr. Kalpana Sankar in 2002 as a public charitable trust based in Tamil Nadu. During FY2008 to FY2013, Belstar primarily relied on HIHI for client acquisition, and later began to form its own groups (largely joint liability groups, JLG) and branches.

Belstar was acquired by MFL in FY2017, which currently holds a 57% stake in the company. The company’s name was changed from Belstar Investment and Finance Private Limited to Belstar Microfinance Private Limited with effect from October 03, 2019. It was subsequently renamed Belstar Microfinance Limited and was converted to a public limited company with effect from January 10, 2020. As of March 2023, MFL held a 57.0% stake, followed by the promoter and promoter group, Maj Invest Financial Inclusion Fund II K/S, Arum Holdings Ltd and Augusta Investments Zero Pte Ltd at 13.1%, 9.8%, 15.7% and 4.5%, respectively.

Key financial indicators (audited)

Belstar Microfinance Limited	FY2021	FY2022	FY2023
Total income	553.2	728.4	1,037.9
Profit after tax	46.6	45.1	130.3
Net worth	541.7	855.9	1,092.3
Total managed assets	3,915.3	5,214.7	7,801.7
Return on average managed assets	1.3%	1.0%	2.0%
Return on average net worth	9.0%	6.5%	13.4%
Managed gearing (times)	6.1	4.9	6.0
GS3 on b/s	2.8%	6.0%	2.5%
NS3 on b/s	0.6%	1.5%	0.7%
Solvency (Net stage 3/Net worth)	3.1%	6.1%	2.8%
CRAR	22.2%	24.1%	22.0%

Source: Company; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Jul 21, 2023	Jul 29, 2022	Aug 27, 2021	Aug 31, 2020
1	Subordinated debt	Long term	7.0	7.0	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Subordinated debt	Long term	25.0	0.0	[ICRA]AA- (Stable); withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt	Moderately Complex

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
INE443L08032	Subordinated debt	Mar-31-17	11.50%	May-31-23	10.0	[ICRA]AA- (Stable); withdrawn
INE443L08024	Subordinated debt	Mar-31-17	11.50%	May-31-23	15.0	[ICRA]AA- (Stable); withdrawn
INE443L08040	Subordinated debt	Jun-22-17 Nov-17-17 Nov-29-17 Mar-02-18	12.00%	Jul-31-23	7.0	[ICRA]AA- (Stable)

Source: Company

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

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

R Srinivasan
+91 44 4596 4315
r.srinivasan@icraindia.com

Deepali Panda
+91 80 4332 6400
deepali.panda@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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