

Asirvad Microfinance

Instrument	Amount in Rs. Crore ¹	Rating Action
Non-Convertible Debentures	50.00	[ICRA]A-(Stable); assigned

ICRA has assigned the long-term rating of [ICRA]A- (pronounced ICRA A minus)² with a stable outlook to the Rs. 50.00 crore NCD programme of Asirvad Microfinance Private Limited (Asirvad). Asirvad also has a rating of [ICRA]A- with stable outlook, outstanding on its Rs. 12.00 crore NCD programme and Rs. 200.00 crore bank facilities.

The rating continues to factor in the company's strong parentage with about 90% stake held by Manappuram Finance Limited (MAFIL, rated [ICRA]A+(stable)/[ICRA]A1+) and the likely operational, financial and managerial support from MAFIL for the ongoing business expansion. As on March 31, 2016, Asirvad's portfolio concentration in Tamil Nadu reduced to 52% from 78% as on March 31, 2015 mainly driven by the company's geographical expansion to 7 new states and union territories during the year; the geographic concentration risk is expected to further reduce with stabilization of operations in the new regions. The rating also factors in the experience of the current management team in the microfinance business, the company's reasonable brand strength, its conservative appraisal norms and adequate loan monitoring and collection mechanisms, which have ensured good asset quality (0+dpd at 0.1% as on March 31, 2016). ICRA also takes note of the company's comfortable capitalization (managed gearing of 3.9 times as on March 31, 2016) and its good profitability (PAT/AMA³ at 3.0% for FY2016). Further, after its acquisition by MAFIL, Asirvad's ability to secure funds from diverse sources at competitive rates has improved considerably; this financial flexibility is expected to aid Asirvad in competitive pricing of its loan products and in turn support business expansion, especially in the new geographies.

ICRA takes note of the company's sharp portfolio growth during FY2016 to Rs. 998 crore as on March 31, 2016 from Rs. 322 crore as on March 31, 2015, driven largely by better penetration in its existing branches, and expansion to new areas. Asirvad expects to further grow its portfolio at a CAGR of around 55-65% to achieve a portfolio size of about Rs. 2,400-2,700 crore by March 2018. To achieve its target growth, the company would require equity capital of about Rs.100-150 crore over FY2017 and FY2018, assuming an internal generation of 12-14% with overall managed gearing at about 5.0 times. ICRA expects that timely equity support from MAFIL would enable the company to maintain a comfortable capital structure and liquidity profile in relation to the envisaged business growth.

The rating nevertheless, continues to be constrained by the competitive pressures in the Tamil Nadu microfinance market; risks associated with the unsecured nature of the loans; credit risks emerging from the marginal borrower profile; political risks inherent to the industry; and the operational risks of cash handling. ICRA notes that in FY2016, the company wrote off Rs. 2.5 crore of bad debts on account of embezzlement of cash collections by employees in a particular region. Going forward, the ability of the company to train and retain employees; further diversify its geographical presence; augment its control and monitoring systems in relation to its growth plans; while maintaining an optimal cost structure and good asset quality would be critical from a rating perspective.

Company Profile

Asirvad Microfinance Private Limited is a Tamil Nadu based microfinance institution that was set up as an NBFC in December 2007 and started operations in January 2008. It was promoted by Mr. S. V. Raja Vaidyanathan with the aim of replicating the Grameen Bank model of lending to women in the villages of Tamil Nadu. Asirvad caters primarily to economically backward women and provides microcredit under the joint liability group mechanism for income generation. In February 2015, Manappuram Finance Limited took about 85% stake in the company by acquiring equity shares from some of the existing share holders and through fresh equity infusion. MAFIL further increased its stake to 90.4%, by infusing capital of Rs. 100 crore during FY2016, thereby reducing the stake of the erstwhile promoters to about 8.5% as on March 31, 2016; the remaining stake is held by key employees. As of March 31, 2016, Asirvad was operational in 110 districts

¹ Rs. 1 crore = Rs. 10 million = Rs. 100 Lakh

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ Profit after tax as a proportion of average total managed assets



across 13 states and UTs, with a portfolio size of Rs. 997.6 crore (Rs. 322.0 crore as of March 2015) and active member base of 6.2 lakh (2.8 lakh as of March 2015).

Recent Results

For FY2016, the company achieved a net profit of Rs. 24.0 crore on a total managed asset base of Rs. 1,182.4 crore as compared to a net profit of Rs. 10.4 crore on a total managed asset base of Rs. 426.5 crore in FY2015.

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