Ref. No. 38/ 2023-2024
August 08, 2023

The General Manager
Listing Operation
BSE Limited
Phiroze Jeejeeboy Towers
Dalal Street
Mumbai-400001

Sub: Intimation under Regulation 55 of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 (Listing Regulation)

Dear Sir / Madam,

Pursuant Regulation 55 SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 (Listing Regulation) we wish to inform that CARE RATING has reviewed its ratings based on the recent developments including operational and financial performance of the Company, as follows -

SNO	Particulars	Rating	Rating Action
1	Sub debt INE443L08131	CARE AA-; Stable	Reaffirmed

This is to inform you that CARE Rating Ration dated August 08,2023, for assignment of credit rating, is enclosed

This is for your information and appropriate dissemination.

Thanking you,
Yours faithfully,

For Belstar Microfinance Limited

SUNIL KUMAR SAHU Digitally signed by SUNIL KUMAR SAHU
Date: 2023.08.08 17:14:25 +05'30'

Sunil Kumar Sahu
Company Secretary and Compliance Officer

CareEdge RATINGS

Belstar Microfinance Limited

August 08, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Subordinate debt - II	85.00	CARE AA-; Stable	Reaffirmed
Non-convertible debentures - III	24.00 (Reduced from 264.00)	CARE AA-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the various debt instruments of Belstar Microfinance Limited (BML) continue to derive strength from its strong parentage of Muthoot Finance Limited (MFL) and the benefits derived from being part of the Muthoot group, the long track record of BML in the microfinance institution (MFI) industry, and the adequate capitalisation levels. The ratings also take note of the improvement in the profitability during FY23, although it has not reached the pre-COVID levels and the growth in the asset under management (AUM) of 42% during FY23 from ₹4,365 crore as on March 31, 2022, to ₹6,192 crore as on March 31, 2023.

The ratings are, however, constrained by the geographical concentration of the loan portfolio, despite continuous efforts by the company to improve the same, the moderately diversified resource profile, and the regulatory and political risks inherent to the MFI industry. The ratings also take note of the improvement in the asset quality parameters during FY23 with significant write-offs and the sale to Asset Reconstruction Company during the year.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade

- Increase in the scale of operations along with geographical diversification, with no single state contributing to more than 15% of the portfolio.

Negative factors – Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Decline in the asset quality parameters and profitability.
- Decline in the capital adequacy levels, with the total capital adequacy ratio (CAR) falling below 16% on a sustained basis.
- Deterioration in the credit profile of the parent or moderation in the shareholding of the parent.

Analytical approach

Standalone; factoring in the linkages with the parent, Muthoot Finance Limited.

Outlook: Stable

The 'stable' outlook reflects the likely continuation of a stable credit profile with adequate capitalisation levels and good profitability parameters.

Detailed description of the key rating drivers

Key strengths

Strong promoter group and benefits derived from being part of the Muthoot group

BML is a subsidiary of MFL, the flagship company of the Muthoot group. BML derives benefits in the form of managerial and financial support from the group. The Muthoot group has a long track record of establishing and

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

successfully running non-banking financial companies (NBFCs). MFL has around seven decades of experience in the gold loan business. It is the largest gold loan NBFC in terms of the size of the gold loan portfolio of ₹63,209 crore as on March 31, 2023, and the brand 'Muthoot' has a strong brand image and is well-positioned among its customers. This aids BML in expanding the branch network to new geographies in which MFL has a presence. Apart from equity and operational support, the group also provides funding support in the form of debt on a need basis. As part of the diversification strategy, the group has ventured into microfinance through the acquisition of BML and into housing finance through Muthoot Home Fin (India) Ltd (rated 'CARE AA+; Stable/CARE A1+'). The shareholding of MFL stood at 56.97% as on March 31, 2023. MFL is expected to maintain the shareholding in BML at a similar level over time. Any decline in the shareholding percentage of MFL in the company is a key rating sensitivity.

Long track record of operations

BML has an established track record and has been carrying out microfinance lending activities since September 2008. During FY17, MFL acquired BML through a combination of acquisition of shares from existing investors and fresh equity infusion, and BML became a subsidiary of MFL. BML commenced its microfinance operations in April 2009 at the Haveri district of Karnataka. Subsequently, it extended to other states and, as on March 31, 2023, the company has presence in 18 states. Dr Kalpanaa Sankar, Managing Director of BML, has over two decades of experience in microfinance activities in Tamil Nadu and has been a consultant with various projects in the United Nations (UN) office. The board of BML consists of 11 members with extensive experience in NBFCs, rural banking, and operations, including four independent directors, three representatives from the Muthoot group, two representatives from Hand in Hand Consulting Services Private Limited Hand-in-Hand, and one representative each from Maj Invest and Affirma Capital. The operations of the company are professionally managed and headed by the Founder and Managing Director, Dr Kalpanaa Sankar. The day-to-day operations are looked after by a team of experienced professionals, with each function being looked after by an experienced team, headed by key management people having vast experience in the NBFC and MFI spaces.

Adequate capitalisation levels aided by periodic equity infusion and parent support

The CAR and Tier-1 CAR has moderated from 24.06% and 20.96%, respectively, as on March 31, 2022, to 21.97% and 20.30%, respectively, as on March 31, 2023. BML had raised equity of ₹110 crore in FY23 from existing and new investors. The gearing remained at 4.50x as on March 31, 2023, as against 4.44x as on March 31, 2022. Considering the growth plan envisaged by the company, the gearing is expected to remain moderate over the medium term. CARE Ratings Limited (CARE Ratings) expects MFL to support BML with equity or debt capital as and when required, to support the capitalisation level and business growth.

Continuous improvement in the scale of operations

The AUM has grown at a rate of 42% in FY23 from ₹4,365 crore as on March 31, 2022, to ₹6,192 crore as on March 31, 2023. The growth in AUM is mainly achieved by the increase in the number of branches and increase in the number of employees per branch. The AUM per branch has improved from ₹5.99 crore as on March 31, 2022, to ₹8.07 crore as on March 31, 2023. During FY23, BML has also improved its presence significantly from 729 branches in 186 districts of 18 states as on March 31, 2022, to 767 branches in 217 districts of 18 states.

Improvement in the asset quality during FY23, mainly driven by higher write-offs during the year

The gross stage-III assets (GS3) improved during FY23 from 6.65% as on March 31, 2022, to 2.42% as on March 31, 2023. Notably, the company had written-off ₹124 crore and sold non-performing assets (NPAs) of around ₹250 crore to ARC during FY23. Accordingly, the net stage-III assets (NS3) decreased from 2.32% as on March 31, 2022, to 0.66% as on March 31, 2023. The provision coverage ratio (PCR) improved from 67.22% as on March 31, 2022, to 73.33% as on March 31, 2023. The standard restructured portfolio outstanding improved to 0.21% of the gross advances as on March 31, 2023, as against 7.40% as on March 31, 2022. The 0+ increased to a maximum of 31.17% as on June 30, 2021. However, with improved collection efforts and restructuring benefits, it improved on a m-o-m basis to 10.25% as on March 31, 2022, and further to 3.65% as on March 31, 2023. The security receipts outstanding stood at ₹53 crore (1.12% of the gross advances) as on March 31, 2023. CARE

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Ratings expects the asset quality to improve in the near term, considering the improvement in the restructured book and improvement in the economic activity post-COVID.

Improvement in profitability during FY23, although not yet reached pre-COVID levels

During FY23, BML reported a profit-after-tax (PAT) of ₹130 crore on a total income of ₹1,038 crore (pre-provision operating profit [PPOP]: ₹314 crore) as against a PAT of ₹45 crore on a total income of ₹728 crore (PPOP: ₹206 crore) during FY22. The net interest margin (NIM) stood at 9.65% in FY23 as against 9.71% in FY22. With an increase in the number of branches and the number of employees per branch, the operating expenditure (opex) increased to 6.24% during FY23 from 5.75% during FY22. With the improved asset quality parameters, the credit cost decreased from 3.77% during FY22 to 2.70% during FY23. Owing to the same, the return on total assets (ROTA) improved to 2.43% during FY23 from 1.13% during FY22. CARE Ratings expects the profitability to improve in the near term with the expectation of credit costs remaining relatively lower.

Key weaknesses

Moderately diversified resource profile

The share of borrowings through term loans from banks, NBFCs and financial institutions (FIs) stood at 84% as on March 31, 2023, as against 85% as on March 31, 2022. In term loans, the term loans from banks (including small finance banks [SFBs]) stood at 72% of the borrowings and the term loans from NBFCs and FIs stood at 12% as on March 31, 2023. The share of the non-convertible debentures (NCDs; including market-linked debentures [MLDs]) increased to 15% as on March 31, 2023, from 11% as on March 31, 2022. The share of sub-debt stood at 1% as on March 31, 2023, as against 5% as on March 31, 2022. BML also raised funds on a need basis from the Muthoot group companies. The company has term loans and sub-debt from the Muthoot group and the outstanding as on March 31, 2023, stood at ₹54.77 crore, which is 1% of the total borrowings. BML has also actively engaged in direct assignment (DA) transactions during FY23 and has raised ₹1,889 crore during FY23 (PY: ₹633 crore) mainly from public-sector undertaking (PSU) banks. As on March 31, 2023, the DA outstanding stood at ₹1,479 crore as against ₹654 crore as on March 31, 2022.

Geographically concentrated loan portfolio

BML continues to have presence in 18 states and UTs and has not ventured into any newer geographies during FY23. However, the company has deeply penetrated the existing geography by adding 38 new branches during FY23. As on March 31, 2023, BML has presence in 217 districts of 18 states, as against 217 districts in 18 states through 767 branches as on March 31, 2023. Notwithstanding branch expansion, the loan portfolio of the company remained geographically concentrated. Tamil Nadu, the home state of BML, continues to be the top concentrated state with 49% of the AUM (PY: 46%) as on March 31, 2023. The top three states – Tamil Nadu, Madhya Pradesh, and Karnataka – accounted for 62.44% of the AUM as on March 2023, 61.43% of the AUM as on March 31, 2022, as against 63.00% as on March 31, 2021. The ability of the company to increase its scale of operations by expanding into new regions to reduce geographical concentration remains a key rating sensitivity.

Liquidity: Adequate

The asset and liability management (ALM) remains adequate on account of the short-term products, as most of the loans amortise monthly with a tenure of around two to three years. The funding profile is concentrated on long-term funds and the trend is likely to be continued, resulting in an adequate liquidity profile. The ALM, as on March 31, 2023, remains comfortable, with no cumulative negative mismatches in any of the time buckets up to one year and contractual obligations (principal alone). The cash and bank balance stood at ₹1,295 crore as on March 31, 2023. Also, the company's unavailed sanctions and undrawn working capital limits and the support from the Muthoot group adds comfort.

Environment, social, and governance (ESG): NA

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non Banking Financial Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Micro Finance Institution

BML was incorporated in January 1988 and was registered with the Reserve Bank of India (RBI) as a non-deposit taking, non-banking financial company (NBFC-ND) in March 2001. BML was acquired by the Hand in Hand group in September 2008 to provide microfinance loans to self-help group (SHG) borrowers. BML provides loans towards agriculture, animal husbandry, education, and micro-enterprises in the urban and semi-urban districts under the SHG or joint liability group (JLG)-based lending models. As on March 31, 2023, BML was operating with 767 branches in 217 districts across 18 states and had AUM of ₹6,192 crore extended to 5.79 lakh SHG or JLG groups consisting of 34.77 lakh members. As on March 31, 2023, 56.97% stake of BML was held by MFL, 20.17% by Affirma Capital, 12.26% by Sarvam Financial Inclusion Trust, 9.81% by Maj Invest Financial Inclusion Fund II K/S, 0.17% by Hand in Hand, and the rest is held by individuals (0.70%).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	728	1038
PAT	45	130
Interest coverage (times)	1.19	1.46
Total Assets	4508	6209
Net NPA (%)	2.32	0.66
ROTA (%)	1.13	2.43

A: Audited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with

		(DD-MM-YYYY)				Rating Outlook
Debentures-Non Convertible Debentures -III	INE443L08107	03-Dec-19	14.50	03-Dec-25	24.00	CARE AA-; Stable
	INE443L07059	16-Jun-20	11.00	16-May-23	0.00	Withdrawn
	INE443L07067	17-Jun-20	11.00	30-Jun-23	0.00	Withdrawn
	INE443L07075	24-Jun-20	10.58	21-Apr-23	0.00	Withdrawn
	INE443L07083	30-Jun-20	11.00	30-Jun-23	0.00	Withdrawn
	INE443L07091	09-Jul-20	11.00	07-Jul-23	0.00	Withdrawn
	INE443L07141	15-Dec-20	10.50	15-Sep-22	0.00	Withdrawn
Debt-Subordinate Debt -II	INE443L08115	30-Mar-20	14.50	15-May-26	15.00	CARE AA-; Stable
	INE443L08123	14-Sep-20	14.00	01-Sep-25	20.00	CARE AA-; Stable
	INE443L08131	30-Sep-20	14.50	20-Sep-27	50.00	CARE AA-; Stable

*The Company has redeemed the instrument

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)CARE A+; Stable (10-Dec-20) 2)Withdrawn (10-Dec-20) 3)CARE A+; Stable (01-Oct-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (10-Dec-20)

								2)CARE A+; Stable (10-Dec-20) 3)CARE A+; Stable (01-Oct-20)
3	Debt-Subordinate Debt	LT	-	-	-	-	1)Withdrawn (16-Aug-21)	1)CARE A+; Stable (19-Aug-20)
4	Debt-Subordinate Debt	LT	85.00	CARE AA-; Stable	-	1)CARE AA-; Stable (10-Aug-22)	1)CARE A+; Stable (16-Aug-21)	1)CARE A+; Stable (19-Aug-20)
5	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (19-Aug-20)
6	Preference Shares-Reedemable	LT	-	-	-	-	-	1)Withdrawn (19-Aug-20)
7	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (19-Aug-20)
8	Debentures-Non Convertible Debentures	LT	24.00	CARE AA-; Stable	-	1)CARE AA-; Stable (10-Aug-22)	1)CARE A+; Stable (16-Aug-21)	1)CARE A+; Stable (19-Aug-20)
9	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (10-Aug-22)	1)CARE A+; Stable (16-Aug-21)	1)CARE A+; Stable (19-Aug-20) 2)CARE A+; Stable (15-May-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Debt-Subordinate Debt	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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