



# BELSTAR MICROFINANCE LIMITED

(Formerly known as Belstar Investment and Finance Private Limited)

A Subsidiary of Muthoot Finance Limited

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CIN:U06599TN1988PLC081652

Ref. No. 28/ 2020-2021

September 02, 2020

The General Manager

Listing Operation

**BSE Limited**

Phiroze Jeejeeboy Towers

Dalal Street

Mumbai-400001

Dear Sir / Madam,

Pursuant Regulation 55 SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 (Listing Regulation) we wish to inform that Credit rating agency ICRA Limited ("ICRA" ) has reviewed its ratings based on the recent developments including operational and financial performance of the Company, as follows

SNO	Particulars	Amount (Rs Crore)	Rating	Rating Action
2	Subordinated debt	32	ICRA A; Stable	Reaffirmed

ICRA letter dated August 31, 2020 for assignment of credit rating, are enclosed.

Kindly take the same on record.

We request you to take the above information on your record.

Thanking you,  
Yours faithfully,

**For Belstar Microfinance Limited**

**Sunil Kumar Sahu**

**Company Secretary and Compliance Officer**

August 31, 2020

## Belstar Microfinance Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated Debt Programme	32.0	32.0	[ICRA]A(Stable); Reaffirmed
Non-convertible Debentures	10.0	00.0	[ICRA]A(Stable); Reaffirmed and withdrawn
<b>Total</b>	<b>42.0</b>	<b>32.0</b>	

\* Instrument details are provided in Annexure-1

### Rationale

ICRA has withdrawn its rating on the non-convertible debenture (NCD) programme of Rs. 10.0 crore, at the request of Belstar Microfinance Limited (Belstar), as the same has been fully redeemed and there is no outstanding against the rated amount. The rating was withdrawn as per ICRA's policy on the withdrawal and suspension of credit ratings.

The rating factors in the financial, operational and managerial support from Muthoot Finance Limited (MFL; rated [ICRA]AA(Stable)/A1+), which held a stake of about 70% in Belstar as of June 30, 2020. The rating takes cognizance of Belstar's established presence in the microfinance industry and its comfortable asset quality (0+ days past due (dpd) delinquencies of 1.4% as on March 31, 2020 and 1.3% as on June 30, 2020). As on March 31, 2020, Belstar was catering to more than 12 lakh borrowers through a network of 603 branches spread across 158 districts and 18 states and Union Territories while managing a portfolio of Rs. 2,630 crore (Rs. 2,575 crore as on June 30, 2020). The rating also factors in the company's healthy profitability indicators. It reported a net profit of Rs. 99.0 crore in FY2020, translating into a return of 3.8% on the average managed assets (AMA; Rs. 72.9 crore and 4.1%, respectively, in FY2019).

The rating is, however, constrained by the geographically concentrated operations and the risks associated with the unsecured nature of the loans, the marginal borrower profile and other socio-political and operational risks inherent in the microfinance business. Tamil Nadu accounted for 49% of the total book as on March 31, 2020 (59% as on March 31, 2019) whereas the top 3 states (Tamil Nadu, Madhya Pradesh and Karnataka) accounted for 66% of the total portfolio as on March 31, 2020 (74% as on March 31, 2019). The ongoing Covid-19 pandemic-related lockdowns would affect the company's operations, asset quality and financial performance, considering the significant curtailment of economic activities and its modest borrower profile. ICRA takes note of the company's effective internal controls and risk management practices, which are expected to help mitigate some of these risks. Belstar's collection efficiency<sup>1</sup> improved to 83% in July 2020 after declining sharply in April 2020. ICRA would closely monitor the improvement in Belstar's collection trajectory, which would be crucial over the near term.

### Key rating drivers and their description

#### Credit strengths

<sup>1</sup> The collection efficiency, excluding the buyout portfolio of Belstar, stood at 74% as of July 2020

**Support from MFL** – MFL currently holds a majority stake of 70.01% in Belstar with an overall capital infusion of Rs. 223.9 crore since FY2017. ICRA expects MFL to provide timely capital support to Belstar for its medium-to-long-term growth needs and maintain a majority shareholding. Belstar currently does not have a committed liquidity line from MFL. However, MFL or the Muthoot Group is expected to provide funding support if required, as witnessed in Q1 FY2021. Belstar has a 10-member board including 3 representatives from MFL. MFL's promoters and representatives on the board are actively involved in all strategic and key operational decisions of Belstar. Currently, Belstar's branch operations are independent of MFL considering the disparate nature of their product offerings. However, Belstar can leverage MFL's vast presence and geographical knowledge for its expansion in newer states.

**Comfortable asset quality indicators; impact of pandemic on collections remains a key monitorable** – Belstar's asset quality was comfortable with a 0+ dpd of 1.4% as on March 31, 2020 against 1.6% as on March 31, 2019. The 90+dpd remained at 1.0% in June 30, 2020. Write-offs, as a proportion of the opening portfolio, stood at 0.7% in FY2020 (0.3% in FY2019). The collection efficiency, inclusive of the loan buyout portfolio, stood at 83% in July 2020. Belstar's asset quality would remain a key credit monitorable as ICRA notes that the microfinance industry is facing many challenges following the spread of the pandemic, which is expected to affect collections and exert pressure on the segmental asset quality profile. Given the operational challenges associated with cash collections in the current situation, the company has also initiated a digitised mode of collections. Further, the field staff in the audit team and risk team are involved in the customer connect and collections process as incremental disbursements have remained quite modest in the first four months of the current fiscal.

**Healthy profitability indicators; near-term pressure expected** – Belstar's net profitability was healthy with profit after tax (PAT), as a percentage of AMA, at 3.8% in FY2020 (4.1% in FY2019). The decline in profitability in FY2020 resulted from an increase in the operating expenses (Rs. 155.6 crore in FY2020 vis-à-vis Rs. 92.2 crore in FY2019) as the company scaled up its operations by adding new branches and undertook various internal process augmentations including employee training & development. The operating expenses increased to 6.3% of AMA in FY2020 from 5.4% in FY2019. Belstar's credit cost remained at 0.8% in FY2020 vis-à-vis 1.0% in FY2019. The company made a total provision of Rs. 7.0 crore in Q4 FY2020 and Q1 FY2021 related to the Covid-19 pandemic. The net profitability dipped to about 1.8% (annualised) in Q1 FY2021. Given the expected slippages because of the pandemic, the credit costs are expected to increase in FY2021, affecting the profitability of the company. Belstar's ability to keep the credit costs under control and achieve commensurate business growth would be crucial for incremental profitability.

**Adequate capitalisation profile; timely support expected from MFL** – Belstar's managed gearing stood at 4.9 times as on March 31, 2020 vis-à-vis 4.4 times as on March 31, 2019. The net worth stood at Rs. 497.8 crore as on March 31, 2020 (Rs. 400.2 crore as on March 31, 2019). The company targets to have assets under management (AUM) of about Rs. 3,300 crore by March 2021 and about Rs. 6,200 crore by March 2023. As Belstar's growth plan for the next three years (CAGR of 33%) is expected to be higher in relation to the internal generation rate, it would require additional capital. ICRA estimates the total capital requirement during FY2021-FY2023 to be about Rs. 300 crore while keeping the managed gearing at about 5.0-5.5 times. Belstar is expected to raise equity capital in H2 FY2021 or H1 FY2022, which would help its growth plans. ICRA expects timely capital support from MFL, in view of the growth requirements.

## Credit challenges

**Geographical concentration risk** – The company's portfolio is concentrated in Tamil Nadu (49% as on March 31, 2020), with Karnataka (8.4% as on March 31, 2020) and Madhya Pradesh (8.1% as on March 31, 2020) being the other two large areas of operations. ICRA notes that the concentration in Tamil Nadu has been reducing over the years (59% as on March 31, 2019 and around 76% as on March 31, 2018). The company commenced operations in West Bengal and Tripura in FY2020. Its loan portfolio grew by 43% in FY2020 to Rs. 2,630 crore as on March 31, 2020. Belstar has a loan buyout

arrangement with 13 entities with a total portfolio outstanding of Rs. 139 crore, contributing to 5.3% of the total portfolio as on March 31, 2020. The growth in the portfolio was supported by the improved member base and geographical expansion. Belstar's active member base grew by 50% in FY2020 (64% in FY2019) to about 12 lakh as on March 31, 2020. Going forward, the company's ability to further diversify its operations geographically as it scales up its operations will remain crucial from a rating perspective.

**Ability to manage political, communal and other risks in the microfinance sector** – The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations and thus its financial position. A geographically diversified portfolio would mitigate these risks to some extent as such issues have largely been region specific so far. Going forward, Belstar's ability to expand into new geographies by onboarding borrowers with a good credit history along with the recruitment and retention of employees would be key for managing the envisaged portfolio growth.

### Liquidity position: Adequate

The company had cash and liquid investments of about Rs. 459 crore and unutilised sanctioned credit lines of about Rs. 186 crore as of July 31, 2020. The collection in July was about Rs. 166.5 crore, translating into a collection efficiency of about 83%. The debt obligations from August 2020 to December 2020 stood at about Rs. 957 crore. Belstar is expected to partly prepay the moratorium benefits availed from lenders during April-July 2020 in August 2020. It is also expecting fresh sanctions from financial institutions (FIs) and banks, which are in various stages of approval. Disbursements are expected in the range of Rs. 200 crore to Rs. 300 crore till December 2020.

As on June 30, 2020, Belstar had funding relationships with 46 lenders and its funding profile comprised bank loans (58%), loans from FIs/NBFCs (9%), pass-through certificates (PTCs; 23%) and NCDs and subordinated debt (10%).

### Rating sensitivities

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

**Negative triggers** – 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 significant deterioration in Belstar's asset quality, earnings or capital profile would also negatively affect the rating.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a> <a href="#">Impact of Parent or Group Support on an Issuers Credit Rating</a>
Parent/Group Support	Parent: Muthoot Finance Limited The rating assigned to Belstar factors in the high likelihood of financial support from the parent, MFL, given Belstar's strategic importance for meeting MFL's diversification objective
Consolidation/Standalone	The rating is based on the standalone financials of Belstar

## About the company

Belstar Microfinance Limited was incorporated in January 1988. It was registered as a non-banking financial company (NBFC) with the Reserve Bank of India (RBI) in March 2001 and later as an NBFC-MFI in December 2013. Belstar was acquired by 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 Tamil Nadu-based NGO, promoted by Dr. Kalpana Sankar in 2002 as a public charitable trust. During FY2008 to FY2013, Belstar primarily relied on HIHI for client acquisition and later began to form its own groups (largely joint liability groups; JLGs) and branches. The company was acquired by Muthoot Finance Limited (MFL) in FY2017. In FY2019, MFL and Maj Invest Financial Inclusion Fund II K/S infused Rs. 201 crore in the company. MFL currently holds 70.01% while Maj Invest has an 11.05% stake in Belstar.

The company's name was changed to Belstar Microfinance Private Limited from Belstar Investment and Finance Private Limited with effect from October 3, 2019 and it was subsequently converted into a public limited company as Belstar Microfinance Limited with effect from January 10, 2020.

Belstar provides microfinance loans in the semi-urban and rural districts under the SHG and JLG-based lending models. It follows monthly collections for both models. As on March 31, 2020, Belstar was operating in 18 states and Union Territories with 603 branches (predominantly in Tamil Nadu) and had a loan portfolio of Rs. 2,630 crore (Rs. 2,575 crore as on June 2020), extended to ~12 lakh borrowers.

## Key financial indicators (audited)

	<b>FY2018 (IGAAP)</b>	<b>FY2019 (Ind-AS)</b>	<b>FY2020 (Ind-AS)</b>
Total Income	218.9	355.7	472.8
Profit after Tax	33.7	72.9	99.0
Net Worth	128.5	400.2	497.8
Total Managed Portfolio <sup>^</sup>	1,137.1	1,840.6	2,630.1
Total Managed Assets <sup>^</sup>	1,402.9	2,222.0	3,037.3
Return on Average Managed Assets (%)	3.1%	4.1%	3.8%
Return on Average Net Worth (%)	30.8%	27.6%	22.1%
Gross NPA on B/s (%)	0.8%	1.1%	1.1%
Net NPA on B/s (%)	0.3%	0.6%	0.1%
Net NPA/Net Worth	2.6%	2.4%	0.4%
Managed Gearing (times)	9.4	4.4	4.9
CRAR (%)	17.3%	25.9%	25.7%

Source: Belstar and ICRA research; Amounts in Rs. crore

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating 31-Aug 2020	FY2020 31 July 2019	FY2019 01 June 2018	FY2018 20 Apr 2017	FY2017
1	Subordinated debt	Long Term	32.0	32.0	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
2	NCD	Long Term	10.0*	-	[ICRA]A (Stable); reaffirmed and withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-

Amount in Rs. crore

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE443L08032	Sub-debt	31-Mar-17	11.50%	31-May-23	10.0	[ICRA]A(Stable)
INE443L08024	Sub-debt	31-Mar-17	11.50%	31-May-23	15.0	[ICRA]A(Stable)
INE443L08040	Sub-debt	22-Jun-17	12.00%	31-Jul-23	3.0	[ICRA]A(Stable)
		17-Nov-17			1.0	
		29-Nov-17			1.0	
		02-Mar-18			2.0	

Source: Belstar

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)



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