Registered Office :No 33, 48th Street, 9th Avenue , Ashok Nagar, Chennai- 600083
Corporate office : M V Square, No 4/14, Soundarapandian Street , Ashok Nagar, Chennai- 600083
+91-44-43414567/ 43414511 www.belstar.in bml@belstar.in
CIN:U06599TN1988PLC081652

Ref. No. 26/ 2020-2021

August 19, 2020

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

Dear Sir / Madam,

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

Pursuant Regulation 55 SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 (Listing Regulation) we wish to inform that Credit rating agency CARE Rating Limited ("CARE") 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
1	Non-Convertible Debenture Issue	600	CARE A+; Stable (Single A Plus : Outlook:stable)	Reaffirmed
2	Subordinated debt	100	CARE A+; Stable (Single A Plus : Outlook:stable)	Reaffirmed

CARE letter No. **CARE/CRO/RR/2020-21/1053** dated August 14, 2020 for assignment of credit rating, are enclosed.

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

BELSTAR MICROFINANCE LIMITED CHENNAI 600 083

CARE Ratings
Professional Risk Opinion

CARE/CRO/RR/2020-21/1053

Mr. L. Muralidharan
Chief Financial Officer
Belstar Microfinance Limited
No: 4/14, M V Square, Soundarapandian Street
Ashok Nagar,
Chennai – 600 083

August 14, 2020

Dear Sir,

Credit rating for debt instruments

Please refer to our letters dated August 14, 2020 on the above subject.

2. The rationale for the rating is attached as an **Annexure - I**.

3. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by August 17, 2020, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

R. Ravishankar

Ravi Shankar R
Manager

Encl: As above

CARE Ratings Ltd.

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Off Eastern Express Highway, Sion (E), Mumbai - 400 022.
Tel.: +91-22- 6754 3456 Fax: +91-22- 022 6754 3457
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CIN-L67190MH1993PLC071691

Annexure-I
Rating Rationale
Belstar Microfinance Limited
(Formerly known as Belstar Microfinance Private Limited)

Rating

Facilities/Instruments	Amount (Rs.Crore)	Rating	Rating Action
Non-Convertible Debentures – III	300.00 (Rs. Three hundred crore only)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Non-Convertible Debentures – IV	300 (Rs. Three hundred crore only)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Subordinated debt – I	10.00 (Rs. Ten crore only)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Subordinated debt – II	90.00 (Rs. Ninety crore only)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Non-Convertible Debentures – I	-	-	Withdrawn
Non-Convertible Debentures -II	-	-	Withdrawn
Redeemable Preference Share	-	-	Withdrawn

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the debt instruments of Belstar Microfinance Limited (BML) continues to derive strength from its strong parentage of Muthoot Finance Limited & benefits derived from being part of the Muthoot group, experience of the management team, long track record of BML in MFI industry, comfortable capital adequacy levels, significant increase in the scale of operations, good profitability indicators, and good asset quality. However, the ratings are constrained by geographical concentration of the loan portfolio, moderately diversified resource profile and regulatory & political risks inherent to the micro finance industry.

Key Rating sensitivities
Positive factors: Factors that could, individually or collectively, lead to positive rating action/upgrade

- Increase in the scale of operations with geographical diversification while maintaining good asset quality, profitability and capital adequacy on a sustained basis

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

- Decline in asset quality parameters and profitability
- Decline in capital adequacy levels

Detailed description of the key rating drivers

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

BML is a subsidiary of Muthoot Finance Limited (MFL), the flagship company of the Muthoot Group. BML derives benefits in the form of managerial and financial support. The Muthoot group has a long track record of establishing and successfully running NBFCs. MFL has around seven decades of experience in the gold loan business. It is the largest gold loan NBFC in terms of size of gold loan portfolio of Rs.41,611 crore as on March 31, 2020 and the brand 'Muthoot' has 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 presence. Apart from equity and operational support, the group also provides funding support in the form of debt on need basis. As a part of diversification strategy, the group has ventured into micro finance through acquisition of BML and to housing finance through Muthoot Home Fin (India) Ltd. The acquisition of BML would enable them to reach out to rural areas of different parts of the country and widen the customer base of the group.

Experienced board and senior management team

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 office. The board of BML consists of 10 members including 4 Independent directors, 3 representatives from Muthoot Group, 1 representative from Hand-in Hand group, 1 whole-time director and 1 representative from Maj Invest and with extensive experience in NBFC, rural banking and operations. 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 who are having vast experience in the NBFC and MFI industry.

Comfortable capital adequacy levels

The total CAR and Tier I CAR stood at 25.67% and 21.50% respectively as on March 31, 2020 as against 29.91% and 25.74% respectively as on March 31, 2019 and the overall gearing stood at 3.85x times as on March 31, 2020. Gearing level as on June 30, 2020 stood at 4.07x times.

Significant growth in scale of operations with expansion into new regions

BML has witnessed significant growth in scale of operations with total AUM increasing from Rs. 1,841crore as on March 31, 2019 to Rs. 2,631 crore as on March 31, 2020 registering growth of 43%. The improvement in AUM during FY20 was mainly due to increase in the member base from 15,71,196 in FY19 to 16,79,207 in FY20 and an increased branch number from 400 branches as on March 31, 2019 to 603 as on March 31, 2020. The company is also having Service Provider Model to tap onto untapped geographies.

During FY20, the company expanded its business in West Bengal, Tripura and expanded its operations into a total of 151 districts as on March 31, 2020 as against 76 districts as on March 31, 2019.

Loan appraisal process and risk management

During FY18, the company increased the scope of risk assessment team by having Risk Officer (RO) at the branch level and the company inducted staffs in the risk assessment team. Every risk officer handles three to four branches and verifies each proposal submitted by sales team through field inspection and personal discussion apart from first level verification by sales team and the loan is sanctioned at the head office level. During loan disbursement process, the risk officer represents the head office and verifies the documents and the process. Disbursement is done by way of transferring funds to individual borrower accounts. Apart from that, the risk team also takes care of loan utilization checks post disbursement.

Good Asset Quality

BML's asset quality profile has improved during FY20 with gross NPA and Net NPA(I-GAAP) of 1.03% and 0.42% respectively as on March 31, 2020 as against 1.48% and 0.76% respectively as on March 31, 2019 mainly due to write-off of Rs.11 crore. Gross stage 3 assets as a % of AUM stood at 0.91% as on March 31, 2020. The company's 30+dpd remained at 1.37% of AUM as on March 31, 2020 as against 1.40% of AUM as on March 31, 2019. The impact of lockdown on the asset quality remains to be seen post the moratorium period. The ability of the company to maintain the asset quality profile at comfortable level remains critical for rating perspective.

Good profitability indicators

The company reported PAT of Rs. 99 crore on a total income of Rs.501 crore during FY20 as against PAT of Rs. 73 crore on a total income of Rs.368 crore during FY19. NIM improved to 12.50% in FY20 from 11.86% in FY19. The operating expenses as a % of average total assets increased to 7.06% in FY20 (PY: 5.66%) on account of branch expansions into newer regions. The loan loss provisioning costs as a % of average total assets remained at 1.00% in FY20 as against 1.08% in FY19. ROTA during FY20 stood at 4.29% (PY: 4.27%).

Moderately diversified resource profile

BML's resource profile comprised of Term loan from Banks, Financial Institutions (FIs), NCD/Subordinated debts constituting 79.64% (PY: 49.25%), 6.1% (PY: 7.77%), 7.46% (PY: 16.96%) respectively and rest was comprised of Pass-through certificates (PTC) 6.80% (PY:26.02%-PTC and Preference shares) was comprised of Pass-through certificates(PTC) as on March 31, 2020.

Geographically concentrated loan portfolio

Notwithstanding expansion into newer geographies, the loan portfolio of the company remained geographically concentrated. However, the proportion of top state Tamil Nadu reduced to 49.04% as on March 31, 2020 from 58.88% as on March 31, 2019. Top 3 states accounted for 65.56% of AUM as on March 31, 2020 as against 73.77% as on March 31, 2019. The ability of the company to increase its scale of operations by expanding into new regions to reduce geographical concentration remains as a key rating sensitivity.

Industry Outlook and Prospects

Post the Andhra Pradesh crisis and regulatory intervention by RBI, the microfinance sector has seen strong growth in loan portfolio on account of improving funding profile, control over operating expenses, improving margins and moderate leverage levels. The sector has evolved with the advent of credit bureaus in the sector and subsequent control over asset quality. However, it remains exposed to event based risks and marginal profile of borrowers. The recent outbreak of Covid-19 is likely to impact asset quality and credit costs. The ability to withstand event risks and avoid further deterioration in the asset quality leading to impact in the overall profitability will be the key considerations.

The credit view will continue to factor in risks associated with unsecured lending, socio-political intervention, geographic concentration and operational risks related to cash based transactions.

Liquidity: Adequate

ALM profile remains adequate on account of short-term nature of its loan assets, as most of the loans amortize on a monthly basis with tenure of around 2-3 years. The funding profile is concentrated towards long-term funds and the trend is likely to be continued resulting in adequate liquidity profile. The Company is extending moratorium to its borrowers following Reserve Bank of India's circular on the Covid-19 regulatory package. BML also has applied for moratorium from its lenders. Some of the lenders have approved the moratorium and some have rejected the same. Cash and bank balance stood at Rs.550 crore as on June 30, 2020.

Analytical approach: Standalone approach also factoring in the linkages with parent Muthoot Finance Limited.

Applicable Criteria

- Criteria on assigning Outlook and credit watch to Credit Ratings
- CARE's Policy on Default Recognition
- Financial Ratios-Financial Sector
- CARE's Rating Methodology for Non-Banking Finance Companies (NBFCs)
- Rating Methodology: Consolidation and Factoring Linkages in Ratings

About the Company

Belstar Microfinance Limited (BML) was incorporated in January 1988 and registered with RBI as a non-deposit taking, non-banking financial company (NBFC-ND) in March 2001. BML was acquired by Hand in Hand (HIH) group in September 2008 to provide microfinance loans to the self-help group (SHG) borrowers. In April 2009, BML started its microfinance operations at Haveri district of Karnataka. Subsequently, it extended to Tamil Nadu, Madhya Pradesh and Puducherry. BML provides loans towards agriculture, animal husbandry, education and micro-enterprises in the urban and semi-urban districts under SHG/JLG-based lending model. As on March 31, 2020, BML was operating with 603 branches in 151 districts across 18 states and had loan portfolio of Rs.2,631 crore extended to 227,423 SHG/JLG groups consisting of 1,679,207 individual borrowers. As on March 31, 2020, 70.01% stake of BML was held by MFL, 17.52% stake was held by Sarvam Financial Inclusion Trust, 11.05% stake held by Maj Invest Financial Inclusion Fund II K/S, 1.15% by Hand In Hand consulting services private limited and the rest is held by Individuals (0.27%).

Financials

Year ended / As on	31-03-2018	31-03-2019	31-03-2020
	IND AS	IND AS	IND AS
	A	A	A
Particulars			
Interest Income (Including Interest on Investment)	204.93	339.78	454.71
Other operating income	2.64	14.51	27.74
Other Income	7.00	13.79	18.29
Total Income	214.56	368.08	500.74
Interest expended	100.58	149.97	181.77
Operating Expenses	73.87	96.66	162.80
PPOP	45.5	121.46	156.17
Provisions	5.34	18.37	22.95
PBT	40.11	103.08	133.22
PAT	27.05	72.84	98.97
Balance Sheet			
Net Worth	147.29	389.65	491.87
Total Debt	1,186.44	1,582.85	1,895.57
Loan portfolio	1,133.22	1,665.17	2,125.75
Total Assets	1,354.17	2,059.75	2,549.72
AUM	1,137.06	1840.63	2631.27
Ratios			
Solvency Ratios			
Overall Gearing (times)	8.06	4.06	3.85
Interest coverage (times)	1.40	1.69	1.73
Reported CAR %	18.14	29.91	25.67
Reported Tier I CAR %	10.56	25.74	21.50
Profitability & Operating Efficiency Ratios (%)			
Net Interest Margin	10.52	11.86	12.50
Operating Expenses/Average Total Assets	7.00	5.66	7.06
ROTA (PAT / Average Total Assets)	2.56	4.27	4.29

Year ended / As on	31-03-2018	31-03-2019	31-03-2020
	IND AS	IND AS	IND AS
	A	A	A
Asset Quality Ratios (%)			
Gross NPA Ratio	0.80	1.48	1.03
Net NPA Ratio	0.32	0.77	0.42
Net NPA to Net worth	2.29	2.47	1.68

***Note**: A – Audited;*

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debt-Subordinate Debt-I	INE443L08016	Mar 30, 2016	15%	Mar 30, 2021	10.00	CARE A+; Stable
Debt-Subordinate Debt-II	INE443L08115	Mar 30, 2020	14.5%	May 15, 2026	15.00	CARE A+; Stable
Debt-Subordinate Debt-II(Proposed)	-	-	-	-	75.00	CARE A+; Stable
Debentures-Non Convertible Debentures-I	-	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures-II	-	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures-III	INE443L08099	Oct 31, 2019	14.50%	Jul 31, 2021	20.00	CARE A+; Stable
	INE443L08107	Dec 03, 2019	14.50%	Dec 03, 2025	24.00	CARE A+; Stable
	INE443L07059	Jun 16, 2020	11.00%	May 16, 2023	25.00	CARE A+; Stable
	INE443L07067	Jun 17, 2020	11.00%	Jun 30, 2023	20.00	CARE A+; Stable
	INE443L07075	Jun 24, 2020	10.58%	April 21, 2023	50.00	CARE A+; Stable
	INE443L07083	Jun 30, 2020	11.00%	Jun 30, 2023	70.00	CARE A+; Stable
	INE443L07091	Jul 09, 2020	11.00%	Jul 07, 2023	25.00	CARE A+; Stable
Debentures-Non Convertible Debentures-III (Proposed)	-	-	-	-	66.00	CARE A+; Stable

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures-IV (Proposed)	-	-	-	-	300.00	CARE A+; Stable
Preference Shares-Redeemable	-	-	-	-	-	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	1990.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (05-Nov-18)	1)CARE A; Stable (09-Oct-17) 2)CARE A; Stable (21-Apr-17)
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (05-Nov-18)	1)CARE A; Stable (09-Oct-17) 2)CARE A; Stable (21-Apr-17)
3.	Debt-Subordinate Debt	LT	10.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (05-Nov-18)	1)CARE A-; Stable (09-Oct-17) 2)CARE A-; Stable (21-Apr-17)
4.	Debt-Subordinate Debt	LT	90.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (05-Nov-18)	1)CARE A-; Stable (03-Nov-17)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (05-Nov-18)	1)CARE A; Stable (21-Nov-17)
6.	Preference Shares-Redeemable	LT	-	-	-	1)CARE A (RPS); Stable	1)CARE A (RPS); Stable	1)CARE A-(RPS); Stable

						(05-Jul-19)	(05-Nov-18) 2)CARE A- (RPS); Stable (04-Jul-18)	(27-Nov-17)
7.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (05-Nov-18)	1)CARE A; Stable (15-Mar-18)
8.	Debentures-Non Convertible Debentures	LT	300.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (29-Jan-19)	-
9.	Debentures-Non Convertible Debentures	LT	300.00	CARE A+; Stable	1)CARE A+; Stable (15-May-20)	-	-	-

Annexure 3: Complexity level of various instruments rated for this company

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.