



RATING RATIONALE

26 Nov 2019

Margdarshak Financial Services Limited

Brickwork Ratings Reaffirms the ratings for the Bank Loan Facilities of ₹. 450.00 Crores and Non-Convertible Debentures/Bonds of ₹. 47.00 Crores (raised so far ₹. 20.00 Crores) of Margdarshak Financial Services Limited (MFSL)

Particulars

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (November, 2018)	Present
Fund based (Term Loans)	400.00	450.00	Long Term	BWR BBB 'Stable'	BWR BBB 'Stable' Reaffirmed
NCD /Bonds	20.00	47.00	Long Term	BWR BBB 'Stable'	BWR BBB 'Stable' Reaffirmed
Total	420.00	497.00	INR Four Hundred Ninety Seven Crore Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities/NCD/Bonds is provided in Annexure-I&II

RATING ACTION / OUTLOOK

Brickwork Ratings reaffirms the long term rating of bank loan facilities and NCD/Bonds of Margdarshak Financial Services Limited (MFSL) at BWR BBB 'Stable'. The rating factors in the experienced and qualified management team, stable operational performance, comfortable capital adequacy ratio, good asset quality, and growth in net worth by way of equity infusion. The rating, however, is constrained by the geographical concentration in the company's loan portfolio and the moderate scale of operations.



KEY RATING DRIVERS

Credit Strengths:

- **Experienced Management:** Directors of the company, including the Managing Director and CEO Mr. Rahul J Mitra, hold more than two decades of experience in various fields of banking and finance. The Board comprises of 3 Independent directors, 2 Whole time directors, and 2 Nominee directors.
- **Improvement in Operating Performance:** Loan book of MFSL (Own) has grown from Rs. 234.33 Cr in FY18 to Rs. 260.76 Crs in FY19, registering a Y-o-Y growth of 11.28%. The number of branches increased from 115 in FY18 to 139 in FY19 and active borrowers increased from 1,55,590 to 1,66,503 in FY19. Their cost of borrowings improved from 15.44% in FY18 to 14.24% in FY19. MFSL has also introduced three new product lines w.e.f. October 2019, namely Water and Sanitation Loans, Solar Loans, and Consumer Product Loans.
- **Comfortable Asset Quality:** The company has comfortable asset quality with Gross NPA at 0.00% in FY19 as compared to 0.25% in FY18.
- **Comfortable Capital Adequacy:** MFSL's capital adequacy ratio improved from 18.00% in FY18 to 21.47% in FY19. Further equity has been infused by way of preference shares amounting to Rs. 17.3 Crs. in FY19 and Rs. 92.5 Lacs in H1FY20, thus improving their gearing from 7.66x in FY18 to 4.73x in FY19.

Credit Risks:

- **High Geographic Concentration:** The company currently operates in 5 states, namely Uttar Pradesh, Bihar, Haryana, Himachal Pradesh, and Uttarakhand. Around 88% of the portfolio is from Bihar and Uttar Pradesh (as on 31 March 2019), exposing the company to geographic concentration risk.
- **Moderate Scale of Operations:** The overall scale of operations of the company remain moderate with their own loan book at Rs. 288.22 Crs. for the half year ended September 2019. The reported PAT stood at Rs. 3.25 Crs. in FY19, a reduction from Rs. 3.88 Crs. in FY18. PAT for the half year ended September 2019 is Rs. 1.95 Crs.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).



RATING SENSITIVITIES

Going forward, the ability of the company to raise capital, maintain the gearing at current levels, improve profitability margins and grow their portfolio while maintaining comfortable asset quality will be key rating sensitivities.

Positive: The rating may be upgraded if the company is able to raise capital, reduce gearing, and grow their portfolio while maintaining the asset quality.

Negative: The rating may be downgraded if the company is unable to raise capital and reduce its gearing or if the asset quality weakens.

LIQUIDITY POSITION: ADEQUATE

The company's portfolio constitutes of Income generation loans and Home improvement loans (as on Sept 2019). These loans are typically given to borrowers for a maximum period of 24 months. The company's borrowing include term loans from Banks and NBFCs for a period of 24 to 36 months. This results in a favourable ALM position. As on 30 Sept 2019, there are no negative mismatches in the company's ALM position. MFSL had cash & cash equivalents of Rs.8.84 Crs. as on 30 Sept 2019.

COMPANY PROFILE

Margdarshak Financial Services Ltd (MFSL) is a category B, non-deposit taking NBFC-MFI engaged in the business of financial inclusion in North India. MFSL was incorporated on 9th May 1996 and initiated its microfinance operations in Uttar Pradesh in June 2007, under the support of Margdarshak Development Services. MFSL is promoted by Mr. Rahul J Mitra and headquartered at Lucknow, Uttar Pradesh.

It currently operates across 5 Indian states, Uttar Pradesh, Bihar, Haryana, Himachal Pradesh, and Uttarakhand, through a network of 139 branches. The products offered by MFSL include Income Generation Loan, Home Improvement Loan, MSME Loans, and Clean Energy /Product Loan. As on 31 March 2019, their total borrowers stood at 1,96,408 with total Asset under Management (AUM) of Rs. 300.06 Crs.

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY17	FY18	FY19
Result Type		Audited	Audited	Audited
Total income from operations	Rs. Crores	47.76	58.24	57.76
PAT	Rs. Crores	3.44	3.88	3.25
Tangible Net Worth	Rs. Crores	28.65	33.15	53.59
Gearing	Times	8.20	7.66	4.73
Total Portfolio	Rs. Crores	292.18	307.62	300.06
GNPA	%	--	0.25	0.00
CRAR	%	17.21	18.00	21.47



KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

RATING HISTORY

Sl. No.	Instrument	Current Rating			Rating History		
		Tenure	Amount (₹ Cr)	Rating	23 Nov 2018	16 Nov 2017	24 July 2017
1.	Term Loan	Long Term	450.00	BWR BBB 'Stable'	BWR BBB 'Stable'	BWR BBB 'Stable'	BWR BBB 'Stable'
2.	NCD/Bonds	Long Term	47.00				
Total			497.00	INR Four Hundred Ninety Seven Crore Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks and Financial Institutions](#)

Analytical Contacts	Investor and Media Relations
<p>Apurva Mittal Ratings Analyst +91 22 6745 6645 apurva.m@brickworkratings.com</p> <p>Rajat Bahl Chief Analytical Officer & Head - Financial Institutions +91 22 6745 6634 Rajat.b@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com</p>