

July 04, 2017

New Opportunity Consultancy Private Limited

Summary of graded instruments

Instrument*	Rated Amount (in Rs. crore)	Grading Action
MFI Grading	NA	M3; assigned
Total	NA	

Grading action

ICRA has assigned an MFI grade of M3 (pronounced M three) to New Opportunity Consultancy Private Limited (NOCPL). The grading indicates that in ICRA's current opinion, the graded MFI's ability to manage its microfinance activities in a sustainable manner is high. The grading is valid till June 2018. ICRA's MFI Grading is not a comment on any specific debt servicing capability of the MFI.

Rationale

The assigned grading takes into account the good collection efficiency (~97% in March 2017) of the company's managed portfolio, its limited exposure in the affected regions of Maharashtra and the continued support from its business correspondent (BC) partners. The company has limited exposure in the affected areas of Maharashtra, which has supported its collection efficiency in the last few months. The company's asset quality thus, remained comfortable with 90+ dpd of 0.55% as on March 31, 2017. The grading factors in NOCPL's experienced promoter and management team, and its good systems and processes which have enabled it to report good profitability indicators (63% return on equity in FY2017). NOCPL's capital requirements are low as it operates as a BC, limited to the first loss default guarantee (FLDG) provided to the banks; however, in ICRA's opinion, the capitalisation indicators are relatively weak (consolidated net worth/managed portfolio of 4.93%¹ as on March 31, 2017) in comparison with other microfinance institutions. The company plans to grow its consolidated Assets under Management (AUM) (including portfolio managed by its wholly owned subsidiary, Indian Association for Savings and Credit, IASC) by around 50-60% in FY2018; with consolidated net worth of Rs. 39.57 crore as on March 31, 2017 and expected healthy accruals, the overall capital requirements at the consolidated level should be met assuming FLDG requirements of 5% on the managed portfolio.

The grading takes cognisance of NOCPL's geographically concentrated operations with 82% of the portfolio as on March 31, 2017 in Tamil Nadu; its high share of first cycle borrowers (around 91% as on March 31, 2017); and dependence on limited BC partnerships. ICRA nevertheless takes note of the management's efforts to diversify its partner profile, with tie-ups with IDBI Bank and Reliance Capital Ltd. during FY2016 and with Development Credit Bank (DCB) during FY2017. The new partnerships are also likely to reduce the company's portfolio concentration during FY2018.

The grading nevertheless factors in the risks associated with unsecured lending, the political and operational risks arising out of cash handling, challenges associated with high pace of growth and the high attrition rates in the sector. Given the marginal borrower profile and the risk of overleveraging relative to the borrower's debt repayment capacity, micro loan portfolios fundamentally carries high level of volatility.

¹ Adjusted Net Worth/Managed Portfolio of 5.31% when adjusted for Loan from Directors

Going forward, the company's ability to recruit and train employees, mitigate the impact of demonetisation on asset quality and contain operational costs as it expands geographically would be critical from a grading perspective. Additionally, the company's ability to maintain adequate capital to meet FLDG requirement would be critical for it to grow its AUM in the future.

Key grading drivers

Strengths

- Promoters experience and track record of extending credit to the current target segments
- Established internal systems and processes, largely in line with other MFIs
- Good internal audit processes

Weaknesses

- Geographically concentrated operations, in a highly competitive operating environment; however, efforts to expand into new areas
- To manage political and other risks while expanding into new geographies
- Stretched capitalisation profile; networth in relation to the managed assets at about 4.93% as on March 31, 2017

Description of key grading drivers:

NOCPL was promoted by Mr. Ganesh Rao as a private limited company in January 2014, to undertake microfinance under a BC model. Subsequently, NOCPL acquired a controlling stake in Indian Association for Savings and Credit (IASC, a Section 25 company) in 2014 and currently own the entire stake in IASC. IASC provides microfinance in Tamil Nadu. As on March 31, 2017, NOCPL operated through 103 branches in 33 districts of Tamil Nadu, Maharashtra, Karnataka and Kerala.

NOCPL had BC agreements with five financial institutions as on March 31, 2017. The company currently disburses loans in Maharashtra for Yes Bank and IDBI Bank and in Tamil Nadu for Reliance Capital, RBL Bank and Yes Bank. It also started disbursements in Karnataka for RBL Bank and DCB Bank in FY2017. The company's managed portfolio increased to Rs. 483.02 crore as on March 31, 2017 from Rs. 273.63 crore as on March 31, 2016.

The company has an internal audit and a bank audit team which enables multi-level checks. Five centre meetings are supervised each day, at every branch – two by an audit officer and three by the branch manager. The company has been steadily investing in IT infrastructure over the past year to develop an integrated and mobility enabled system spanning across verticals like core operations, accounting, human resources and learning and development. Aadhaar is compulsory for all applicants. The company now also ensures that all borrowers have a bank account. The company has started Aadhaar-linked bank account disbursements.

Following the Government of India's demonetisation exercise in FY2017, the company's asset quality deteriorated marginally with its 0+ delinquency increasing from nearly 0.0% as on March 31, 2016 to 2.70% as on March 31, 2017, primarily on account of the poor collection performance in some districts of Maharashtra. ICRA notes that the company may have to provide for loan losses of around Rs. 8-10 crore for some of the delinquent loans, which would impact its profitability in the near term. However, its capitalisation is expected to remain adequate given the low fresh capital requirement and healthy internal accruals.



NOCPL earns around 9.5%-10.0% of the interest income from its partner institutions. During FY2017, the company earned a total income of Rs 36.68 crore as compared with Rs. 12.71 crore during FY2016. The operating expenses remained low at 4.84% of the total managed advances and with negligible credit cost, the company reported PAT/managed advances of 2.00% for FY2017.

The company reported a net profit of Rs. 8.38 crore on average managed assets of Rs. 378 crore during FY2017, compared with a net profit of Rs. 2.45 crore on average managed assets of Rs. 158 crore during FY2016.

Analytical approach: For arriving at the grading, ICRA has applied its grading methodologies as indicated below.

Links to applicable criteria:

[ICRA's Grading Methodology for Microfinance Institutions](#)

About the company:

New Opportunity Consultancy Private Ltd. (NOCPL) was promoted by Mr. Ganesh Rao as a private limited company in January 2014, to undertake microfinance under a Business Correspondent (BC) model. Subsequently, NOCPL acquired a controlling stake in Indian Association for Savings and Credit (IASC, a Section 25 company) in 2014 and currently owns 100% stake in IASC. IASC provides microfinance in Tamil Nadu.

NOCPL currently has BC arrangements with five financial institutions. As on March 31, 2017, its managed portfolio stood at Rs. 483.02 crore. As on March 31, 2017, the company operated through 103 branches in Tamil Nadu, Maharashtra, Karnataka and Kerala.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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