

New Opportunity Consultancy Private Limited

June 18, 2018

New Opportunity Consultancy Private Limited: MFI M3+; assigned

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Grading Action
MFI Grading	N.A.	M3+; assigned
Total	N.A.	

Rating action

ICRA has assigned the grading of M3+ (pronounced M three plus) to New Opportunity Consultancy Private Limited. This grading indicates that in ICRA's current opinion, the graded MFI's ability to manage its microfinance activities in a sustainable manner is moderate. Within this category, the sign of + (plus) may be appended to the grading symbols to indicate their relative position within the grading categories concerned. The grading is valid till June 17, 2019.

Rationale

The grading has been assigned to reflect the improved scale of operations, (portfolio of Rs. 1,042.22 crore as on March 31, 2018), and profitability indicators (ROE of 43.55% in FY2018; net profits increased to Rs 16.18 crore from Rs 5.00 crore in FY2017). The increase in the profitability indicators during FY2018 was supported by a healthy augmentation in the fee income and NOCPL's ability to improve its operating efficiency. The asset quality of the managed portfolio improved post write-off and good collection efficiency of 98% in FY2018. The grading continues to factor in NOCPL's experienced promoter and management team, and its good systems and processes. NOCPL's capital requirements are low as it operates as a BC and limited to the first loss default guarantee (FLDG) provided to the banks. NOCPL, like other BC, however is vulnerable in case of sizeable credit losses which can significantly impact its capital profile, which currently is weak with net worth to average managed advances at 4.06% in March 2018. Going forward, NOCPL's ability to scale up operations, while maintaining adequate profitability and capitalisation indicators will be critical for its credit profile.

The grading continues to be constrained by NOCPL's geographically concentrated operations with 76% of the portfolio as on March 31, 2018 in Tamil Nadu; its high share of first cycle borrowers (around 98% as on March 31, 2018); and dependence on limited BC arrangements. ICRA nevertheless takes note of the management's efforts to diversify its partner profile, with tie-ups with more funders during FY2018. The new partnerships are also likely to reduce the company's portfolio concentration, going forward.

Key grading drivers

Strengths

Experienced board and management team: Mr. Ganesh Rao who is the promoter of the company, had co-founded Suryoday Microfinance Private Ltd (Suryoday) as an NBFC-MFI in 2009. He headed Suryoday's operations and has rich experience in microfinance. After incorporating NOCPL in January 2014, Mr. Rao also acquired Indian Association for Savings and Credit (IASC). Currently, IASC is a wholly owned subsidiary of NOCPL. The senior management team of NOCPL has prior experience in microfinance and related sectors and the team is headed by Mr. Rao who is directly involved in the operational and key managerial decisions.

Good asset quality indicators: NOCPL has demonstrated good collection efficiency with average collection efficiency being at 98% in FY2018 vis a vis 96% in FY2017. Overall, the asset quality remained good with 0+ delinquencies of 0.31% as on March 31, 2018. post write off of Rs. 17 crore in FY2018. Overall, the company's ability to maintain asset-quality indicators would have a strong bearing on its credit profile going forward.

Improved scale supported profitability indicators: NOCPL earns revenues from the loans it disburses as a business correspondent for various banks and earns a share of interest and processing fees charged by the banks to their clients. The company earned total income of Rs. 89.68 crore during FY2018 managing a portfolio of Rs. 1,042.22 crore as on March 31, 2018 as compared with a portfolio of Rs. 483.02 crore as on March 31, 2017. With increase in operating scale the cost to income ratio marginally increased to 69.91% in FY2018 from 64.43% in FY2017. The company therefore reported a net profit of Rs. 16.18 crore in FY2018 on an income of Rs. 89.68 crore as compared with a net loss of Rs. 0.79 crore on an income of Rs. 71.98 crore in FY2017.

Challenges

Limited diversification of portfolio: The rating continues to be constrained by NOCPL's geographically concentrated operations with 76% of the portfolio as on March 31, 2018 in Tamil Nadu; its high share of first cycle borrowers (98% as on March 31, 2018); and dependence on BC partnerships. ICRA nevertheless takes note of the management's efforts to diversify its partner profile, with tie-ups with more banks during FY2018. The new partnerships are also likely to reduce the company's portfolio concentration during FY2018.

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 financial position. However, a geographically diversified portfolio would mitigate these risks to some extent as such issues have largely been region specific so far.

Weak capitalisation indicators: 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 capitalization indicators are relatively weak (net worth/ managed portfolio of 4.36% as on March 31, 2018) in comparison with other microfinance institutions. The company plans to grow its assets under management (AUM) by around 50-60% in FY2019; with net worth of Rs. 45.47 crore as on March 31, 2018 and expected healthy accruals, the overall capital requirements should be met assuming FLDG requirements of 5% on the managed portfolio. NOCPL's ability to on-board borrowers with good credit history, recruit and retain employees, especially in view of the attrition observed at the field level and expand into new geographies would be a key for managing the high growth.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated performance of NOCPL and has applied its rating methodologies as indicated below.

Links to applicable criteria: [ICRA grading methodology for microfinance institutions](#)

About the company

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, 2018, NOCPL operated through 222 branches in 74 districts of Tamil Nadu, Maharashtra, Karnataka, Kerala and Madhya Pradesh.

NOCPL has BC agreements with six financial institutions as on March 31, 2018. 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. 1,042.22 crore as on March 31, 2018 from Rs. 483.02 crore as on March 31, 2017.

Key financial indicators (Consolidated Audited)

	FY2017	FY2018
Total Income	71.98	89.68
Operating Profit/(Loss)	24.66	26.31
Net Profit/(Loss)	(0.79)	16.18
Interest income/AMA	16.22%	10.50%
Interest expense/AMA	0.60%	0.26%
Net Interest Margin / AMA	15.62%	10.24%
Cost of Average Interest-Bearing Funds	21.50%	17.50%
Operating Profit / AMA	5.59%	3.13%
PAT / AMA	-0.18%	1.93%
PAT / Average Net worth	-3.02%	43.55%
Net worth	28.86	45.47
Gearing	0.42	0.29
Gross NPA	1.50%	0.22%
Net NPA	0.00%	0.00%

Amounts in Rs. crore; All ratios are as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Grading history for last three years:

Instrument	Type	Current Grading (FY2019)		Chronology of Grading History			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				Jun-18	Jul-17	Aug-15	
MFI grading	NA	NA	NA	M3+; assigned	M3	-	M3

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

Annexure-1: N.A.

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