New Opportunity Consultancy Private Limited

July 12, 2019

New Opportunity Consultancy Private Limited: M2 assigned

Summary of grading action

Instrument	Previous Graded Amount (Rs. crore)	Current Graded Amount (Rs. crore)	Grading Action
MFI Grading	-	-	M2; assigned
Total	**-**	**-**	

Rationale

The grading factors in New Opportunity Consultancy Private Limited's (NOCPL) improving scale of operations with an increase in the number of business correspondent (BC) relationships. The company, which commenced operations in FY2015, reported a portfolio of Rs. 1,416.01 crore as on March 31, 2019 (Rs. 1,392.95 crore as on April 30, 2019) and was operating as a BC partner for six lenders as on date. NOCPL's asset quality remained comfortable with 0+ dpd and 90+dpd of 0.98% and 0.13%, respectively, as on March 31, 2019 (0.92% and 0.17%, respectively, as on April 30, 2019), supported by adequate loan origination and appraisal processes. Also, its financial risk profile has been improving with good profitability indicators. The company reported a net profit of Rs. 28.55 crore in FY2019, translating into a return of 2.16% and 47.78% on average managed assets (AMA) and average net worth, respectively, compared to Rs. 16.62 crore, 1.99% and 39.09%, respectively, in FY2018.

The grading is constrained by the limited diversification with Tamil Nadu and the top 10 districts comprising 63% and 35% of the portfolio outstanding, respectively, as on April 30, 2019. ICRA takes note of the gradual improvement in the geographical diversification of the portfolio. NOCPL's ability to profitably scale up operations while diversifying its product profile and geographical footprint would be a key grading monitorable. Although the internal control systems, risk management practices and information technology (IT) systems are adequate for the current scale of operations, the company's ability to recruit, retain and train personnel will be critical for process refinement while scaling up operations. The grading is also constrained by the unsecured nature of lending and the political and operational risks associated with microlending, which may result in high volatility in the asset quality indicators. Going forward, NOCPL's ability to scale up the operations profitably, maintain the asset quality indicators, and refine its systems and processes regularly to support business growth, while diversifying geographically, would be critical from a grading perspective.

Key grading drivers

Grading strengths

Moderate scale of operations with increased BC relationships – NOCPL, which commenced operations in FY2015, has been able to scale up its operations. The managed portfolio stood at Rs. 1,416.01 crore as on March 31, 2019 (Rs. 1,392.95 crore as on April 30, 2019) compared to Rs. 1,042.22 crore as on March 31, 2018. The company has been able to scale up its operations while increasing the limits from its existing partners and establishing new relationships as a BC partner. It is currently operating as a BC partner of six banks compared to two partnerships in FY2015.

Adequate loan origination and risk management systems – The internal control processes, IT systems and internal audit process are adequate for the current scale of operations. The company uses a client information management system developed by RO, which captures client-level data adequately. A credit bureau check is conducted before a borrower is considered for the loan sanction. The final sanctioning authority lies with the lender for whom the portfolio is being sourced. The internal audit of branches is conducted on a quarterly basis. While the systems are adequate at present, NOCPL's ability to continuously upgrade its systems to support the pace of growth envisaged by the management will be a key grading monitorable.

Comfortable asset quality indicators – NOCPL's asset quality remained comfortable with 0+ dpd and 90+ dpd of 0.98% and 0.13%, respectively, as on March 31, 2019 (0.92% and 0.17%, respectively, as on April 30, 2019), supported by adequate loan origination and appraisal processes. The company's ability to maintain the asset quality while improving product and geographical diversification would remain important from a grading perspective.

Good profitability indicators – The profitability ratios are supported by low credit costs and operating expense ratios through an increase in the scale of operations. NOCPL reported a 55% increase in total income in FY2019, supported by an increase in its managed loan portfolio. Operating expenses (as a percentage of AMA) improved to 7.05% in FY2019 from 7.31% in FY2018 as the company scaled up its operations. The credit costs remained low at 0.15% of AMA in FY2019 (032% in FY2018). NOCPL reported a net profit of Rs. 28.55 crore in FY2019, translating into a return of 2.16% on AMA and 47.78% on average net worth compared to Rs. 16.62 crore, 1.99% and 39.09%, respectively, in FY2018.

Grading challenges

of the portfolio while the top 10 districts comprised 35% of the portfolio outstanding as on April 30, 2019. ICRA takes note of the gradual improvement in the geographical diversification of the portfolio. The company's ability to profitably scale up operations while diversifying its product profile and geographical footprint would be a key grading monitorable.

Ability to recruit, train and retain talent while scaling up operations will be critical – Given the current scale of operations, the company has recruited people with adequate domain experience. While the headcount and experience are sufficient for the current scale of operations, the recruitment and training of people will be critical with regard to stability and process refinement as the operations expand.

Ability to manage political and communal risks and to manage marginal borrower profile – Unsecured lending to the marginal borrower profile, and the political and operational risks associated with microlending may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations, and thus its financial position. However, a geographically diversified portfolio would mitigate these risks to some extent as these issues are largely region specific so far. The company's ability to on-board borrowers with good credit history, recruit and retain employees and maintain geographical diversity would be key for managing high growth rates.

Liquidity position

As on April 30, 2019, the company had ~Rs. 2 crore of free cash and cash equivalents. It also generates ~Rs. 10-crore revenue per month, which, along with the free cash and cash equivalents, is sufficient to meet its debt obligations for the next 12 months. Additionally, NOCPL has an overdraft facility of Rs. 5 crore, which can be drawn down if needed.

Analytical approach

Analytical Approach	Comments
Applicable Grading Methodologies	ICRA grading methodology for microfinance institutions
Parent/Group Support	NA
Consolidation/Standalone	Consolidated

About the company

Incorporated in 2014, New Opportunity Consultancy Private Limited (NOCPL) is a company registered under the Companies Act, 2013. It is an authorised BC partner of multiple banks and non-banking financial companies (NBFCs) in India. NOCPL provides microloans under the self-help group (SHG)/joint liability group (JLG) model, credit linked insurance, individual and group-based savings accounts with the aim of financial inclusion, on behalf of its banking and NBFC partners. As on April 30, 2019, the company was catering to the financial needs of around 7.5 lakh borrowers in 100 districts spread across eight states through 284 branches.

Key financial indicators - Consolidated

	FY2018	FY2019*
Total income	89.68	138.97
Net profit	16.62	28.55
Net worth	45.47	74.02
Assets under management (AUM)	1,042.22	1,416.01
Return on average managed assets (%)	1.99%	2.16%
Return on average net worth (%)	39.09%	47.78%
Operating expenses / AMA	7.31%	7.05%
Net worth / AUM	4.36%	5.23%
Gearing (times; on-book)	0.29	0.15
Gearing (times; managed book)	22.36	18.37

**Provisional; Amounts in Rs. crore; Source: Company & ICRA research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Grading history for last three years

	Instrument	Type	Current Grading Amount Graded (Rs. crore)	Amount Outstanding (Rs. crore)	FY2020 Jul-19	Chronology of Grading History for the Past 3 Years FY2019 Jun-18	FY2018 Jul-17	FY2017 -
1	MFI Grading	-	-	-	M2	M3+	M3	-

Complexity level of the graded 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: Instrument details – NA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership / Relationship with Graded Entity	Consolidation Approach
Indian Association for Savings and Credit	Subsidiary	ICRA has taken a consolidated view of the parent and its subsidiary

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About ICRA Limited:

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