

June 19, 2020

New Opportunity Consultancy Private Limited: Rating reaffirmed; Rating withdrawn for Rs. 8-crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank lines	5.00	5.00	[ICRA]BB(Stable); reaffirmed
NCD programme	8.00	0.00	[ICRA]BB(Stable); reaffirmed and simultaneously withdrawn
Total	13.00	5.00	

*Instrument details are provided in Annexure-1

Rationale

The outstanding rating of [ICRA]BB on the Rs. 8-crore non-convertible debenture (NCD) programme of New Opportunity Consultancy Private Limited (NOCPL) was reaffirmed and simultaneously withdrawn in accordance with ICRA's policy on the withdrawal and suspension of credit ratings and as requested by NOCPL. The company has duly paid off the rated instrument and no amount is outstanding against the rated instrument being withdrawn.

The rating reaffirmation continues to factor in the healthy growth in NOCPL's scale of operations, with an increase in the number of business correspondent (BC) relationships, and its sustained profitability track record so far. NOCPL registered a healthy growth in its portfolio, which increased to Rs. 1,934.86 crore as on March 31, 2020 from Rs. 1,419.76 crore as on March 31, 2019. The growth was supported by an increase in BC relationships to 11 lenders in FY2020 from 6 in FY2019 and the expansion of operations in 12 states (including 1 Union Territory (UT)) in FY2020 from 8 in FY2019. The company reported a net profit of Rs. 36.47 crore in FY2020 (estimated consolidated financials), translating into a return of 2.02% and 39.09% on average managed assets (AMA) and average net worth, respectively, compared to Rs. 28.55 crore, 2.16% and 47.78%, respectively, in FY2019. Further, NOCPL continues to maintain healthy asset quality indicators with 90+ days past due (dpd) of 0.18% as on March 31, 2020. This is supported by its effective and adequate loan origination and appraisal processes.

As a BC, the company's capital requirement is limited to the first loss default guarantee (FLDG) provided to banks on the portfolio managed. In ICRA's opinion, the net worth as a proportion of the managed portfolio remained low at 5.82% as on March 31, 2020 (estimated consolidated financials) compared to other microfinance institutions (MFIs). While this is adequate to meet the FLDG requirement, NOCPL may require additional capital in case of a higher pace of growth or on the utilisation of the FLDG on the materialisation of an event risk.

The rating is, however, constrained by the high geographical concentration with Tamil Nadu accounting for ~58% of the portfolio as on March 31, 2020 (~63% as on April 30, 2019). Further, there is need to improve the district-level concentration with the top 10 districts comprising ~30% (~35% as on April 30, 2019) of the portfolio as on March 31, 2020. ICRA takes note of the gradual improvement in the geographical diversification of the portfolio though NOCPL's ability to achieve further diversification remains a monitorable. Further, the company's ability to keep its asset quality under manageable levels and improve/sustain its profitability while scaling up its operations will be critical. While the internal control systems, risk management practices and information technology (IT) systems are adequate for the current scale of operations, NOCPL's ability to recruit, retain and train personnel will be important for process refinement while scaling up its operations.

The microfinance industry is facing many challenges following the spread of Covid-19 throughout the country. These include the continuity of business operations on the field and the possible adverse impact on the asset quality. The company's ability to manage the adverse impact of the pandemic on its asset quality and profitability will be important from a credit perspective.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that the company will continue to benefit from its systems and processes, its track record of operations and its healthy profitability profile.

Key rating drivers and their description

Credit strengths

Growth in scale of operations – The company has been able to gradually scale up its operations and reported a managed portfolio of Rs. 1,934.86 crore spread across 172 districts in 12 states/UTs with 472 branches as on March 31, 2020 vis-à-vis Rs. 1,419.76 crore spread across 98 districts in 8 states/UTs with 281 branches as on March 31, 2019. NOCPL has been able to scale up its operations while increasing the limits from its existing partners and establishing new relationships as a BC partner. The company is currently operating as a BC partner for 11 entities compared to 6 at the end of FY2019.

Adequate loan origination and risk management systems – The internal control processes, IT systems and internal audit process are adequate to facilitate the scale of operations. A credit bureau check is conducted before a borrower is considered for the loan sanction. The final sanction authority lies with the lender for whom the portfolio is being sourced. 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 rating monitorable.

Healthy profitability indicators – The company continues to report healthy profitability metrics though there was a slight moderation in FY2020. Its profitability profile is supported by improving operating expense ratios through an increase in the scale of operations. In FY2020, NOCPL reported a net profit of Rs. 36.47 crore (estimated consolidated financials), translating into a return of 2.02% on AMA and 39.09% on the average consolidated estimated net worth compared to Rs. 28.55 crore, 2.16% and 47.78%, respectively, in FY2019.

Credit challenges

Limited diversification of portfolio – The portfolio remains geographically concentrated with Tamil Nadu accounting for ~58% while the top 10 districts comprised ~30% of the portfolio outstanding as on March 31, 2020. ICRA takes note of the gradual improvement in the geographical diversification of the portfolio. The company's ability to profitably scale up its operations while diversifying its product profile and geographical footprint will remain a key monitorable.

Ability to manage adverse impact of pandemic on asset quality and profitability – So far, NOCPL's asset quality has remained comfortable with a 0+ dpd and 90+ dpd of 0.33% and 0.18%, respectively, as on March 31, 2020 (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 the product and geographical diversification would remain important from a rating perspective. The industry is facing many challenges following the spread of the Covid-19 pandemic throughout the country. These include the continuity of business operations on the field and the possible adverse impact on the asset quality as the borrowers' cash flows and economic activity have undergone a slowdown. Moreover, incremental business growth has been hindered with disbursements being muted in Q1 FY2021. NOCPL's ability to navigate through the adversity, manage the impact on business growth, retain its clients and maintain the asset quality would remain critical from a rating perspective.

Ability to maintain a prudent capitalisation profile – The consolidated net worth, as a proportion of the managed portfolio, remained low at 5.82% as on March 31, 2020. ICRA notes that as a BC, the company’s capital requirement is limited to the FLDG provided to the BC partners. Limited capital buffers and the worsening of the asset quality, which would lead to the revoking of the FLDG by the BC partners, could adversely impact NOCPL’s net worth. In ICRA’s opinion, the company’s ability to maintain a prudent capitalisation profile while increasing its scale of operations will remain a key rating 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 head count and experience are sufficient for the current scale of operations, the recruitment and training of people will be crucial for stability and process refinement as the operations expand.

Ability to manage political, 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

The company had Rs. 6.15 crore of free cash and cash equivalents as on May 31, 2020 and unutilised overdraft lines of Rs. 5 crore. Also, it is expecting advance commissions of ~Rs. 33 crore from some of its BC partners on EMI collections due till August 2020. Factoring in the advance commissions on the accrued EMIs, NOCPL’s liquidity is adequate for meeting its operational expenditure and its debt-servicing obligations, aggregating ~Rs. 35 crore, till August 2020.

Rating sensitivities

Positive triggers – ICRA could upgrade NOCPL’s rating if the company is able to profitably scale up its operations while diversifying its portfolio and maintaining a prudent capitalisation profile.

Negative triggers – Pressure on NOCPL’s rating could arise on a sharp deterioration in the asset quality or capitalisation indicators or a stretched liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies ICRA's policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	NA
Consolidation/Standalone	Consolidated

About the company

Incorporated in 2014, New Opportunity Consultancy Private Limited (NOCPL) operates as a business correspondent (BC) for multiple banks and non-banking financial companies (NBFCs) in India. It provides microloans under the self-help group (SHG)/joint liability group (JLG) model, credit-linked insurance, and individual and group-based savings accounts with the aim of financial inclusion on behalf of its banking and NBFC partners. As on March 31, 2020, the company was catering to the financial needs of around 9.37 lakh borrowers in 172 districts spread across 12 states/UTs through 472 branches.

Key financial indicators - Consolidated

	FY2018	FY2019	FY2020*
Total income	89.68	138.97	173.34
Net profit	16.62	28.55	36.47
Net worth	45.47	74.02	112.55
Assets under management (AUM)	1,042.22	1,419.76	1,934.86
Return on average managed assets (%)	1.99%	2.16%	2.02%
Return on average net worth (%)	39.09%	47.78%	39.09%
Operating expenses / AMA	7.31%	7.05%	6.56%
Net worth / AUM	4.36%	5.21%	5.82%
FLDG-adjusted gearing (on-book; times)^	2.07	1.59	1.29
Gearing (managed book; times)	23.21	19.33	17.35

[^]FLDG adjusted gearing = (Total on-book debt)/(Net worth – FLDG)

*Estimated

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2021 Jun-20	FY2020 Jul-19	FY2019 Jun-18	FY2018 Jun-17
1 Long-term bank lines	Long term	5.00	-	[ICRA]BB (Stable); Reaffirmed	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-
2 NCD programme	Long term	0.00	0.00	[ICRA]BB (Stable); Reaffirmed and simultaneously withdrawn	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB-(Stable)

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: Instrument details

ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term bank lines	-	-	-	5.00	[ICRA]BB (Stable); Reaffirmed
INE528V01018	NCD programme	12-Aug-16	17.08% p.a.	24-Aug-19	0.00	[ICRA]BB (Stable); Reaffirmed and simultaneously withdrawn

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership / Relationship with Rated 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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