NEW OPPORTUNITY CONSULTANCY PRIVATE LIMITED

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Rating Action

ICRA has assigned [ICRA]BB- (stable) to the Rs 8.00 crore of Non-Convertible Debentures of New Opportunity Consultancy Private Limited.

Table 1: Key Financials

Rs. crore	Mar-14	Mar-15	Mar-16
Equity Capital	0.45	2.30	5.36
Net Worth (Reported)	0.44	2.50	9.25
Total Assets	1.42	10.06	24.46
Total Managed Assets[1]	1.42	53.07	273.63
Income **-** Processing fee/Commitment charges /Incentives	0.00	1.30	12.01
Interest Expense	0.02	0.30	1.44
Net Interest Income on BC Portfolio	0.00	1.35	11.27
Operating expense on managed assets	0.01	1.08	8.34
Profit Before Tax (PBT)	-0.01	0.27	3.49
Profit After Tax (PAT)	-0.01	0.22	2.45
Net Interest Margin (Incl. Income on BC Portfolio) / AMA (%)	-0.30%	4.94%	6.43%
Operating Expenses /AMA	0.73%	3.95%	4.75%
Provisions & Write offs / AMA	0.00%	0.00%	0.00%
Cost to Income Ratio (%)	N.A.	79.98.%	70.49%
PBT (excluding extraordinary items) / AMA	-1.0%	0.99%	1.99%
PAT / AMA	-1.0%	0.79%	1.40%
Return on Average Net worth(%)	-3.24%	14.60%	41.70%
Net Worth / AMA	31.08%	4.72%	5.85%
(Networth + Loan from Directors[2]) / AMA	98.46%	18.34%	9.52%

PBT: Profit before Tax; PAT: Profit after Tax; AMA: Average Managed Assets
Note: Amount in Rs. crore, Source: NOCPL and ICRA Analysis

[1] Company operates as a Business Correspondence for banks for origination and collection of micro loan receivables. Such portfolio is recognized on the balance sheet of the respective banks and is treated as managed portfolio for NOCPL.
[2] The directors of NOCPL have extended a loan to company, which is expected to get fully converted into equity in FY2017

Rating Rationale

The rating factors in NOCPL's experienced promoter and management team, good systems and processes which have enabled the company to report good asset quality (negligible 0+dpd in proportion of managed portfolio as on March 31, 2016) and good profitability indicators (41% ROE in FY2016). While the capital requirements for NOCPL are lower since it operates as a Business Correspondent and limited to the First Loss Default Guarantee provided by the company, in ICRA's opinion, the capitalisation indicators for NOCPL are relatively weaker (Net Worth/Managed Portfolio of 3.38%[3] as on March 31, 2016) as compared to other micro-finance institutions as the company plans to leverage its networth to meet the FLDG requirement in the future. Going forward the company plans to grow the consolidated AUM (including portfolio managed by its wholly owned subsidiary, Indian Association for Savings and Credit (IASC)) at around 100% in FY2017 and given that the company plans to merge with the group entity, IASC, the overall capital requirements for both the entities would be around Rs 10-15 crore (in addition to accruals) assuming FLDG requirements of 5% on the managed portfolio. The rating is also constrained by NOCPL's geographically concentrated nature of operations (presence in 2 states with 74% of portfolio in Tamil Nadu as on March 31, 2016), high share of borrowers in 1st cycle (around 75% as on March 31, 2016) and dependence on few banking partners for origination of BC portfolio. ICRA has noted management's efforts to diversify its partner profile as it tied up with two new partners during FY2016 which will result in expansion of its portfolio to newer geographies of Karnataka and Kerala and likely reduction in portfolio concentration during FY2017.

The rating also factors in the risks associated with unsecured lending business, political risks and operational risks arising out of cash handling, along with challenges associated with high pace of growth and high attrition rates. While access to credit bureaus and regulatory ceiling on borrower indebtedness has reduced concerns on overleveraging and multiple lending, however, issues related to multiple identity proofs as well as gaps in information available with the bureaus (lack of data related to the SHG programme, non NBFC-MFIs) remain. Given the rising competition in this segment with various MFIs growing at a rapid pace as well as with new entrants especially through the Business Correspondent model, lenders would need to carefully assess the debt repayment capacity of borrowers so as to limit the risk of overleveraging and the consequent threat to their portfolio credit quality. Nevertheless ICRA takes note of the efforts at an industry level to alleviate these concerns through standardization of KYC documents, digitization of SHG programme so as to assess the actual leveraging status of the borrower. Overall, the ability of the company to scale up its operations profitably while maintaining its capitalisation indicators and asset quality on a larger managed asset base while expanding geographically would be important rating considerations.

NOCPL earns around 9.5%-10.0% of the commission revenue from its partner institutions under the revenue sharing agreement. NOCPL's profitability is good, supported by low operating expenses and credit costs. During FY2016, the company earned a total income of Rs 12.71 crore as compared to Rs 1.65 crore during FY2015. The operating expenses remained low at 4.75% of the total managed advances and with negligible credit cost; the company was able to report PAT as a percentage of managed advances of 1.40% for FY2016. Going forward, the profitability is expected to continue to be good on account of low operating expense and higher leverage ratio.

[3] Adjusted Net Worth/Managed Portfolio of 4.74% when adjusted with Loan from Directors

Company Profile

New Opportunity Consultancy Private Ltd. (NOCPL) was promoted by Mr. Ganesh Rao as a private limited company in January 2014, to carry out microfinance activity 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 own ~100% of stake in IASC which does similar business in the state of Tamil Nadu. At present both the companies are operating independently, however the promoter may consider consolidating the BC portfolio under a single roof going ahead. NOCPL commenced disbursements in August 2014 under a BC arrangement with the RBL bank and has partnered with 3 other financial institutions to scale up its managed portfolio to Rs 273.63 crore as on March 31, 2016 from Rs 43.01 crore as on March 31, 2015. As in March 2016, the company has presence in 2 states of Maharashtra and Tamil Nadu with 51 branches and 1,50,572 active borrowers.

Table 2: Highlights of the operations

Particulars	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
No. of states	2	2	2	2	2
No. of districts		6	12	17	20
No. of branches	20	24	29	41	51
No of new members		16,503	19,440	36,358	57,593
No. of active members	23,514	39,970	59,316	95,282	1,50,572
No. of active groups		2498	3756	6131	9978
Managed Portfolio Size (Rs. cr.)	43.01	69.12	104.06	170.2	273.63
No. of wealth managers (Relationship officers)		116	172	241	261
Active borrowers per relationship manager		344.57	344.86	395.36	576.90

NOCPL has entered into a BC partnership agreement with four financial institutions as on March 31, 2016. They operate in Maharashtra and Tamil Nadu. As per the terms of the partnership, NOCPL originates, disburse and collect micro loans to borrowers which are sanctioned and financed by the banking partner. NOCPL earns an average commission of 9.5% (on a reducing balance basis) net of taxes and is required to provide 5% First Loss Default Guarantee (FLDG) to the partner.

Strengths / Challenges

Strengths

- Rich experience of the promoter, Mr Ganesh Rao, with a good track record of extending credit to the current target segments, however second line of management could be strengthened further
- Established and pruned internal systems and processes, largely in line with other MFIs
- Strong internal audit with a dedicated audit officer stationed at every branch to monitor day-to-day activities
- Strong risk management and collection system has kept the delinquency level at nil, albeit on a low seasoned portfolio
- Good profitability of the company supported by low operating expense and sound asset quality

Challenges

- Highly competitive operating environment risks of which are accentuated by its concentrated nature of operations. Operations concentrated primarily in 2 states i.e. Maharashtra and Tamil Nadu; nevertheless they have expanded into 2 others states in Karnataka and Kerala which would scale up in medium term.
- Weak capitalization profile; capital in relation to the total managed assets at about 3.38 %(4.75% if adjusted to Director's loan) as on March 31, 2016.
- To manage political and other risks while expanding into newer geographies; the operating environment in Tamil Nadu and Maharashtra has so far been relatively better than other States

Credit Perspective

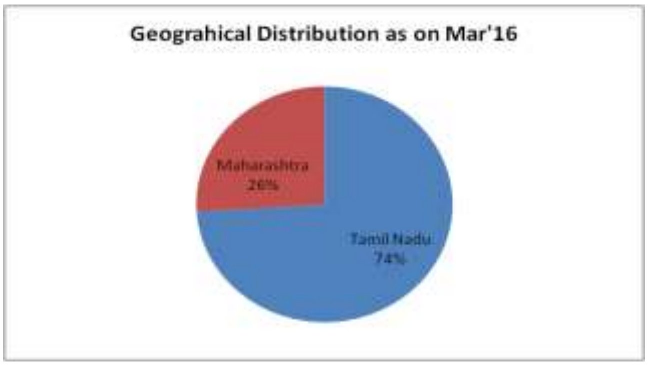
High pace of growth and geographically concentrated nature of operations

Amount in Rs. crore	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
O/S portfolio (NOCPL)	43.01	69.12	104.06	170.20	273.63
Q-o-Q growth (%)		61%	51%	64%	61%

Source: Company & ICRA Research

NOCPL ramped up its Asset under Management (AUM) from Rs 14.80 crore as on March 31, 2015 to Rs 273 crore as on March 31, 2016 growing at around 60% QoQ. The disbursements of loans for NOCPL had seen a steady rise month on month basis from around Rs 18.67 crore in the month of March 2015 to Rs 69.04 crore in month of March 2016 supported by the increase in partnership with banks and increase in credit limits from existing partner banks. The company has increased its presence from around 20 branches in 5-6 districts as on March 31, 2015 to around 51 branches in 20 districts as on March 31, 2016 in the states of Maharashtra and Tamil Nadu. As for loan cycle wise break-up of portfolio, most of the customers (~75%) are in their first loan cycle and hence the average ticket size has been at around Rs 22k to Rs 25k. The growth in disbursement has been on account of new acquisition of customers. As per the current RBI regulation, NOCPL, being a BC to a bank, can lend to borrowers who have loans from at the most 2 other NBFC-MFIs. As on March 31, 2016, NOCPL is the third lender to majority of borrowers (approximately 60%), nevertheless, the maximum obligation (including the obligation from fresh loan) permitted to a single borrower is not allowed to exceed the limit set by the banking partner which is Rs 60,000 for most of the banks.

The BC operations are currently spread across 2 states viz. Maharashtra and Tamil Nadu spread across 20 districts. The operations are concentration in Tamil Nadu which accounts for 74% of the total portfolio and the rest of the portfolio in Maharashtra. The proportion of portfolio in Tamil Nadu is expected to come down as the branches in Maharashtra scale up and the company expands its disbursement to other states.



Operating Environment: Good growth prospects for MFI industry, however overleveraging concerns increase

The Indian Microfinance Sector reported an overall growth of 23% (annualised) in H1FY16 (31% in FY15) with the overall market size nearing Rs 1.1 trillion (including Bandhan Bank) as on September 30, 2015. This growth has been driven by an impressive ~56% annualized growth in the portfolio of the non CDR MFIs during FY2014-H1FY2016, supported by expansion in client base, increase in ticket sizes and availability of funds. Significantly, even after the impressive growth during the last three years, the untapped market potential remains large.

The structure of the MFI sector is currently in a state of transition. While on one hand, Bandhan became a scheduled commercial bank in FY16, seven NBFC–MFIs and one Core Investment Company (which has an NBFC-MFI as subsidiary) are likely to transform into SFBs by March 2017. There has also been an increase in new entrants with various banks especially private sector banks, directly lending to the microfinance segment as well as lending through Business Correspondents.

The rating factors in the risks associated with unsecured lending business, political risks and operational risks arising out of cash handling, along with challenges associated with high pace of growth and high attrition rates. While access to credit bureaus and regulatory ceiling on borrower indebtedness has reduced concerns on overleveraging and multiple lending, however, issues related to multiple identity proofs as well as gaps in information available with the bureaus (lack of data related to the SHG programme, non NBFC-MFIs) remain. Given the rising competition in this segment with various MFIs growing at a rapid pace as well as with new entrants especially through the Business Correspondent model, lenders would need to carefully assess the debt repayment capacity of borrowers so as to limit the risk of overleveraging and the consequent threat to their portfolio credit quality. Nevertheless ICRA takes note of the efforts at an industry level to alleviate these concerns through standardization of KYC documents, digitization of SHG programme so as to assess the actual leveraging status of the borrower. Overall, the ability of the company to scale up its operations profitably while maintaining its capitalisation indicators and asset quality on a larger managed asset base while expanding geographically would be important rating considerations.

Rich experience of the promoter with a good track record of extending credit to the current target segments

Mr. Ganesh Rao who is the promoter of the company co-founded Suryoday Microfinance Private Ltd as an NBFC-MFI in 2009. He headed the operations department of Suryoday and gained rich experience in the field of micro-finance sector. Mr Rao after incorporating NOCPL also acquired Indian Association of Savings & Credit (IASC) in January 2014. Currently, IASC is a wholly owned subsidiary of NOCPL.

The senior management team of NOCPL has a prior experience in the relevant sector and the team is headed by Mr. Rao who oversees the operations of the company.

Table 3: Board of Directors as on March 31,2016

Name of Director	Position
Mr. Ganesh Rao	Director
Ms. Meenakshi Rao	Director
Mr. J.V Premnath	Independent Director

Source: Company

NOCPL has a three member board as on March 31, 2016 including one Independent Director. Mr. Ganesh Rao, who is also the promoter of NOCPL, has been associated with the field of Microfinance since 2009. Ms. Meenakshi has an experience in social work while Mr. Premnath has a long track record in retail banking space.

Mr. K R Kamath, former chairman and Managing Director of Punjab National Bank has joined NOCPL as Chief mentor w.e.f. December 01, 2015 and guides the Board as well as executive team on strategic matters

Adequate IT systems and monitoring and risk management mechanisms which can support the future scale of operations in the medium term

NOCPL shares the IT infrastructure with that of its subsidiary IASC which has rationalized its operating expenses to an extent. It uses Craft Silicon’s BR.net as its Loan Management System which is used by most other MFIs and Tally for Accounting. Under this MIS, while all branches are computerized, they are not connected to Head Office (HO) or to other branches in a network, and the data reporting to HO takes place at end of the day. The company has been testing handheld devices for the collection process and the same is under testing phase.

Additionally, the company has automated the process of scanning the Aadhar card which will improve the accuracy and efficiency. The current IT systems and MIS are good and adequate to support the larger scale of operations over the medium term.

Funding mix

Amount in Rs. crore	Mar-15	Mar-16
Networth	2.50	9.26
Term Loans /Director Loan	5.25	3.71
C.C./O.D	-	4.65
Total Borrowings	**5.25**	**8.36**
Gearing	2.1	0.90

Source: Company & ICRA Analysis

The company has a net worth of around Rs 9.26 crore as on March 31, 2016 increased from Rs 2.50 crore as on March 31, 2015 on account of conversion of Loans from Directors into equity. The balance Loans from Director of around Rs 3.71 crore is expected to be converted into equity during FY2017. The company has working capital loans from IFMR and Intellegrow (trade name for Jains Sons Finlease Ltd.).

Capitalization is stretched albeit adequate to provide for the current FLDG requirement; ability to raise capital to support the growth over short to medium term remains to be seen.

NOCPL, being a private limited company does not fall into the purview of RBI to keep minimum regulatory capital. However, the company has to maintain 5% FLDG on the outstanding portfolio in line with terms agreed with the banking partners. The company is maintaining the same through fixed deposit in the bank as margin money.

Currently, the FLDG requirement is met by the networth of the company (adjusted with Director's loan). The company also entered into a tri-partite partnership with IFMR and RBL bank which has reduced the FLDG requirement on RBL bank managed portfolio to 3% against which the company pays a guarantee fee of around ~14% to IFMR.

The company plans to double the consolidated AUM by the end of next year leveraging the managed book up to 20 times its networth. In order to provide for the FLDG requirement, the company would have to mobilize around Rs 10-15 crore of external capital during FY2017.

Good profitability indicators supported by lower operating expenses

Table 4: NOCPL's Profitability indicators

Key Ratios (Managed Portfolio)	31-Mar-14	31-Mar-15	31-Mar-16
Net Interest Margin (adj. for BO costs)/AMA	-0.3%	4.94%	6.43%
Operating expenses / AMA	0.7%	3.95%	4.75%
Operating Profit / AMA	-1.0%	0.99%	1.99%
Prov. & Write-offs / AMA	0.0%	0.00%	0.00%
Credit Prov. & Write-offs/ AMA	0.0%	0.00%	0.00%
Operating Profits (net of credit provisions) / AMA	-1.0%	0.99%	1.99%
PBT/ AMA	-1.0%	0.99%	1.99%
Adj. PAT (net of upfront income / AMA	-1.0%	0.79%	1.40%
PAT/ Net worth	-3.24%	14.60%	41.70%
PAT/ AMA	-1.0%	0.79%	1.40%

Source: Company and ICRA Analysis

NOCPL earns around 9.5%-10.0% of the commission revenue from its partner institutions under the revenue sharing agreement. NOCPL's profitability is good, supported by low operating expenses and credit costs. During FY2016, the company earned a total income of Rs 12.71 crore as compared to Rs 1.65 crore during FY2015. The operating expenses remained low at 4.75% of the total managed advances and with negligible credit cost; the company was able to report PAT as a percentage of managed advances of 1.40% for FY2016. Going forward, the profitability is expected to continue to be good on account of low operating expense and higher leverage ratio.

June 2016

Company Profile: New Opportunity Consultancy Private Ltd.

Fact Sheet

Name	New Opportunity Consultancy Private Ltd.
Incorporation	15 January 2014
Registered Office	1106, 11th Floor, Cyber One Plot No 4 & 6, Sector No. 30A, Vashi, Navi Mumbai - 400703, Maharashtra
Correspondence Office	1106, 11th Floor, Cyber One Plot No 4 & 6, Sector No. 30A, Vashi, Navi Mumbai - 400703, Maharashtra
Constitution	Private Limited Company
Business correspondence to the Banks	Yes bank, RBL Bank, IDBI
Auditors	M/s. Haribhakti & Co. LLP
Activities	Business Correspondent for SHG loans
CEO	Mr. Ganesh Rao
Share Capital (Mar-16)	Rs. 6.60 crore
Net Worth (Mar-16)	Rs. 9.25 crore

Source: Company

Shareholding Pattern as of March 31, 2016

Name of the Share Holder	Shareholding as on March 31, 2016 (%)
Mr. Ganesh Rao	43.40%
Mr. Meenakshi Rao	49.93%
Mr. Jasbinder Toor	6.67%
Total	**100.00%**

Source: Company

Board of Directors as of March 31, 2016

Name of Director	Role
Mr. Ganesh Rao	Director
Ms. Meenakshi Rao	Director
Mr. J.V. Premnath	Independent Director

Source: Company

Annexure I: Summary Financials

Analysis			
FOR THE PERIOD / YEAR ENDED	**31-Mar-14**	**31-Mar-15**	**31-Mar-16**
Income from Investments	0.01	0.34	0.70
Processing fee/Commitment charges/incentives	0.00	1.30	12.01
Int. income (incl. Incentive/processing fee and net of BO costs)	0.01	1.65	12.71
Interest Expense (including Preference Dividend)	0.02	0.30	1.44
Net Interest Income	(0.00)	1.35	11.27
Non-Interest Income / Fee Income	0.00	0.00	0.56
Operating Income	(0.00)	1.35	11.83
Operating expense	0.01	1.08	8.34
Operating Profit	(0.01)	0.27	3.49
Provisions-credit	0.00	0.00	0.00
Operating Profit (net of provisions)	(0.01)	0.27	3.49
APBT before extraordinary items	(0.01)	0.27	3.49
Tax incl. prior period adj.	0.00	0.05	1.04
RPAT	(0.01)	0.22	2.45
Average Total Assets	0.71	5.74	17.13
Avg. earning assets	0.48	4.56	14.09
Net worth	0.44	2.50	9.25
Net worth (incl. minority interest)	0.44	2.50	9.25
Balance Sheet			
Equity Share Capital	0.45	2.30	5.36
Reserves (Net)	(0.01)	0.21	3.90
Net Worth (incl. minority interest)	0.44	2.50	9.25
Fixed Deposits	0.00	0.00	0.00
Other Borrowings (incl. Pref. Shares)	0.96	7.23	8.36
Interest Accrued but not due	0.00	0.00	0.00
Provisions for Tax	0.00	0.00	0.87
Provisions for Dividend	0.00	0.00	0.00
Other Current Liabilities	0.02	0.33	5.71
Deferred Tax Liability	0.00	0.00	0.00
Total Liabilities	**1.42**	**10.06**	**24.19**
Net HP +Lease adjusted for Advance EMI received	0.95	2.80	3.30
Stock of repossessed Assets	0.00	0.00	0.00
Other Loans & Advances (including ICDs)	0.00	0.15	0.14
Investments-Debt	0.00	0.00	0.00
Investments-Others	0.46	1.35	1.81
Cash & Bank Balances	0.01	5.22	16.58
Collaterals for Securitization	0.00	0.00	0.00
Service Charges receivable & Interest Accrued but not due	0.00	0.00	0.00
Advance Tax paid	0.00	0.12	0.00
Other Current Assets	0.00	0.00	1.58
Deferred Tax asset	0.00	0.01	(0.27)
Net Fixed Assets	0.00	0.41	1.06
Total Assets	**1.42**	**10.06**	**24.19**
Securitized/Assigned portfolio	0.00	43.01	273.63
Managed Assets	**1.42**	**53.07**	**297.82**

Key Ratios (Managed Portfolio)	**31-Mar-14**	**31-Mar-15**	**31-Mar-16**
Net Interest Margin (adj. for BO costs)/AMA	-0.3%	4.94%	6.43%
Operating expenses / AMA	0.7%	3.95%	4.75%
Operating Profit / AMA	-1.0%	0.99%	1.99%
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Credit Prov. & Write-offs/ AMA	0.0%	0.00%	0.00%
Operating Profits (net of credit provisions) / AMA	-1.0%	0.99%	1.99%
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Adj. PAT (net of upfront income / AMA	-1.0%	0.79%	1.40%
PAT/ AMA	-1.0%	0.79%	1.40%
CAPITALISATION RATIOS			
Gearing (Reported)	2.17	2.89	0.90

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