

## India Ratings Assigns Mahasemam Trust's Bank Facilities 'IND BBB-'; Outlook Stable

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India Ratings and Research (Ind-Ra) has assigned Mahasemama Trust's (MT) INR439.39m bank loans an 'IND BBB-' rating with a Stable Outlook. Ind-Ra has also assigned the trust's proposed INR200m bank loans a 'Provisional IND BBB-' rating with a Stable Outlook.

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### KEY RATING DRIVERS

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**Increasing Scale of Operations:** The ratings reflect MT's growing membership base and increasing foot prints. The number of members increased to 144,280 at end-December 2015 from 134,521 in FY15 (FY12: 108,468 members). Its presence increased to 2,032 villages in Tamil Nadu in January 2016 from 1,916 villages in FY15. The trust operates through 41 branches across five districts in Tamil Nadu at end-December 2015.

**Growing Earning Profile:** The trust's revenue grew at an 11.21% CAGR during FY12-FY15 to INR216.19m. Interest income is the primary source of revenue and increased to INR208.86m in FY15 from INR144.01m in FY12. MT's growing net interest margin to 15.06% in FY15 from 13.30% in FY12 illustrates its growing earning profile. Although the net interest margin declined marginally to 15.06% in FY15 from 15.65% in FY14, it remained comfortable. The trust had maintained a rate spread of more than 10% for its micro finance operations during FY13-FY15. A 1.55 percentage points year-on-year decline in the rate spread in FY15 was on the back of a 0.95 percentage points increase in the average cost of borrowings and a 0.60 pp decline in average yield. However, the decline in rate spread in FY15 did not impact the trust's operations significantly as reflected in the increase in MT's net profit margin to 14.76% in FY15 from 10.97% in FY14.

**Miniscule NPLs:** MT's gross non-performing loans (NPLs) are lower than its scale of operations. Gross NPLs were only 0.03% of the gross loans and advances at FYE15 and were below 0.04% over FY12-FY15. Though NPLs were miniscule, the trust has made adequate provisions for loan losses which was 3.72% (FY14: 4.09%) of average earning assets (loans and advances) in FY15. According to the management, its recovery mechanism is efficient as reflected in the recovery rate of 99% over FY12-FY15. Ind-Ra views that trust's operational and credit policies are adequate in view of the frequent auditing and supervision of operations, and computerised branches. All branches use in-house developed software to track the status of its members' credit.

As most of the borrowers do not have an established and regular income source, they fall in the high risk profile category. However, the trust's operational mechanism makes sure timely collection of interest and principal. The default rate was 0.03% over FY14-FY15.

**Comfortable Liquidity:** MT's available funds – cash and unrestricted investments - increased 141.12% yoy to INR71.94m in FY15 on the unused portion of borrowing at year end. Available funds provides reasonable financial cushion to both debt (30.64%) and operating expenditure (150.44%). The trust's ability to manage operations without availing fund-based working capital loans – cash credit/overdraft - also indicates its comfortable liquidity

profile.

Low Capitalisation: The trust's equity to total assets was low at 11.44% in FY15 along with equity to total loans and advances of 16.43%. Although the trustees infused INR6.06m in FY15 (INR10.08m over FY12-FY15), it was inadequate for meeting its short to medium term lending of micro finance operations. The trust is highly dependent on market borrowings for onward lending. The trust's high debt burden constrains the rating. Its debt in relation to total income was 410.51% and debt to equity ratio was 7.68x in FY15.

## RATING SENSITIVITIES

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Positive: Substantial growth in the revenue base and an improvement in the trust's profitability and capitalisation ratios coupled with sustained asset quality could positively affect the ratings.

Negative: A significant fall in the membership base in conjunction with deterioration in the profitability and asset quality could trigger a negative rating action.

## COMPANY PROFILE

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MT is a Madurai-based trust engaged in microfinance activity. The trust provides personal unsecured loans to its members across five districts (Tirunelveli, Kanyakumari, Tuticorin, Virudhunagar and Ramanathapuram) in Tamil Nadu. MT offers various loan products such as income generation program loan, small business loans, festival and emergency loans etc. to its members who are mainly involved in agriculture (FY15 proportion: 54%), trading (30%) and other services (16%) activities.

The trust is a charitable institution registered under the Indian Trust Act 1882 in 1999. It was established as a microfinance organisation – not for profit organisation to help eradicate poverty and improve the social status and self-esteem of poor women. It has been operating under the Joint Liability Group - Bangladesh Grameen Bank Model since 2002.

## SOLICITATION DISCLOSURES

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Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Bank Loan	IND BBB- / Stable	INR 439.39 m
Bank Loan	Provisional IND BBB- / Stable	INR 200 m

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## Applicable Criteria

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### Non-Profit Institutions Rating Criteria

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## Analyst Names

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