

SEPTEMBER 24, 2014
**CARE REVISES THE RATING ASSIGNED TO BANK FACILITIES OF
 MICRO HOUSING FINANCE CORPORATION LTD.**
Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long term Bank Facilities	100.00	CARE A- (Single A Minus)	Revised from CARE BBB+ (Triple B Plus)

The rating revision takes into account the steady scale up in MHFC's business volumes while maintaining healthy asset quality and profitability parameters. MHFC is poised to gain from the growing credit demand in the affordable housing space and untapped potential in low income unorganized sector borrowers segment, supported by the Government's thrust in providing affordable housing throughout the country. The rating further factors in MHFC's robust capitalization levels, comfortable liquidity profile. The rating is, however, constrained by the limited track record and geographic concentration of operations. The rating also considers the fact that the target customer segment of MHFC comprises of individuals in the low income group which is a relatively untested and untapped market segment. Business growth, asset quality, capital adequacy and profitability are the key rating sensitivities.

Background

Micro Housing Finance Corporation (MHFC) is a housing finance company focused on providing housing loans to individuals in the low income group, specifically, those employed in the informal sector. MHFC was incorporated on 16-May-2008; it got the NHB License – Certificate of Registration on 9-Feb-2009, and started operations in June 2009. The company's major shareholders comprise of institutional funds/ investors like India Financial Inclusion Fund- 36.59%, Michael and Susan Dell Foundation- 9.99% and Unilazer Ventures Pvt. Ltd.- 7.38%.

The customers of MHFC are a mix of self employed micro-entrepreneurs and un-organized sector salaried workers. As on June 30, 2014, MHFC had a loan book of Rs.159.64 crore and balance sheet size of Rs.177.65 crore. The average tenure stood at 12 years and the average yields stood around 12%-13%. At the end of FY14, the company's workforce comprised 80 employees. The company has an office in Mumbai and there are no branches. MHFC sources loans through project-led approach – wherein financing is provided to individuals for purchase of houses under the projects selected by MHFC. The operations of the company are spread across five states namely, Maharashtra, Gujarat, Madhya Pradesh, Rajasthan and West Bengal.

MHFC's disbursements and loan portfolio have grown at CAGR of around 81% and 98% over the last three years. As on March 31, 2014, the company loan portfolio stood at Rs.137.96 crore [P.Y.: Rs.72.32 crore] and further increased to Rs.159.64 crore as on June 30, 2014. In sync with growth in business operations, the company borrowings have increased by 60% to Rs.83.54 crore as on March 31, 2014. Though higher borrowings as well as rise in borrowings costs have impacted the company's spreads, the same continues to be healthy at 3.31% during FY14. Healthy spreads and lower

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

credit provisions have more than offset rise in operating expenses resulting into more than two fold growth in PAT to Rs.4.21 crore during FY14 [P.Y.: 1.71 crore]. ROTA stood at 3.29% during FY14. During Q1 FY15, the company reported PAT on Rs.1.42 crore on total income of Rs.5.56 crore.

As on June 30, 2014, MHFC's capital adequacy ratio stood at 68.10% which is entirely composed of Tier I capital. Its GNPA and NNPA ratios stood at 0.29% and 0.22% as on June 30, 2014 while net NPA/ networth stood at 0.40%.

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