

April 26, 2024

Mallarpur Naisuva: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]BB- (Stable); reaffirmed
Total	-	-	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation takes into consideration the steady growth in Mallarpur Naisuva's (MNS) throughput volumes. The society has been working as a corporate business correspondent (CBC) for State Bank of India (SBI) in three districts of West Bengal since October 2010 and expanded its operations to another district in FY2024. While the scale of operations remains small, it has been steadily increasing its throughput volume with average monthly transactions of Rs. 284 crore in 9M FY2024 compared to Rs. 257 crore in FY2023. The rating also factors in MNS' comfortable financial profile, characterised by healthy capitalisation and coverage indicators driven by good margins, low debt and a comfortable net worth position.

The rating is constrained by the society's small scale of operations and the high geographical concentration risk, given its presence in only four districts of West Bengal. Further, MNS faces significant operational risks, given the high cash handling activities by the third-party agents engaged by it. Also, the society's operations and revenue are dependent on one client – SBI. Though MNS has been associated with SBI for more than a decade, the risk of non-renewal of the contract and/or downward revision of commercials cannot be ruled out.

Further, the financial inclusion space remains competitive with the advent of newer technologies and the expansion of services by different sets of players. With increasing competition, the society's ability to retain agents and customers while improving its systems and processes remains important to stay competitive and scale up its operations. The rating also factors in the risk of any adverse regulatory changes impacting the society's operational profile. The scope and nature of operations in the CBC segment depends on the regulatory policies framed to drive financial inclusion in the country. This exposes MNS to regulatory risk and any adverse regulatory change/requirement could negatively impact its operational and/or financial profile.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's expectation that the society would continue to benefit from its longstanding relationship with SBI and its healthy financial profile.

Key rating drivers and their description

Credit strengths

Steady growth in throughput volumes, but on a small scale – The society is working as a CBC for SBI in four districts of West Bengal. While the scale of operations remains small, MNS has been able to maintain a steady growth in its throughput volume with average monthly transactions of Rs. 257 crore per month in FY2023 compared to Rs. 218 crore per month in FY2022. The average monthly transaction improved further to Rs. 284 crore in 9M FY2024.

Comfortable financial profile – The society's financial profile remains comfortable, with healthy coverage indicators, stable margins, minimal debt levels and a comfortable net worth position backed by strong accruals in the recent past. The society's revenue rose at a compound annual growth rate (CAGR) of 22% during FY2018 to FY2023 on the back of higher transactions and an increase in BC points. MNS reported a net profit of Rs. 0.8 crore in FY2023 against Rs. 0.2 crore in FY2022. While the society reported a loss in H1 FY2024, ICRA expects the profitability to improve and the overall financial risk profile to remain comfortable.

Credit challenges

Small scale and geographically concentrated operations – With a throughput volume of Rs. 2,555 crore in 9M FY2024 (Rs. 3,079 crore in FY2023), MNS remains a small player in the financial inclusion space. The society had operations in four districts of West Bengal as on March 31, 2024. Given the high geographical concentration, the throughput volumes remain susceptible to local challenges. Going forward, it will be important for the society to scale up its operations while improving its geographical diversity.

Risks associated with non-renewal of contract and/or downward revision of commercials – The society has a contract with SBI for providing BC services in designated districts of West Bengal. The contract defines the scope of services and charges and is usually renewed annually. Though MNS has been associated with SBI for more than a decade, the risk of non-renewal of the contract and/or downward revision of commercials cannot be ruled out.

Increasing competition and risk of adverse regulatory changes – The financial inclusion space remains competitive with the advent of newer technologies and the expansion of services by different sets of players. With increasing competition, MNS' ability to retain agents and customers while improving its systems and processes remains important to stay competitive and scale up its operations. The rating also factors in the risk of any adverse regulatory changes impacting the society's operational profile. The scope and nature of operations in the CBC segment depends on the regulatory policies framed to drive financial inclusion in the country. This exposes MNS to regulatory risk and any adverse regulatory change/requirement could negatively impact its operational and/or financial profile.

Liquidity position: Adequate

With the steady growth in cash inflow, MNS has reported an adequate cash and liquid balance over the years. It reported a free cash and liquid balance of Rs. 0.97 crore as on September 30, 2023 (Rs. 0.71 crore as on March 31, 2023). Given the healthy operating margins and the expected improvement in the society's free cash flow, its liquidity profile is adequate.

Rating sensitivities

Positive factors – A significant improvement in the society's scale along with the diversification of its operations while improving the profitability could positively impact the rating.

Negative factors – Pressure on the rating could arise if there is a downward revision in the commercials or non-renewal of the contract with SBI or if unfavourable regulatory measures are implemented, leading to the weakening of the society's operational or financial profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Mallarpur Naisuva (MNS) is a non-government organisation registered in 1995 under the West Bengal Societies Registration Act (XXI) of 1961. It was founded under the guidance of Dr. Ashok Pathak, who wanted to develop a team that would cater to the needs of poor people in rural villages. MNS has been empanelled independently with State Bank of India and has been working as a corporate business correspondent (CBC) since October 2010. Apart from financial inclusion, the society focuses on social welfare activities and receives grants, donations and reimbursements from various institutions to support such activities. At present, MNS operates in four districts of West Bengal – East Burdwan, West Burdwan, Birbhum and Purulia.

Key financial indicators (audited)

Mallarpur Naisuva	FY2022	FY2023	H1 FY2024*
Operating income	11.5	13.9	7.6
PAT	0.2	0.8	- 0.1
OPBDIT/OI	4.2%	7.5%	- 0.1%
PAT/OI	1.8%	5.7%	- 1.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.3	0.2
Total Debt/OPBDIT (times)	1.3	0.3	- 12.8
Interest coverage (times)	68.3	58.5	-202.8

Source: Mallarpur Naisuva, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of March 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				Apr 26, 2024	-	Feb 27, 2023	Jul 01, 2022	Jun 03, 2021
1 Issuer Rating	Long term	-	-	[ICRA]BB-(Stable)	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable); withdrawn	[ICRA]BB-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]BB- (Stable)

Annexure II: List of entities considered for consolidated analysis

Not applicable

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