

Press Release

Anik Financial Services Private Limited

June 16, 2020



Rating Assigned

Total Bank Facilities Rated	Rs. 5.00 crore
Long Term Rating	ACUITE BB-/ Stable (Assigned)

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BB-**' (read as ACUITE double B minus) to the Rs. 5.00 crore bank facilities of Anik Financial Services Private Limited (AFPL). The outlook is '**Stable**'.

About AFPL

Maharashtra based Anik Financial Services Private Limited (AFPL) is a NBFC-MFI engaged in microfinance lending by way of extending credit through Self-Help Group (SHG). AFPL is promoted by Savitribai Phule Mutual Benefit Trust (SPMBT). SPMBT is a federation of SHG's in their respective districts registered as Mutual Benefit Trust. AFPL commenced its microfinance as a Mutual Benefit Trust in 2002 and later the promoters acquired an existing NBFC and transferred the operations to AFPL in 2009. The board is led by Mr. Subhash Tagare (Chairman) and Mr. Jayaji Paikrao (Founder & Vice-Chairman).

AFPL currently operates in Maharashtra with its network of 4 branches spread across 4 districts as on March 31, 2020.

Analytical Approach

Acuité has considered standalone business and financial risk profile of AFPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management in micro-finance segment**

AFPL is engaged in extending microfinance to women involved in income generating activities under Self-Help Group (SHG) model. The company has also adopted the Joint Liability Group (JLG) model from 2019 along with SHG. AFPL operates in 4 districts of Maharashtra with its network of 4 branches in each district. The company's loan portfolio stood at Rs. 13.92 crore as on March 31, 2020 as compared to Rs. 11.38 crore as on March 31, 2019. AFPL's promoters have over two decades of experience in micro finance lending. The promoters started their micro lending operations in the form of trusts named Savitribai Phule Mutual Benefit Trust since 2002 and later in 2009 started operating through AFPL as a NBFC-MFI. The board is led by Mr. Subhash Tagare (Chairman) and Mr. Jayaji Paikrao (Founder & Vice Chairman) and supported by 6 other directors. The company has on board Mr. Vikramjit Mehmi (Director), he has over 3 decades of experience in corporate sector and has previously been the CEO at Idea Cellular, Birla Sun Life Insurance & Suzlon Green Power (India). AFPL also benefits from Mr. Hemant Valvekar's (Director) vast experience in the microfinance segment with his stint of over a decade at BASIX and also having worked for RBL Bank as a senior advisor in developing their Financial Inclusion and Business Correspondence vertical. Mr. Hemant Valvekar has been associated with AFPL since the very beginning and was instrumental in transitioning the business from trusts to NBFC-MFI.

Acuité believes that established presence of the promoters in the microfinance segment will be central to support the business risk profile of the company in the near to medium term.

Weaknesses

- **Modest scale of operations; scalability of business to be demonstrated**

AFPL's loan portfolio stood at Rs. 13.92 crore as on March 31, 2020 as compared to Rs. 11.38 crore as on March 31, 2019 and Rs. 10.03 crore as on March 31, 2018. The company is yet to demonstrate scalability in its business operations as seen in its overall growth in loan book. The company has maintained moderate profitability as reflected in its Return on Average Assets (RoAA) of 0.55 percent as on March 31, 2020 and 0.63 percent as on March 31, 2019. Net Interest Margin (NIM) improved at 12.04 percent as on March 31, 2020 after declining to 10.59 percent in FY2019 from 11.86 percent in FY2018. While the company has scaled up its loan portfolio steadily over the years, the profitability of AFPL has remained moderate as indicated by RoAA.

Going forward the ability of the company to access timely capital infusion and its ability to mobilize low cost debt, will be a key factor in the scalability of business. The impact of Covid-19 may also impair the scalability of business operations, which has currently disrupted access to funds, collections and disbursement processes.

Acuité believes, going forward, the ability of the company to mobilize additional funding through debt /sub debt and its ability to deploy the funds profitably while maintaining its asset quality will be key rating sensitivity.

- **Risk inherent to microfinance segment**

The activities of microfinance companies, like AFPL are exposed to geographical concentration risks. AFPL has presence only in Maharashtra as on March 31, 2020. It has 4 branches located over 4 districts in the Marathwada region of Maharashtra. This exposes the company to high geographical concentration risk. Thus, the company's performance is expected to remain exposed to competitive landscape in these regions and occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework thereby impacting credit profile of AFPL.

Rating Sensitivity

- Impact of natural calamities like covid-19 on ongoing operations
- Movement in collection efficiency
- Movement in asset quality
- Movement in liquidity buffers
- Profitability and capital adequacy buffers
- Stance of lenders in respect of moratorium
- Changes in regulatory environment

Material Covenants

AFPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others. As per confirmation received from client vide mail dated June 05, 2020, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity: Adequate

AFPL's overall liquidity profile remains adequate in near to medium term. The company has maintained cash and bank balance of ~Rs. 0.54 crore as on March 31, 2020. Average tenure of AFPL's loan portfolio is 24 to 30 months while, its borrowings have 36 months tenure. The company's operations being confined to remote rural areas and based on its modest portfolio AFPL was able to recover Rs. 0.68 crore in collections for the month of May 2020.

Outlook: Stable

Acuité believes that AFPL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to maintain asset quality. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio while maintaining asset quality and capital structure. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality and profitability metrics.

About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	16.67	13.92
Total Income*	Rs. Cr.	1.82	1.39
PAT	Rs. Cr.	0.08	0.08
Networth	Rs. Cr.	6.78	6.92
Return on Average Assets (RoAA)	(%)	0.55	0.63
Return on Net Worth (RoNW)	(%)	1.22	1.19
Total Debt/Tangible Net Worth (Gearing)	Times	1.20	0.78
Gross NPA's	(%)	0.21	0
Net NPA's	(%)	0.14	0

* Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

None

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Proposed Term Loan Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB-/ Stable (Assigned)

Contacts

Analytical	Rating Desk
Vinayak Nayak Vice President - Rating Operations Tel: 022-49294071 vinayak.nayak@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 - 49294011 rating.desk@acuite.in
Shreyans Mehta Analyst - Rating Operations Tel: 022-49294062 shreyans.mehta@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.