

Press Release



Akme Fincon Limited

August 05, 2021

Rating Reaffirmed & Withdrawn

| | |
|---|-------------------------------------|
| Total Facilities Rated* | Rs.75.00 Cr. |
| Total Bank Facilities Rated | Rs.50.00 crore |
| Long Term Rating | ACUITE BBB-/ Stable (Reaffirmed) |
| Proposed Secured Redeemable Non-convertible debentures | Rs.25.00 crore |
| Long Term Rating | ACUITE BBB- (Withdrawn) |

*Refer annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.50.00 Cr. bank facilities of AKME Fincon Limited (AFL). The outlook is '**Stable**'.

Acuité has reaffirmed & withdrawn the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.25.00 Cr. Proposed secured redeemable Non-convertible debentures of AFL. This rating is being withdrawn on account of the request received by the client as per Acuite's policy.

The rating reaffirmation is primarily driven by rebound in the company's collection efficiency levels and resources raising ability of the company which have resulted in adequate liquidity levels. The reaffirmation takes into account the adequate capitalization and moderate gearing levels of 42.49% and 1.32 times as on March 31, 2021 as against 34.70% and 1.90 times as on March 31, 2020, respectively. The on-time portfolio of the company stood at the similar levels of 93% as on March 31, 2021 as compared to previous year. While Acuite takes cognizance of impact on collections during the second wave of Covid-19 in the months of April and May 21, collections of the company have been improving since June 21 and asset quality is expected to stabilize in the near to medium term. The company reported some rise in delinquencies during Q1FY21; GNPA and NNPA increased to 2.52% and 2.03% as on June 30, 2021.

Going forward, the company's ability to raise funds (both equity and debt) in timely manner, asset quality, profitability are the key monitorables.

The rating is, however, constrained by AFL's modest scale of operations and 96% of the portfolio is concentrated in the state of Rajasthan. Though AFL has started expanding into other states like Gujarat, Maharashtra and Madhya Pradesh, AFL will take couple of time to reduce geographic concentration risk.

About the AFL

Udaipur based, Akme Fincon Limited (AFL) was incorporated in 1996 as a non-deposit taking non-banking finance company (NBFC). The company is engaged in financing of two wheelers, three/four wheelers, commercial vehicles and loan against property (LAP) towards SME borrower base. AFL is promoted and managed by Mr. Anil Kumar Jain. The company presently operates through a network of 40 branches spread across Rajasthan, Madhya Pradesh, Maharashtra and Gujarat as on March 31, 2021, with 96% of their operations as on March 31, 2021 in Rajasthan.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced promoter**

AFL has family members on its board led by Mr. Anil Kumar Jain (Managing Director). The members of the board have over one decade of experience in non-banking and financial services. Mr. Anil Kumar Jain has over two decades of experience in financial domain. He actively manages day-to-day activities of the company.

AFL is operating since 1996 in total 16 districts of Rajasthan, Madhya Pradesh, Maharashtra and Gujarat with a network of 40 branches as on March 31, 2021. AFL's portfolio comprises of vehicle financing ~72% and LAP of 28% as on March 31, 2021. Given the low collection efficiency during pandemic Covid-19 and inadequate funding support received from the lenders, AFL made lower disbursals of Rs.27.74 Cr. in FY2021, which in turn resulted in decline in AUM. AFL's AUM shrunk by 8% to ~Rs.65.39 Cr. as on March 31, 2021 as against ~Rs.71.12 Cr. as on March 31, 2020. Company started Co-lending with MAS Financial Services in FY2021 and the portfolio stood at Rs.0.58 Cr. as on March 31, 2021.

Further, the capitalization levels improved to 42.49% as on March 31, 2021 as against 34.70% as on March 31, 2020. Though this improvement is on the account of decline in AUM and marginal equity infusion of Rs.0.57 Cr. in FY2021, the company has adequate headroom available to absorb the unexpected shocks in its business. The company has also started receiving funding support from external lenders in Q2FY2022 onwards, which is expected support its growth prospects in near to medium term. Acuité expects that AFL will continue to benefit from the promoter's experience in order to sustain the business risk profile through unexpected economic downturns.

- **Moderate asset quality and financial performance**

AFL's asset quality has been moderate marked by on-time portfolio of 92.55% as on March 31, 2021 from 92.98% as on March 31, 2020. GNPA and NNPA levels stood at 2.31% and 1.90% as on March 31, 2021 as against 2.36% and 1.97% as on March 31, 2020. The business has faced some headwinds in terms of reduced collection efficiency during second cycle of covid-19 which led to increase in delinquencies marked by GNPA 2.52% and NNPA 2.03% as on June 30, 2021. While Acuite takes cognizance of impact on collections during the second wave of Covid-19 in the months of April and May 21, collections of the company have been improving since June 21 and asset quality is expected to stabilize in the near to medium term.. Further, the entire portfolio is lent to the self-employed borrowers having CIBIL more than 700 score, which provides comfort.

AFL registered operating income of Rs. 7.76 Cr. in FY2021 (Provisional) as against Rs. 8.12 Cr. in FY2020. NIM and ROAA declined marginally to 10.81 per cent and 4.78 per cent for FY2021 (Provisional) as compared to 10.84 per cent and 5.31 per cent for FY2020, respectively. Gearing improved to 1.32 times as on March 31, 2021 (Provisional) as against 1.90 times as on March 31, 2020. The company reported profits of Rs.3.57 Cr. as on March 31, 2021 (Provisional) against Rs.4.05 Cr. as on March 31, 2020.

Weaknesses

- **Modest scale of operations coupled with geographic concentration risk**

The company has modest scale of operations with an outstanding loan portfolio of Rs. 65.39 Cr as on March 31, 2021 (Provisional) as compared to Rs 71.12 Cr. as on March 31, 2020. AFL's portfolio is exposed to high geographical concentration risk, as 96 per cent of the total portfolio is concentrated in only state of Rajasthan. However, AFL has expanded to Gujarat, Maharashtra and Madhya Pradesh to minimize the geographic concentration risk.

Generally, the risk profile of NBFCs with a geographically diversified portfolio is more resilient compared to that of entity with a geographically concentrated portfolio. Acuité believes that modest scale of operations coupled with geographic concentration in its portfolio will continue to weigh on the company's credit profile over the near to medium term.

Rating Sensitivity

- Ability to raise resources in timely manner (equity and debt)
- Movement in asset quality
- Profitability and capital adequacy buffers

Liquidity Position – Adequate

AFL's ALM statement as on Mar 31, 2021 shows positive cumulative mismatch in all the buckets and its liquidity position is adequate marked by rebound in collections efficiency in July, 2021 as compared to the months of April & May 21. The total borrowings (includes cash credit and term loans) stood at ~Rs. 39.89 Cr. as on Mar 31, 2021 (Provisional). Out of which around Rs.35.96 Cr. are maturing in up to 1 year bucket vis-à-vis Rs.41.45 Cr. of the advances maturing over the same time period. Further, AFL has already received fresh sanctions of Rs.13 Cr. in July, 2021. Acuité believes that the ability of the company to raise long term funding and improve collections will be critical to maintaining liquidity profile at adequate levels.

Outlook: Stable

Acuité believes that AFL will benefit from its experienced promoters in the near to medium term. The outlook may be revised to 'Positive' in case of higher than expected growth in loan book, equity infusion, improvement in key operating metrics and liquidity. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of any challenges in maintaining its asset quality and profitability metrics or any deterioration in liquidity position.

About the Rated Entity- Key Financials

| Particulars | Unit | FY21 (Prov) | FY20 (Actual) |
|---|---------|-------------|---------------|
| Total Assets | Rs. Cr. | 72.68 | 76.51 |
| Total Income* | Rs. Cr. | 7.76 | 8.12 |
| PAT | Rs. Cr. | 3.57 | 4.05 |
| Networth | Rs. Cr. | 30.11 | 25.97 |
| Return on Average Assets (RoAA) | (%) | 4.78 | 5.31 |
| Return on Average Net Worth (RoNW) | (%) | 12.72 | 17.30 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 1.32 | 1.90 |
| Gross NPA | (%) | 2.31% | 2.36% |
| Net NPA | (%) | 1.90% | 1.97% |

* Total income equals to Net interest income plus other income

Material Covenants

None

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

None

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)

| Date | Name of Instrument/ Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|---------|-----------------------------------|-----------|-----------------|-----------------|
| 23 Jun- | Cash Credit | Long Term | 25.00 | ACUITE BBB- |

| | | | | |
|-------------|------------------------------------|-----------|-------|--------------------------------------|
| 2021 | | | | (Indicative) |
| | Cash Credit | Long Term | 3.00 | ACUITE BBB- (Indicative) |
| | Term Loan | Long Term | 0.83 | ACUITE BBB- (Indicative) |
| | Term Loan | Long Term | 1.39 | ACUITE BBB- (Indicative) |
| | Term Loan | Long Term | 4.44 | ACUITE BBB- (Indicative) |
| | Term Loan | Long Term | 1.39 | ACUITE BBB- (Indicative) |
| | Term Loan | Long Term | 1.39 | ACUITE BBB- (Indicative) |
| | Term Loan | Long Term | 2.73 | ACUITE BBB- (Indicative) |
| | Term Loan | Long Term | 0.75 | ACUITE BBB- (Indicative) |
| | Term Loan | Long Term | 3.78 | ACUITE BBB- (Indicative) |
| | Term Loan | Long Term | 1.78 | ACUITE BBB- (Indicative) |
| | Proposed Bank Facility | Long Term | 3.52 | ACUITE BBB- (Indicative) |
| | Proposed Non-Convertible Debenture | Long Term | 25.00 | ACUITE BBB- (Indicative) |
| 25-Jun-2020 | Cash Credit | Long Term | 25.00 | ACUITE BBB-/Negative (Reaffirmed) |
| | Cash Credit | Long Term | 3.00 | ACUITE BBB-/Negative (Reaffirmed) |
| | Term Loan | Long Term | 0.70 | ACUITE BBB- (Withdrawn) |
| | Term Loan | Long Term | 0.83 | ACUITE BBB-/Negative (Reaffirmed) |
| | Term Loan | Long Term | 0.82 | ACUITE BBB- (Withdrawn) |
| | Term Loan | Long Term | 1.39 | ACUITE BBB-/Negative (Reaffirmed) |
| | Term Loan | Long Term | 4.44 | ACUITE BBB-/Negative (Reaffirmed) |
| | Term Loan | Long Term | 1.39 | ACUITE BBB-/Negative (Reaffirmed) |
| | Term Loan | Long Term | 1.39 | ACUITE BBB-/Negative (Reaffirmed) |
| | Term Loan | Long Term | 2.73 | ACUITE BBB-/Negative (Reaffirmed) |
| | Term Loan | Long Term | 0.75 | ACUITE BBB-/Negative (Reaffirmed) |
| | Term Loan | Long Term | 3.78 | ACUITE BBB-/Negative (Assigned) |
| | Term Loan | Long Term | 1.78 | ACUITE BBB-/Negative (Assigned) |
| | Proposed Bank Facility | Long Term | 3.52 | ACUITE BBB-/Negative (Reaffirmed) |
| 20-Nov-2019 | Proposed Non-Convertible Debenture | Long Term | 25.00 | ACUITE BBB-/Negative (Assigned) |
| | Cash Credit | Long Term | 25.00 | ACUITE BBB-/ Stable (Reaffirmed) |

| | | | | |
|-------------|------------------------|-----------|-------|----------------------------------|
| | Cash Credit | Long Term | 3.00 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Term Loan | Long Term | 0.70 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Term Loan | Long Term | 1.67 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Term Loan | Long Term | 0.82 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Term Loan | Long Term | 2.22 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Term Loan | Long Term | 6.11 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Term Loan | Long Term | 1.81 | ACUITE BBB-/ Stable (Assigned) |
| | Term Loan | Long Term | 1.81 | ACUITE BBB-/ Stable (Assigned) |
| | Term Loan | Long Term | 3.56 | ACUITE BBB-/ Stable (Assigned) |
| | Term Loan | Long Term | 1.50 | ACUITE BBB-/ Stable (Assigned) |
| | Proposed Bank Facility | Long Term | 1.80 | ACUITE BBB-/ Stable (Reaffirmed) |
| | | | | |
| 21-Nov-2018 | Cash Credit | Long Term | 25.00 | ACUITE BBB-/ Stable (Upgraded) |
| | Cash Credit | Long Term | 3.00 | ACUITE BBB-/ Stable (Assigned) |
| | Term Loan | Long Term | 0.70 | ACUITE BBB-/ Stable (Assigned) |
| | Term Loan | Long Term | 3.47 | ACUITE BBB-/ Stable (Assigned) |
| | Term Loan | Long Term | 2.44 | ACUITE BBB-/ Stable (Assigned) |
| | Term Loan | Long Term | 4.03 | ACUITE BBB-/ Stable (Assigned) |
| | Term Loan | Long Term | 9.72 | ACUITE BBB-/ Stable (Assigned) |
| | Proposed Bank Facility | Long Term | 1.64 | ACUITE BBB-/ Stable (Assigned) |

***Annexure- Details of Instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|---|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE BBB-/ Stable (Reaffirmed; Outlook revised to Stable from Negative) |
| Dropline Overdraft | Not Applicable | Not Applicable | Not Applicable | 3.00 | ACUITE BBB-/ Stable (Reaffirmed; Outlook revised to Stable from Negative) |
| Term Loan | Not Available | Not Available | Not Available | 0.83 | ACUITE BBB- (Withdrawn) |
| Term Loan | Not Available | Not Available | Not Available | 0.39 | ACUITE BBB-/ Stable (Reaffirmed; Outlook revised to Stable from Negative) |
| Term Loan | Not Available | Not Available | Not Available | 1.39 | ACUITE BBB-/ Stable (Reaffirmed; Outlook revised to Stable from Negative) |

| | | | | | |
|------------------------------------|----------------|----------------|----------------|-------|---|
| Term Loan | Not Available | Not Available | Not Available | 0.63 | ACUITE BBB-/ Stable (Reaffirmed; Outlook revised to Stable from Negative) |
| Term Loan | Not Available | Not Available | Not Available | 0.63 | ACUITE BBB-/ Stable (Reaffirmed; Outlook revised to Stable from Negative) |
| Term Loan | Not Available | Not Available | Not Available | 1.44 | ACUITE BBB-/ Stable (Reaffirmed; Outlook revised to Stable from Negative) |
| Term Loan | Not Available | Not Available | Not Available | 0.75 | ACUITE BBB- (Withdrawn) |
| Term Loan | Not Available | Not Available | Not Available | 2.52 | ACUITE BBB-/ Stable (Reaffirmed; Outlook revised to Stable from Negative) |
| Term Loan | Not Available | Not Available | Not Available | 0.91 | ACUITE BBB-/ Stable (Reaffirmed; Outlook revised to Stable from Negative) |
| Term Loan | Not Available | Not Available | Not Available | 2.00 | ACUITE BBB-/ Stable (Reaffirmed; Outlook revised to Stable from Negative) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 12.09 | ACUITE BBB-/ Stable (Reaffirmed; Outlook revised to Stable from Negative) |
| Proposed Non-Convertible Debenture | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE BBB- (Withdrawn) |

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About Acuité Ratings & Research:

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