

Press Release

VALAR ADITI SOCIAL FINANCE PRIVATE LIMITED

May 31, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 3.00 Cr.
Long Term Rating	ACUITE BB-/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating '**ACUITE BB-**' (**read as ACUITE double B minus**) to the Rs. 3.00 crore bank facilities of VALAR ADITI SOCIAL FINANCE PRIVATE LIMITED (VASF). The outlook is '**Stable**'.

Valar Aditi Social Finance Private Limited (VASF) is a Non-Deposit Accepting Non-Banking Financial Company-Micro Finance Institution (NBFC-MFI) registered with the Reserve Bank of India, dated September 2017. It is promoted by Dr. I. Sebastian and Bestseller Foundation, which is CSR fund of Bestseller (Denmark based retailer). The company is engaged in micro financing activity directed to the benefit of poor women groups/individual for enhancement of their livelihoods. The company started its activities from 2010 onwards and has presence in three districts in Tamil Nadu.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management:

VASF is engaged in microfinance lending in Tamil Nadu and Puducherry, since 2010. It focuses on activities related to empowerment of women and provides training to joint lender groups apart from micro finance lending. The company has a borrower base of 12301 borrowers, from 5 branches spread across 3 districts in Tamil Nadu.

The promoter of the company Mr. Sebastian has over three decades experience in rural developmental activities, he is adequately supported by well qualified management such as Mr. Sundarajan, General Manager who has over four decades of experience in Banking and NBFC and Mr. Antonisamy Chief Operating Officer who has over one half decade experience in Development and finance activities.

Acuité believes that VASF will continue to benefit from its established presence in micro finance lending.

Sound asset quality:

VASF stringent credit assessment and monitoring processes in place have enabled the company to maintain sound asset quality. The company reported NIL Non Performing Assets (NPA)'s as on March 31, 2019 (Provisional) and 0.06 percent as on March 31, 2018. Further, It has demonstrated healthy collection efficiency with a track record of over ~99.95 percent collection on an average for the ten months ended March 31, 2019. VASF's portfolio outstanding grew to at Rs.21.64 Cr as on March 31, 2019 (Provisional) as against Rs. 10.26 crore as on March 31, 2018.

Going ahead, Acuité expects VASF to benefit from its sound asset quality.

Weaknesses

Modest scale of operations; scalability of business to be demonstrated:

VASF's overall loan portfolio stood at Rs.21.64 crore as on March 31, 2019 (Provisional) which increased from Rs. 10.26 crore as on March 31, 2018. The company's profitability although healthy, declined during this period, reflected in its return on average assets (RoAA) of 4.59 percent for FY2019 (provisional) as against 7.44 percent for FY2018 and Net Interest Margin (NIM) of 17.14 percent in FY2019 (Provisional) and 26.45 percent in FY2018. This was mainly due to spike in borrowing cost, as the company increased its external borrowings in FY2019 as against its zero debt policy until FY2018, resulting in increase of gearing 1.05 times as on March 31, 2019 (Provisional) as against NIL as on March 31, 2018. Going forward the company is likely to undertake funding from banks and financial institutions for scaling up of its operations. The ability of the

company to expand its operations in a profitable manner will be limited to its ability to mobilise low cost funds.

Acuité believes, going forward, the ability of the company to mobilise additional funding through debt /sub debt and its ability to deploy the funds profitably while maintaining asset quality will be crucial to the credit profile of the company.

Risks inherent to microfinance segment

The activities of microfinance companies, like VASF are exposed to geographical concentration risks. VASF has presence in one state, namely, Tamil Nadu (~80 percent of the overall portfolio) and on union territory Puducherry (~20 percent) as on March 31, 2019 (Provisional) as against 76 and 24 percent respectively as on March 31, 2018. It has 5 branches located over 3 districts in Tamil Nadu and Puducherry. 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.

Liquidity Position

VASF has adequately matched cash flow as on March 31, 2019, with cumulative surplus all maturity buckets. Most of the loans are of upto 12-18 month's tenure, which is co-terminus with its borrowings. Presently the company's loan book is primarily funded through owner's equity. Going forward VSFL's dependence on debt is expected to increase thereby testing its ability to manage the Asset Liability management risks effectively.

Outlook: Stable

Acuité believes that VASF will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to maintain healthy AUM (on balance sheet assets and assets under BC model) and profitability metrics. The outlook may be revised to 'Positive' in case of higher than expected growth in AUM while maintaining key operating metrics and asset quality 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, profitability metrics and capital structure.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	22.99	10.57	9.72
Total Income (Net of Interest Expense)	Rs. Cr.	2.73	2.52	2.26
PAT	Rs. Cr.	0.77	0.76	0.49
Net Worth	Rs. Cr.	10.94	10.17	9.40
Return on Average Assets (RoAA)	(%)	4.59	7.44	5.23
Return on Average Net Worth (RoNW)	(%)	7.29	7.72	5.41
Total Debt/Tangible Net Worth (Gearing)	Times	1.05	NIL	NIL
Gross NPAs	(%)	NIL	0.06	0.02
Net NPAs	(%)	NIL	0.05	0.02

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09 April 2019	Term Loan	LT	3.00	ACUITE BB-/Stable (Indicative)
02 Feb 2018	Term Loan	LT	3.00	ACUITE BB-/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
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB-/Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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