

Press Release

Valar Aditi Social Finance Private Limited

August 20, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs. 3.00 crore
Long Term Rating	ACUITE BB/ Stable (Upgraded from ACUITE BB-)

*Refer annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB-**' read as (**ACUITE double B minus**) on the Rs. 3.00 crore bank facilities of Valar Aditi Social Finance Private Limited (VASF). The outlook is '**Stable**'.

The rating upgrade takes into account benefits emanating from VASF's established presence in its area of operations and its ability to maintain healthy asset quality which is expected to augur well over the near to medium term.

About VASF

Tamil Nadu based Valar Aditi Social Finance Private Limited (VASF) is a non-deposit taking Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI). The company is promoted by Dr. I Sebastian and Bestseller Foundation, a CSR Fund of Denmark based retailer – Bestseller A/S. In 2010, the current promoter Dr. I Sebastian acquired an existing NBFC named Mani Leasing Private Limited and re-named it as Valar Aditi Social Private Limited. VASF is engaged in extending micro-credit primarily to women borrowers through (JLG) model since 2010. It focuses on activities related to the empowerment of women and provides training to joint liability groups apart from micro-finance lending. The company operates through a network of 5 branches spread across 4 districts in the state of Tamil Nadu and Puducherry.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established presence in the micro-finance segment**

VASF commenced its micro-finance operations in 2010, extending micro-credit to women borrowers engaged in income-generating activities under the Joint Liability Group (JLG) model. The company caters to the rural areas of Tamil Nadu and Puducherry. VASF focus on improving the standard of living of the underprivileged women in the communities through financial and social inclusion services. It has a network of 5 branches across 4 districts with a loan portfolio of Rs. 21.81 crore as on March 31, 2020.

VASF is promoted by Mutual Benefit Trusts developed by Dr. I Sebastian's charitable trust – St. Joseph Development Trust (SJDT) and Bestseller Foundation. Dr. Sebastian established SJDT in 1992 for the development and welfare activities of the marginalized section of the society. He has around three decades of experience in rural developmental activities. Bestseller Foundation is a CSR fund of a multinational apparel retailer, Bestseller which owns global fashion brands. Dr. Sebastian is adequately supported on the board with Mr. Jannek Hagen – Managing Director of Bestseller Foundation, Mr. Sridhar Sampath and Mr. Ravi Prakash Singhee – Nominee Directors for Bestseller Fund and Mr. Reji Chandra.

VASF's loan portfolio stood at Rs. 21.81 crore as on March 31, 2020. (Rs. 21.64 crore as on March 31, 2019) The prudent underwriting policies adopted by the management has enabled the company to maintain

a sound asset quality with an on-time portfolio at 99.81 percent as on March, 2020 and gross non-performing assets (GNPA) at 0.14 percent. The sound asset quality was further reflected with an average collection efficiency of 98.6 percent for 12 months ended March 31, 2020.

Acuite believes that VASF will continue to benefit from its established presence and experience of the promoters in the microfinance segment.

Weaknesses

• Modest scale of operations; scalability of business yet to be demonstrated

VASF has been in the micro-finance lending space since 2010. The company registered a muted growth in the loan portfolio of Rs. 21.81 crore as on March 31, 2020 (Rs. 21.64 crore as on March 31, 2019). The company's profitability margin although healthy, declined during the period as reflected in its Return on Average Assets (RoAA) of 3.86 percent as on March 31, 2020 (provisional) from 4.30 percent as on March 31, 2019 mainly on account of increase in Operating Expenses to Earning Assets ratio which stood at 10.29 percent as on March 31, 2020 as compared to 9.20 percent as on March 31, 2019.

While VASF is in the process of scaling up its operations, 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 a business. Further, the impact of Covid-19 may also impair the scalability of business operations, which has currently disrupted access to funds, collections and disbursement processes for most of the NBFCs.

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

• Risk inherent to microfinance segment and elevated stress in asset quality

The activities of microfinance companies like VASF are exposed to concentration risks. VASF has presence in 2 states with a concentration in Tamil Nadu (~77 percent) and Puducherry (~23 percent) of total portfolio as on March 31, 2020. 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 the 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 the credit profile of VASF.

The impact of Covid-19 may also impair the scalability of business operations, which has currently disrupted collections and disbursement processes. Although VASF has demonstrated healthy asset quality in the past with low Gross Non-Performing Assets (GNPA) at 0.14 percent as on March 31, 2020, rise in delinquency is expected due to impact of Covid-19 as the credit profiles of some of the borrowers could be impaired for a much longer time

Acuite believes that containing additional slippages while maintaining the growth in the loan portfolio will be crucial.

Rating Sensitivity

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metrics
- Changes in the regulatory environment

Material Covenants

VASF 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 August 20, 2020. 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity: Adequate

VASF's overall liquidity profile remains adequate in near to medium term. VFPL's borrowings stood at ~Rs. 14.16 crore with a gearing of ~1.2 times as on March 31, 2020 (provisional). The borrowings of a VASF have an average maturity of 18 to 36 months against average lending tenure of ~12 to 24 months. The company has maintained cash and bank balance of ~Rs. 3.25 crore as on March 31, 2020. Based on the company's modest portfolio and since the operations are confined to remote rural areas, VASF was able to recover ~Rs. 2.20 crore in collections for the month of July 2020.

Outlook: Stable

Acuite 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 asset quality. The outlook may be revised to 'Positive' in case of higher than expected growth in the 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, thereby impacting profitability metrics.

About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Provisional)	FY19 (Actual)
Total Assets	Rs. Cr.	26.68	22.73
Total Income*	Rs. Cr.	3.63	3.04
PAT	Rs. Cr.	0.95	0.72
Networth	Rs. Cr.	11.84	10.89
Return on Average Assets (RoAA)	(%)	3.86	4.30
Return on Net Worth (RoNW)	(%)	8.38	6.80
Total Debt/Tangible Net Worth (Gearing)	Times	1.20	1.03
Gross NPA's	(%)	0.14	Nil
Net NPA's	(%)	0.14	Nil

* 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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
31-May-2019	Proposed Bank Facility	Long Term	3.00	ACUITE BB-/ Stable (Reaffirmed)
09-April-2019	Proposed Bank Facility	Long Term	3.00	ACUITE BB- (Indicative)
02-Feb-2018	Proposed Bank Facility	Long Term	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. Crore)	Ratings/Outlook
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB/ Stable (Upgraded from ACUITE BB-)

Contacts

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