

Press Release

Valar Aditi Social Finance Private Limited

November 19, 2021

Rating Reaffirmed



Product	Net Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings Loan	3.00	ACUITE BB Stable Reaffirmed	
Total	3.00	-	-

Rating Rationale

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

The rating factors in the experienced management and comfortable capitalization levels marked by Capital Adequacy Ratio (CAR) of 74.93 percent as on September 30, 2021. The rating also takes into account VASF's comfortable asset quality marked by on-time portfolio of ~99 percent as on September 30, 2021. The company's overall collection efficiency stood at an average of 91.97 percent for 12 months ended September 30, 2021.

The rating is however, constrained by modest scale of operations, limited financial flexibility, declining AUM, and risks inherent to micro finance sector. Going forward, the company's ability to profitably scale up its operations while maintaining its asset quality shall be key monitorables.

About the company

Valar Aditi Social Finance Private Limited (VASF) is a Non-Deposit Accepting Non-Banking Financial Company-Micro Finance Institution (NBFC-MFI). 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 Tamil Nadu and Puducherry.

VASF currently operates in Tamil Nadu and Puducherry with its network of 5 branches spread across 4 districts as on March 31, 2021.

Analytical Approach

Acuite has considered the standalone financial and business 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. It has a network of 5 branches across 4 districts with a loan portfolio of Rs. 16.20 crore as on March 31,

2021 (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. 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.

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

- **Adequate capitalization levels; comfortable asset quality**

With the portfolio declining in FY2021, it led to decline in risk weighted assets and hence, improving its capitalisation levels with the company reporting capital adequacy ratio at 72.32 percent as on March 31, 2021 (51.63 percent as on March 31, 2020). The same stood at 74.93 percent as on September 30, 2021.

The company has been able to maintain sound asset quality with an on-time portfolio at 99 percent and Gross Non-performing Assets (GNPA) at 0.75 percent as on September 30, 2021 (on-time portfolio at 98.40 percent and GNPA at 0.43 percent as on March 31, 2021). There were zero Net NPAs on account of write-offs and provisions. The sound asset quality was further reflected with an average collection efficiency of 91.97 percent for 12 months ended September 30, 2021. Its gearing stood at 0.61 times in FY2021 (1.2 times in FY2020), the same increased to 0.85 times as on September 30, 2021. With additional equity infusion plans and borrowings in pipeline, VASF's capital position will remain adequate.

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 decline in the loan portfolio to Rs. 16.03 crore as on September 30, 2020 (Rs. 21.8 crore as on March 31, 2021) mainly on account of low disbursements.

While VASF is in the process of scaling up its operations by next year, going forward the ability of the company to access timely capital infusion and its resource raising ability will be a key factor in the scalability of a business.

Acuité 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**

The activities of microfinance companies like VASF are exposed to concentration risks. VASF has presence in 2 states with a concentration in Tamil Nadu (~80 percent) and Puducherry (~20 percent) of total portfolio as on March 31, 2021. 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.

- **Declining AUM and modest profitability**

The company witnessed decline in its AUM from Rs. 21.8 crore in FY2020 to Rs. 16.2 crore in FY2021 on account of low disbursements. The same trend continued in Q2 FY2022, where AUM stood at Rs. 16.03 crore.

With decline in NIM, the overall profitability declined, the company reported PAT at Rs. 0.26

crore in FY2021 as against Rs. 0.94 crore in FY2020. The same saw a muted growth of Rs. 0.37 crore as on September 30, 2021 (Provisional). The company's profitability margin declined during the period as reflected in its Return on Average Assets (RoAA) of 1.10 percent as on March 31, 2021 from 3.82 percent as on March 31, 2020.

Acuité believes that the growth in AUM on account of increasing disbursements will be crucial.

Rating Sensitivity

- Ability to raise capital
- Scalability of business operations
- Movement in asset quality and liquidity buffers
- Profitability and capital adequacy buffers
- Changes in regulatory environment

Material Covenants

VASF is subject to covenants stipulated by its lenders/investors in respect of various parameters like asset quality among others.

Liquidity Position: Adequate

VASF's overall liquidity profile remains adequate in near to medium term. VFPL's borrowings stood at ~Rs. 10.62 crore with a gearing of ~0.85 times as on September 30, 2021 (provisional). The company has maintained unencumbered cash of ~Rs. 4.32 crore as on September 30, 2021. Also, the company is planning additional equity infusion of Rs. 10 crore by next year and there are borrowings in pipeline amounting Rs. 6 crore which will happen by the end of FY2022.

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 asset quality. The outlook may be revised to 'Positive' in case of higher than expected growth in the loan portfolio on account of high disbursements 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 loan portfolio and asset quality, thereby impacting profitability metrics.

Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20(Actual)
Total Assets	Rs. Cr.	20.16	26.46
Total Income*	Rs. Cr.	2.55	3.61
PAT	Rs. Cr.	0.26	0.94
Networth	Rs. Cr.	12.09	11.83
Return on Average Assets (RoAA)	(%)	1.10	3.82
Return on Net Worth (RoNW)	(%)	2.14	8.27
Total Debt/Tangible Net Worth (Gearing)	Times	0.61	1.18
Gross NPA's	(%)	0.43	0.14
Net NPA's	(%)	0.00	0.00

*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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Aug 2020	Proposed Bank Facility	Long Term	3.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
31 May 2019	Proposed Term Loan	Long Term	3.00	ACUITE BB- Stable (Reaffirmed)
09 Apr 2019	Proposed Bank Facility	Long Term	3.00	ACUITE BB- (Issuer not co-operating*)
02 Feb 2018	Proposed Term Loan	Long Term	3.00	ACUITE BB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Size Of Issue	Rating
Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB Stable Reaffirmed

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About Acuité Ratings & Research

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