

Press Release

Valar Aditi Social Finance Private Limited

December 08, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3.00	ACUITE BB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	3.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for the rating

The ratings continue to factor in VASF's experienced management, comfortable capitalization levels and healthy asset quality metrics. The company's CAR stood at 34.62 percent as on September 30, 2022 aided by internal accruals. The company's asset quality was marked by on-time portfolio of 99.87 percent with GNPA's at 0.08 percent as on September 30, 2022 supported by average overall collection efficiency of 98.86 percent for six months ended October 31, 2022. The company has reported a modest PAT of Rs 0.61 Crs for H1FY2022 (Provisional) (Rs 0.60 Crs for FY2022); the earnings profile has slightly improved owing to growth in AUM and disbursement levels. The company's loan portfolio stood at Rs 38.78 Cr as on September 30, 2022 (Rs 26.40 Cr as on March 31, 2022 and Rs 16.20 Cr as on March 31, 2021).

The rating is however, constrained by its modest scale of operations and geographic concentration and risks inherent to micro finance sector.

Going forward, the ability to leverage on experience of management, maintain comfortable capitalization levels and profitably scale up its operations while maintaining its asset quality and collection efficiency will be a key rating monitorable.

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 6 branches spread across 7 districts as on March 31, 2022.

Analytical Approach

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

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the rating.

Key Rating Drivers

Strength

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 7 branches across 9 districts with a loan portfolio of Rs. 38.78 crore as on September 30, 2022 (Rs. 26.40 crore as on March 31, 2022). 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. 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.

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

Healthy asset quality; Adequate capitalisation levels

VASF primarily focuses on micro-credit to women borrowers engaged in income-generating activities under the Joint Liability Group (JLG) model. The company is able to maintain sound asset quality as significant portion of borrowers have a repayment track record. The healthy asset quality is marked by its on-time portfolio at 99.87 percent as on September 30, 2022. This improvement is supported by healthy collections where collection efficiency for current month due stood at an average of 99.61 percent for 6 months ended October 31, 2022. The company reported a GNPA of 0.08 percent as on September 30, 2022 (0.11 percent as on March 31, 2022 and 0.37 percent as on March 31, 2021). The company's CAR stood at 34.62 percent as on September 30, 2022 (47.57 percent as on March 31, 2022 and 72.32 percent as on March 31, 2021). The company's CAR reduced due increase in risk weighted assets. The company reported an AUM of Rs 38.78 Crs as on September 30, 2022 (Rs 26.40 Crs as on March 31, 2022 and Rs 16.20 Crores as on March 31, 2021).

Acuité believes that going forward the ability of the company to maintain sound asset quality and adequate capitalization levels will be key rating sensitivity.

Improvement in financial performance.

The company reported an AUM of Rs 38.78 Crs as on September 30, 2022 (Rs 26.40 Crs as on March 31, 2022 and Rs 16.20 Crores as on March 31, 2021). Improvement in earnings profile is due to increase in AUM. The company reported a PAT of Rs 0.61 Crs during September-2022 (Provisional) (Rs 0.60 Crs during FY2021-22 and Rs 0.26 Crs during FY 2020-21). The company reported a NIM of 13.54 percent as on March 31, 2022 (12.68 percent as on March 31, 2021). RoAA of the company stood at 3.39 as on September 30, 2022 (2.39 as on March 31, 2021 and 1.10 as on March 31, 2021).

Acuité believes that VASF will be able to sustain its financial performance and any impact on profitability metrics due to higher provisioning requirements would remain key monitorable.

Weakness

Modest Scale of operations; Geographical concentration risk

VASF commenced its operations in 2010 and currently operates through a network of 7 branches located in 9 districts across two states namely, Tamil Nadu and Puducherry. Its Assets Under Management (AUM) stood at Rs. 38.78 Cr. as on September 30, 2022 as against Rs. 26.40 Cr. as on March 31, 2022. Of the total AUM of Rs. 38.78 Cr., on book portfolio comprised Rs. 37.72 Cr. (~97.27 percent) with the balance Rs. 1.06 Cr. (~2.73 percent) being off book portfolio. This growth in AUM in recent period is driven by management's decision to increase its scale of operations. Against this backdrop, the company has highly concentrated

portfolio with Tamil Nadu alone contributing ~81 percent of the overall AUM as on September 30, 2022. Resultantly, the company's performance is expected to remain exposed to competitive landscape in these areas and occurrence of events such as natural calamities may adversely impact the credit profile of the borrowers.

Acuité believes that the company's modest scale of operations coupled with geographic concentration in the will continue to weigh on the company's credit profile over the near to medium term.

Susceptibility to risks inherent to microfinance segment

VASF primarily extends unsecured loans to economically challenged borrowers who have limited ability to absorb income shocks. Since financial assistance to economic challenged borrowers is a sensitive issue, from government stand point the regulatory dispensation in respect of the policies becomes relevant. Any changes in the regulatory environment impeding the ability of entities like VASF to enforce collections, etc will have an impact on its operational performance. Besides the regulatory risks, the inherent nature of the business renders the portfolios vulnerable to event risks such as natural calamities in the area of operations.

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

Rating Sensitivity

- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability and capitalisation buffers
- Changes in regulatory environment

Material Covenants

None

Liquidity Position

Adequate

VASF's overall liquidity profile remains adequate in near to medium term. VFPL's borrowings stood at ~Rs. 27.77 crore with a gearing of ~2.09 times as on September 30, 2022 (provisional). The company has maintained cash and cash equivalents of ~Rs. 2.40 crore as on September 30, 2022 (Provisional). The company has received disbursements amounting Rs. 21.10 crore till October-2022.

Outlook:

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.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	29.75	20.16
Total Income*	Rs.	3.17	2.55

	Cr.		
PAT	Rs. Cr.	0.60	0.26
Networth	Rs. Cr.	12.68	12.09
Return on Average Assets (RoAA)	(%)	2.39	1.10
Return on Net Worth (RoNW)	(%)	4.81	2.14
Total Debt/Tangible Net Worth (Gearing)	Times	1.28	0.61
Gross NPA's	(%)	0.11	0.37
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):

None

Any other information

None

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>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Nov 2021	Proposed Term Loan	Long Term	3.00	ACUITE BB Stable (Reaffirmed)
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*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE BB Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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