

Press Release

Valar Aditi Social Finance Private Limited

March 17, 2023

Rating Upgraded



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

Rating Rationale

Acuite has upgraded its **long-term rating to 'ACUITE BB+' (read as ACUITE double B plus) from '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'**.

Reasons for Rating Upgrade:

The rating upgrade takes into consideration the improvement in AUM, disbursements, and earnings profile till February 2023. The overall AUM level stood at Rs 51.17 Cr as on February 28, 2023 (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 company reported disbursements of Rs 47.44 Cr. till February 2023 (Rs 27.77 Cr during FY2021-22 and Rs 13.99 Cr. during FY2020-21). The company reported PBT of Rs 1.80 Cr. during February 28, 2023 (Rs 1.0 Cr. during September 30, 2022, Rs 0.60 Cr during March 31, 2022 and Rs 0.37 Cr. during March 31, 2021). The company's earning profile has improved due to growth in AUM. 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 99.97 percent with GNPA's at 0.05 percent as on February 28, 2023 supported by average overall collection efficiency of 98.86 percent for six months ended October 31, 2022. 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 8 branches as on February 28, 2023.

Analytical Approach

Acuite Ratings & Research Limited

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Acuité has considered the standalone financial and business risk profile of VASF to arrive at 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 8 branches with a loan portfolio of Rs. 51.17 crore as on February 28, 2023 (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. Bestseller Foundation has been replaced by a new investor. The new investor is Tranquebank ApS. Equity amounting to Rs 3.00 Cr was also infused during 9MFY2023 by Dr I. Sebastian. The process of equity infusion and change in management has been completed by December-2022

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

Healthy asset quality and 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 99.97 percent as on February 28, 2023. 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 0.05 percent as on February 28, 2023 (0.09 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 overall AUM level stood at Rs 51.17 Cr as on February 28, 2023 (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).

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 overall AUM level stood at Rs 51.17 Cr as on February 28, 2023 (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). Improvement in earnings profile is due to increase in AUM. The company reported PBT of Rs 1.80 Cr. during February 28, 2023 (Rs 1.0 Cr. during September 30, 2022, Rs 0.60 Cr during March 31, 2022 and Rs 0.37 Cr. during March 31, 2021). The company reported a NIM of 13.84 as on January 31, 2023, 13.54 percent as on March 31, 2022 (12.68 percent as on March 31, 2021). RoAA of the company stood at 5.63 as on January 31, 2023 (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 8 branches located across 9 districts in 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. The company's assets and liabilities are well matched with no cumulative deficit in near to medium term time buckets. VFPL's borrowings stood at ~Rs. 33.87 crore with a gearing of ~2.01 times as on January 31, 2023. The company has maintained cash and cash equivalents of ~Rs. 3.63 crore as on January 31, 2023 (Provisional).

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.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator			
Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs in Cr.	29.75	20.16
Total Income*	Rs in Cr	3.17	2.55

PAT	Rs in Cr	0.60	0.26
Networth	Rs in 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	%	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

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- 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
08 Dec 2022	Proposed Term Loan	Long Term	3.00	ACUITE BB Stable (Reaffirmed)
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)

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 Upgraded

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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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