



Press Release
Valar Aditi Social Finance Private Limited
May 07, 2024

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.00	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	3.00	ACUITE BB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	33.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 30.00 Cr. bank facilities of Valar Aditi Social Finance Private Limited (VASF). The outlook is '**Stable**'.

Acuite has reaffirmed its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) 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 rating reaffirmation takes into consideration the improvement in AUM, disbursements, and earnings profile till January 31, 2024. The overall AUM level stood at Rs 64.63 Cr. as on January 31, 2024 (Rs 53.41 Cr. as on March 31, 2023, Rs 26.43 Cr. as on March 31, 2022 and Rs 16.23 Cr. as on March 31, 2021). The company reported disbursements of Rs 53.02 Cr. till January 31, 2024 (Rs 52.96 Cr. during FY2022-23 and Rs 36.38 Cr. during FY2021-22). The company reported PBT of Rs 3.20 Cr. during January 31, 2024 (Rs 1.96 Cr. during March 31, 2023 and Rs 0.83 Cr. during March 31, 2022). 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 35.31 percent as on January 31, 2024 aided by internal accruals. The company's asset quality was marked by on-time portfolio of 99.84 percent with GNPA at 0.01 percent as on January 31, 2024 supported by average overall collection efficiency of 99.99 percent for six months ended January 31, 2024. 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 Tranquebank ApS. 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 9 branches as on January 31, 2024.

Not Applicable

Analytical Approach

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 9 branches with a loan portfolio of Rs. 64.63 crore as on January 31, 2024 (Rs. 53.41 crore as on March 31, 2023). VASF is promoted by Mutual Benefit Trusts developed by Dr. I Sebastian's charitable trust – St. Joseph Development Trust (SJDT) and Tranquebank ApS. He has around three decades of experience in rural developmental activities. Dr. Sebastian is adequately supported on the board with Ernst Michaelsen – Managing Director of Tranquebank ApS, Mr. Sridhar Sampath, Mr. Reji Chandra, Mr. Ravi Prakash Singhee – Nominee Directors .

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 99.84 percent as on January 31, 2024. This improvement is supported by healthy collections where collection efficiency stood at an average of 99.99 percent for 6 months ended January 31, 2024. The company reported a GNPA of 0.01 percent as on January 31, 2024 (0.01 percent as on March 31, 2023 and 0.08 percent as on March 31, 2022). The company's CAR stood at 35.31 percent as on January 31, 2024 (35.45 percent as on March 31, 2023 and 47.57 percent as on March 31, 2022). The company's CAR reduced due to increase in risk weighted assets. The overall AUM level stood at Rs 64.63 Cr as on January 31, 2024 (Rs 53.41 Cr. as on March 31, 2023, Rs 26.43 Cr. as on March 31, 2022 and Rs 16.23 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 64.63 Cr as on January 31, 2024 (Rs 53.41 Cr. as on March 31, 2023, Rs 26.43 Cr. as on March 31, 2022 and Rs 16.23 Cr. as on March 31, 2021). Improvement in earnings profile is due to increase in AUM. The company reported PBT of Rs 3.20 Cr. during January 31, 2024 (Rs 1.96 Cr during March 31, 2023 and Rs 0.83 Cr. during March 31, 2022). The company reported a NIM of 13.27 percent as on March 31, 2023, 13.50 percent as on March 31, 2022 (12.68 percent as on March 31, 2021). RoAA of the company stood at 3.36 percent as on March 31, 2023 (2.39 percent as on March 31, 2022 and 1.10 percent 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 9 branches located across 12 districts in two states namely, Tamil Nadu and Puducherry. Its Assets Under Management (AUM) stood at Rs.64.63 Cr. as on January 31, 2024 as against Rs.53.41 Cr. as on March 31, 2023. Of the total AUM of Rs. 64.63 Cr. on book portfolio comprised Rs. 62.49 Cr. with the balance Rs. 2.14 Cr. 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 ~86 percent of the overall AUM as on January 31, 2024. 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

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. 50.07 crore with a gearing of ~2.42 times as on January 31, 2024. The company has maintained cash and cash equivalents of ~Rs. 4.47 crore as on January 31, 2024.

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	FY23 (Actual)	FY22 (Actual)
Total Assets	Rs in Cr.	54.40	29.75
Total Income*	Rs in Cr	5.49	3.16
PAT	Rs in Cr	1.42	0.60
Networth	Rs in Cr	17.10	12.68
Return on Average Assets (RoAA)	%	3.36	2.39

Return on Net Worth (RoNW)	%	9.51	4.81
Total Debt/Tangible Net Worth (Gearing)	Times	2.10	1.28
Gross NPA's (%)	%	0.01	0.08
Net NPA (%)	%	0.01	0.08

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

Not Applicable

Any other information

None

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
17 Mar 2023	Proposed Long Term Loan	Long Term	3.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
08 Dec 2022	Proposed Long Term Loan	Long Term	3.00	ACUITE BB Stable (Reaffirmed)
19 Nov 2021	Proposed Long Term Loan	Long Term	3.00	ACUITE BB Stable (Reaffirmed)

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 avl. / Not appl.	Proposed Long Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.00	ACUITE BB+ Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.70	ACUITE BB+ Stable Assigned
A U Small Finance Bank	Not avl. / Not appl.	Term Loan	25 Jul 2022	Not avl. / Not appl.	03 Sep 2024	Simple	1.90	ACUITE BB+ Stable Assigned
Canara Bank	Not avl. / Not appl.	Term Loan	24 Sep 2021	Not avl. / Not appl.	24 Sep 2024	Simple	1.21	ACUITE BB+ Stable Assigned
Dhanlaxmi Bank Ltd	Not avl. / Not appl.	Term Loan	21 Dec 2021	Not avl. / Not appl.	21 Mar 2024	Simple	0.06	ACUITE BB+ Stable Assigned
State Bank of India	Not avl. / Not appl.	Term Loan	29 Oct 2022	Not avl. / Not appl.	29 Oct 2025	Simple	1.89	ACUITE BB+ Stable Assigned
State Bank of India	Not avl. / Not appl.	Term Loan	30 Oct 2023	Not avl. / Not appl.	01 Sep 2026	Simple	14.55	ACUITE BB+ Stable Assigned
Tamil Nadu Grama Bank	Not avl. / Not appl.	Term Loan	24 Jan 2022	Not avl. / Not appl.	19 Mar 2025	Simple	0.85	ACUITE BB+ Stable Assigned
Tamil Nadu Grama Bank	Not avl. / Not appl.	Term Loan	17 Oct 2017	Not avl. / Not appl.	18 Jan 2026	Simple	1.28	ACUITE BB+ Stable Assigned
Tamil Nadu Grama Bank	Not avl. / Not appl.	Term Loan	06 Oct 2023	Not avl. / Not appl.	06 Oct 2026	Simple	2.92	ACUITE BB+ Stable Assigned
Union Bank of India	Not avl. / Not appl.	Term Loan	25 Aug 2022	Not avl. / Not appl.	26 Aug 2025	Simple	1.64	ACUITE BB+ Stable Assigned

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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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