

Press Release

VIRUTCHAM MICROFINANCE LIMITED (VML)

March 07, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 5.00 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+**' (**read as SMERA BB plus**) on the Rs.5.00 crore bank facilities of Virutcham Microfinance Limited (VML). The outlook is '**Stable**'.

The Tamil Nadu-based VML, was incorporated in 2008 as a non-deposit accepting NBFC. Later on, in June 2014 it was converted into NBFC-MFI and was engaged in extending credit through self-help group model (SHG). Since 2016 the company adapted to Joint liability group for extending credit. Presently VML has around 9 branches spread over two states namely Tamil Nadu and Kerala.

Key Rating Drivers

Strengths

Experienced management

Mr. J M Nadar, is the chairman of VML. He has extensive experience of more than two decades in the banking sector and has also served as the Regional Director of RBI and as Chairman of Tamilnad Mercantile Bank Limited. He is supported by S. Charles Selvaraj (CEO) having experience of over three decades in the financial services sector also presently handles day to day operations of the company. The board of VML comprises 6 directors having over a decades experience in the financial services sector. SMERA believes that VML will continue to benefit from directors extensive experience in the banking and financial services sector over a medium term.

Strong capitalisation

VML has adequate capitalization marked by Capital adequacy ratio (CAR) of 36.03 percent on January 31, 2017 as against regulatory requirement of 15 per cent. This includes 31.07 per cent by way of Tier 1 capital and 4.96 per cent in Tier two capital. The company has networth of Rs. 5.69 crore as on March 2017. The funding pattern as on 31 December, 2017 of Rs. 34.48 crore comprises of Rs. 28.24 crore through term loans from various banks and financial institutions.

Moderate profitability and comfortable asset quality metrics

VML's profitability stands moderate marked by Return on Average Assets (RoAA) of 2.21 per cent in FY2017 as compared to 1.45 per cent in FY2016. The net interest margins (NIM) improved to 19.82 per cent in FY2017 from 18.73 per cent in FY2016. The company reported operating income of Rs.1.74 crore in FY2017. VML lends at a rate of flat rate of 24 per cent. The company's asset quality remained comfortable as reflected in 99.21 per cent on time portfolio and nil gross NPA as on December 31, 2017.

Weaknesses

Modest scale of operations:

VML has a modest loan portfolio of Rs.20.18 crore as on January 31, 2018, grown from Rs.9.20 crore as on March 31, 2017. VML's modest scale of operations is mainly due to limited resource profile which is limited to promoter's contribution and borrowings from banks. This limits the flexibility of VML to increase its scale of operations. SMERA believes that VML's ability to grow its loan book while maintaining its asset quality shall

be a key factor to maintain a stable credit profile.

Geographical concentration:

VML's loan portfolio is also exposed to risks associated with high degree of geographical concentration arising out of its limited branch spread. The company has branches in two states namely Tamil Nadu and Kerala. SMERA believes that geographical concentration of portfolio will continue to impinge on VML's credit profile over the near to medium term.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of VML to arrive at the rating.

Outlook: Stable

SMERA believes that VML will maintain a stable risk profile on account of its experienced management, comfortable capitalization and healthy asset quality. The outlook may be revised to 'Positive' in case of higher than expected profitability margins, sustained growth in assets under management while maintaining its asset quality. The outlook may be revised to 'Negative' in case of headwinds faced by VML in growing its loan book or in case of deterioration in asset quality or profitability margins.

About the Rated Entity - Key Financials

Particulars	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	10.53	8.69	10.47
Total Income	Rs. Cr.	1.74	1.51	1.22
PAT	Rs. Cr.	0.21	0.14	0.11
Net Worth	Rs. Cr.	5.69	5.48	5.34
Return on Average Assets (RoAA)	(%)	2.21	1.45	2.10
Return on Average Net Worth(RoNW)	(%)	3.80	2.56	4.12
Total Debt/Tangible Net Worth (Gearing)	Times	0.81	0.55	0.93
Gross NPA	(%)	Nil	Nil	Nil
Net NPA	(%)	Nil	Nil	Nil

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Non-Banking Financing Entities - <https://www.smera.in/criteria-nbfc.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB+ / Stable

Contacts

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Leena Gupta Analyst - Rating Operations Tel: 022-67141172 leena.gupta@smera.in	

ABOUT SMERA

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