

Press Release

Virutcham Microfinance Limited

May 08, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs. 5.00 crore bank facilities of VIRUTCHAM MICROFINANCE LIMITED (VMFL). The outlook is '**Stable**'.

VMFL, started in 2008, is a Tamil Nadu based NBFC-MFI engaged in microfinance activity by way of extending credit to Joint liability groups. It began its operations in 2014. The company operates in two states, namely, Tamil Nadu and Kerala with a network of 11 branches as on March 31, 2019. It has lent to around 2,829 JLG (Joint Liability Groups) as on 31 March, 2019.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of VMFL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management:

The current management of VMFL took over the operations of VMFL from the previous promoters in FY2019. The current board of VMFL comprises five members including Mr. Dev Asokan (Chairman) experienced in corporate management, Mr. Charles Selvaraj (Managing Director and CEO) with over three decades experience in finance, Mr. R P Joshua, an independent Director of the company and is ex-Chief General Manager of SBI and Ex-Chairman of Catholic Syrian Bank Ltd.

The board is adequately supported by Mr. P Stephen, General Manager, who has over three decades of experience in the field of Integrated Community Development, Poverty Alleviation programmes and aids in setting up the various Joint Liability Groups (JLG) in the company.

Acuité believes that experience of the management and promoters will be central to support the business risk profile of the company over the near to medium term.

Healthy loan portfolio:

VMFL primarily focuses on lending to JLGs of women primarily in Tamil Nadu and Kerala, who are mainly engaged in income generating activities. The initial loan amount is linked to adequate cash flows of each member of the group and the repayment track record of the existing loans by the members. The subsequent loan amount is linked to the earlier loan cycles and the repayment track record therein. A detailed assessment of the borrowers is undertaken including a visit to the borrowers to assess their eligibility.

The stringent credit assessment and monitoring processes in place have enabled the company to maintain healthy asset quality. The company reported Gross NPA of 0.08 percent as on March 31, 2019 (Provisional) (Previous Year NIL). The company has demonstrated moderate collection efficiency with a track record of over ~99.14 percent collection on an average for twelve months ended March 31, 2019. The portfolio is diversified across 11 districts of Tamil Nadu and Kerala.

Acuité believes that VMFL will maintain a healthy asset quality level on the back of its stringent credit assessment and monitoring process in the near to medium term.

Weaknesses

Modest scale of operations; scalability of business to be demonstrated:

VMFL's overall loan portfolio stood at Rs.51.67 Cr as on March 31, 2019 (Provisional) which increased from Rs. 27.54 Cr as on March 31, 2018. The growth in loan portfolio is mainly on account of increase in network of branches to 11 as on March 31, 2019 (Provisional) from 9 branches as on March 31, 2018, which in turn has increased the borrower base. The company maintained moderate profitability as reflected in its return on average assets (RoAA) of 0.96 percent for FY2019 (Provisional) as against 1.47 percent in the previous year and Net Interest Margin (NIM) of 8.16 percent in FY2019 (Provisional) and 10.64 percent in FY2018.

While the company has scaled up its loan portfolio steadily over the years, the profitability of VMFL moderated as indicated by decline in RoAA and NIM, mainly due to moderation in lending rates and spike in cost of borrowings. Gearing stood at 4.63 times as on March 31, 2019 (Provisional) as against 4.27 times as on March 31, 2018 and 0.81 times as on March 31, 2017. The company borrows mainly through long term borrowings of term loans, which had increased to Rs. 51.38 Cr as on March 31, 2019 (Provisional) as against Rs.27.54 Cr. as on March 31, 2018. The ability of the company to expand its operations in a profitable manner will be limited to its ability to mobilise low cost funds.

Acuite believes, going forward, the ability of the company to mobilise additional funding through debt /sub debt and its ability to deploy the funds profitably while maintaining asset quality will be crucial to the credit profile of the company.

Risks inherent to microfinance segment

The activities of microfinance companies, like VMFL are exposed to geographical concentration risks. VMFL has presence in two states, namely, Tamil Nadu (~81 percent of the overall portfolio) and Kerala (~18 percent) as on March 31, 2019 (Provisional) as against 87 and 13 percent respectively as on March 31, 2018. It has 11 branches located over 3 districts in Kerala and 9 districts in Tamil Nadu. 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 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.

Liquidity Position:

VMFL had adequate cash flows as on March 31, 2019 as cumulative surplus is available in all maturity buckets over the near to medium term. Most of the loans are upto one year tenures, while the borrowings are upto two-year tenure, leading to positive mismatches over the near to medium term. The company's liquidity position is supported by cash and bank balance of ~Rs. 9.00 crore as on March 31, 2019 (Provisional) mainly due to capital infusion in March 2019.

Outlook: Stable

Acuite believes that VMFL 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 and liquidity levels. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio 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 asset quality and profitability metrics. The outlook may be revised to 'Negative' in case of any deterioration in the capital structure.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	63.20	32.10	10.53
Total Income (Net of Interest Expense)	Rs. Cr.	3.91	2.29	1.74
PAT	Rs. Cr.	0.46	0.31	0.21
Net Worth	Rs. Cr.	11.09	6.01	5.69
Return on Average Assets (RoAA)	(%)	0.96	1.47	2.21
Return on Average Net Worth (RoNW)	(%)	5.35	5.34	3.80
Total Debt/Tangible Net Worth (Gearing)	Times	4.63	4.27	0.81
Gross NPAs	(%)	0.08	NIL	0.68
Net NPAs	(%)	NIL	NIL	0.68

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

Not Applicable

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Mar-2018	Proposed Term Loan	Long Term	5.00	ACUITE BB+/ Stable (Assigned)

*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	ACUITE BB+/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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