

Press Release

Virutcham Microfinance Limited

March 18, 2020

Rating Reaffirmed



Total Bank Facilities Rated	Rs. 5.00 crore
Long Term Rating	ACUITE BB+/ Stable (Reaffirmed)

Rating Rationale

Acuite has reaffirmed the 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**'.

About VML:

Incorporated in 2008, Virutcham Microfinance Limited (VMFL) is a Tamil Nadu based NBFC-MFI engaged in microfinance activity by way of extending credit to Joint liability groups. VMFL initially started out as Non-Deposit accepting NBFC and was later re-classified as NBFC-MFI in 2014. The company is promoted by Mr. Charles Selvaraj and operates in three states, namely, Tamil Nadu, Kerala and Puducherry with a network of 18 branches as on December 31, 2019. It has lent to around 3,699 JLG (Joint Liability Groups) and has a borrower base of 31,520 borrowers as on December 31, 2019.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management

VMFL commenced microfinance lending since November, 2008. The current management of VMFL took over the operations of VMFL from the previous promoters in FY 2019. 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 various companies as Group Finance Director, 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.

Acuite 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, Kerala and Puducherry, 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 and NIL as on December 31, 2019. The company has demonstrated high collection efficiency of ~97 percent

collection on an average for twelve months ended December 31, 2019. The portfolio is diversified across 18 districts of Tamil Nadu, Kerala and Puducherry.

Acuite 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.58.68 Cr as on December 31, 2019 which increased from Rs.51.67 Cr as on March 31, 2019 and 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 18 as on December 31, 2019 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 2.30 percent (annualized) as on December 31, 2019 from 0.96 percent for FY2019. Net Interest Margin (NIM) improved at 8.98 percent for December 31, 2019 after declining to 8.19 percent in FY2019 from 10.64 percent in FY2018. While the company has scaled up its loan portfolio steadily over the years, the profitability of VMFL has remained moderate as indicated by RoAA and NIM, mainly due to moderation in lending rates and spike in cost of borrowings. With fresh capital infusion in the form of equity gearing improved at 3.09 times as on December 31, 2019 from 4.63 times as on March 31, 2019. The company borrows mainly through long term borrowings of term loans, which stood at Rs. 50.90 as on December 31, 2019. 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 three states with concentration in Tamil Nadu (~72 percent of the overall portfolio) and Kerala (~23 percent) as on December 31, 2019. It has 18 branches located over 1 district in Puducherry 3 districts in Kerala and 14 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.

Rating Sensitivity

- Diversification in geographical profile while maintaining asset quality
- Sustainable and healthy growth in profitability metrics
- Significant deterioration in asset quality

Material Covenants

None

Liquidity: Adequate

VMFL overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term as per ALM dated December 31, 2019. The company's liquidity is supported by recent capital infusion. 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 has maintained cash and bank balance of ~Rs. 2.24 crore as on December 31, 2019.

Acuite believes that the company's liquidity profile will continue to benefit from funding support from its promoters.

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

Particulars	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	63.03	32.10
Total Income*	Rs. Cr.	3.92	2.29
PAT	Rs. Cr.	0.47	0.31
Networth	Rs. Cr.	11.10	6.01
Return on Average Assets (RoAA)	(%)	0.98	1.47
Return on Net Worth (RoNW)	(%)	5.45	5.34
Total Debt/Tangible Net Worth (Gearing)	Times	4.63	4.27
Gross NPA's	(%)	0.08	-
Net NPA's	(%)	-	-

* 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

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
08-May-2019	Proposed Term Loan	Long Term	5.00	ACUITE BB+/ Stable (Reaffirmed)
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. Crore)	Ratings/Outlook
Term Loan	27-May-19	Not Applicable	30-May-21	2.50	ACUITE BB+/ Stable (Reaffirmed)
Term Loan	29-Jun-19	Not Applicable	30-Jun-21	2.50	ACUITE BB+/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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