

Press Release

Virutcham Microfinance Limited

June 16, 2021

Rating Withdrawn



Total Bank Facilities Rated*	Rs 5.00 Cr.
Long Term Rating	ACUITE BB+ (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has withdrawn the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 5.00 Cr. Bank Facilities of Virutcham Microfinance Limited (VMFL). The withdrawal is in accordance with Acuite's policy on withdrawal and NOC received from Bank.

The rating factors in VMFL's experienced management and operational track record. The rating further takes into account VMFL's diversified funding profile as the company has sourced its loans from several Banks and Non-Banking Finance companies. The rating is however constrained due to small scale of operations with loan portfolio of Rs 50.66 Cr. as on March 31, 2021. The rating is further constrained by the company's geographically concentrated operations in Tamil Nadu (~83 percent of the overall portfolio), Kerala (~13 percent of the overall portfolio) and Pondicherry (~ 4 percent of overall portfolio) as on March 31, 2021. Further, the profitability of VMFL declined mainly due to moderation in lending rates and spike in cost of borrowings. The second wave of COVID-19 has induced localized lockdowns, thereby impacting the asset quality and collections. The company reported 90+DPD at 9.77 percent as on March 31, 2021 as against 0.21 percent as on March 31, 2020. Going forward the ability of the company to strengthen its capitalization levels, maintain the liquidity buffers, improvement in the collections while maintaining the asset quality will be key monitorables.

About the Company

VMFL, incorporated 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 three states, namely, Tamil Nadu, Kerala and Pondicherry with a network of 18 branches as on March 31, 2021. It has lent to around 4092 JLG (Joint Liability Groups) as on March 31, 2021.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and track record of operations:**

VMFL has been extending micro credit to women engaged in income generating activities under Joint Liability Group (JLG) model. The company has geographical presence in the states of Tamil Nadu, Kerala and Pondicherry with its network of 18 branches and outstanding portfolio of Rs. 50.66 Cr as on March 31, 2021.

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 of 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.

Acuité believes that established presence of the promoters in the microfinance segment will be central to support the business risk profile of the company in the near to medium term.

Weaknesses

- **Small scale of operations; ; scalability of business to be demonstrated:**

VMFL has been in the micro finance lending space since 2014. The company has small scale of operations with an outstanding loan portfolio of Rs.50.66 Cr as on March 31, 2021 as compared to Rs.60.81 Cr as on March 31, 2020. The company's profitability was moderate as reflected in its return on average assets (RoAA) of 1.00 percent and Net Interest Margin (NIM) of 9.04 percent during FY2021 (provisional), mainly due to moderation in lending rates and spike in cost of borrowings. The company borrows mainly through long term borrowings of term loans, which stood at Rs. 43.97 Cr. as on March 31, 2021. The company's gearing stood at 2.64 times as on March 31, 2021 (provisional). The ability of the company to expand its operations in a profitable manner will be limited to its ability to mobilize low cost funds.

The outbreak of the second wave of COVID-19 and the intermittent lockdowns have significantly impacted the operations of the micro finance industry, thereby impacting the asset quality in general. The company reported 90+DPD at 9.77 percent as on March 31, 2021 as against 0.21 percent as on March 31, 2020. Further, VMFL maintained a comfortable capital adequacy ratio of 37.67 percent as on March 2021 (Tier-I Capital at 29.29 percent). Although, VMFL maintained adequate capitalization levels, given the company is facing asset quality stress, sustaining the current levels along with maintaining asset quality will be a key credit monitor able.

Acuité believes, going forward, the ability of the company to mobilize additional funding and its ability to deploy the funds profitably while maintaining asset quality will be crucial to the credit profile of the company.

- **Geographically concentrated portfolio:**

The activities of microfinance companies, like VMFL are exposed to geographical concentration risks. VMFL has presence in three states, namely, Tamil Nadu (~83 percent of the overall portfolio), Kerala (~13 percent of the overall portfolio) and Pondicherry (~3.91 percent of the overall portfolio) as on March 31, 2021. It has 14 branches in the state of Tamil Nadu, 3 branches in the state of Kerala and 1 branch in the state of Pondicherry. 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.

Acuité believes, that small scale of operations coupled with geographic concentration in its portfolio in the backdrop of second wave of COVID will continue to weigh on the company's credit profile over the near to medium term.

Liquidity Position:

The company's overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term as per ALM dated March 31, 2021. The company's liquidity position is supported by cash and bank equivalent of ~Rs. 5.21 crore as on March 31, 2021 (provisional)

Rating Sensitivity

- Movement in profitability and liquidity metrics
- Strengthening the capital levels.
- Diversification in geographical profile while improving asset quality
- Impact of natural calamities on ongoing operations

Material Covenants

VMFL is subject to covenants stipulated by its lenders/investors in respect of various parameters.

About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	66.75	63.03
Total Income*	Rs. Cr.	6.45	3.92
PAT	Rs. Cr.	1.22	0.47
Net Worth	Rs. Cr.	16.07	11.10
Return on Average Assets (RoAA)	(%)	1.89	0.98
Return on Average Net Worth (RoNW)	(%)	9.01	5.45
Debt/Equity	Times	3.06	4.63
Gross NPA	(%)	0.21	0.08
Net NPA	(%)	-	-

*Total income equals to Net Interest Income plus other income.

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

Not Applicable.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of the Facilities	Term	Amount (Rs Cr)	Ratings/Outlook
18-March-2020	Term loan	Long Term	2.50	ACUITE BB+/Stable (Reaffirmed)
	Term loan	Long Term	2.50	ACUITE BB+/Stable (Reaffirmed)
8-May-2019	Proposed Term loan	Long Term	5.00	ACUITE BB+/Stable (Reaffirmed)
7-March-2018	Proposed Term loan	Long Term	5.00	ACUITE BB+/Stable (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs Cr.)	Ratings
Term Loan	27-May-2019	14.00%	30-Oct-2021	5.00	ACUITE BB+ (Withdrawn))
Term Loan	29-June-2019	14.00%	30-Nov-2021	5.00	ACUITE BB+ (Withdrawn))

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About Acuité Ratings & Research:

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