Press Release

Laxmi India Finleasecap Private Limited (LIFPL)

May 24, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	SMERA BBB / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

SMERA has assigned a long term rating of **'SMERA BBB' (read as SMERA triple B) o**n the Rs. 20.00 cr. Bank facilities of Laxmi India Finleasecap Private Limited (LIFPL). The outlook is **'Stable'**.

Incorporated in 1996, LIFPL, a Jaipur based company registered as a non-deposit taking NBFC with RBI since March 2001, commenced operations in April 2011 upon merger with Deepak Finance & Leasing Company - a proprietorship firm engaged in extending credit in Rajasthan. Initially the company financed 3-wheeler and 4-wheeler commercial and non-commercial vehicles in Jaipur and nearby areas and subsequently extended its operations to various rural and semi urban areas in Rajasthan. Presently, LIFPL has a network of 45 branches in Rajasthan and is engaged in vehicle financing, loan against property (LAP) and unsecured loans to individuals. LIFPL is led by Mr. Deepak Baid and Mrs. Prem Devi Baid**.**

Key Rating Drivers

Strengths

Established track record of Promoters:

Mr. Deepak Baid, promoter of LIFPL, has over two decades of experience in the financial services industry and has played a vital role in building the company's current scale and presence in Rajasthan. The Board of Directors comprises Mr. Deepak Baid (Managing Director), Mrs. Prem Devi Baid (Director), Mrs. Anisha Baid (Director), Mr. Sandeep Chhajer (Independent Director) and Mr. Surendra Mehta (Independent Director). They are having over a decades of experience in the financial services industry. Over the years LIFPL has successfully expanded its operations to 45 branches in 22 districts in Rajasthan with outstanding loan book of Rs. 200.4 crore as on 31 March 2018 across 7474 active borrowers. The directors are resourceful with a track record of fund infusion in the company. Presently the director and his family has invested Rs. 17.86 crore in the form of subordinated debt in the company. The promoters aim to increase its geographical reach by expanding to Gujarat, Madhya Pradesh and Maharashtra and build a diversified portfolio by adding new products like gold loan, loan against securities, loan against commodity, and personal loans over the near future.

Increasing scale of operations:

LIFPL's loan portfolio has grown to Rs. 200.4 crore as on 31 March 2018 from Rs. 105.4 crore as on March 2017. The portfolio has grown at a 3-year compound annual growth rate of 43.2% primarily driven by the growth in the LAP portfolio. LAP, vehicle finance, and unsecured loans constituted 76 percent, 21 percent and 2 percent, respectively, as on 31 March 2018 as against 53 percent, 43 percent and 5 percent respectively as on 31 March 2017. The company plans to introduce new products namely gold loan, loan against securities, loan against commodities, personal loans over 3 to 6 months which is likely to augur well to the growth in loan portfolio over the medium term.

Comfortable capitalization:

LIFPL's networth stood at Rs. 60.93 crore on 31 March 2018 (provisional; including Rs. 18.20 crore of unsecured loans from directors and family) as against Rs. 40.50 crore as on 31 March 2017. LIFPL's capitalization will be supported by steady accruals to networth with the improvement in profitability. Debt to equity ratio was comfortable at 2.68 times as on 31 March 2018 (provisional) as against 1.81 times as on 31 March 2017. Tier I and overall capital adequacy ratio were at 19.56 percent and 19.88 percent, respectively, as on 31 March 2018 as against 19.12 percent and 19.43 percent, respectively, as on 31 March 2017. SMERA believes that the company's comfortable capitalization levels will support its growth plans over the medium term.

Adequate profitability:

LIFPL reported return on average assets (RoAA) of 2.04 percent in 2017-18 (provisional) as compared to 0.95 percent in 2016-17. The improvement in profitability was supported by the sustained decline in operating expenses to earning assets ratio to 4.13 percent in 2017-18 (provisional) from 6 percent in 2016-17. LIFPL is expected to continue to benefit from healthy net interest margin (NIM) of 8.41 percent in 2017-18 (Provisional) as compared to 8.82 percent in 2016-17. Healthy NIMs are supported by LIFPL's healthy yields on the loan book. The company's cost of borrowing is also expected to decline over the near to medium term, which should also support the overall profitability. However, any sharp deterioration in asset quality will result in increase in provisioning costs and will remain a key monitorable.

Weaknesses

Susceptibility of asset quality:

LIFPL reported gross non-performing assets of 1.01 percent on 31 March 2018 (provisional) as against 0.83 per cent a year ago. The increase in gross NPAs was due to NPA recognition transition from 180+ dpd to 150+ dpd from March 2018. The prudent lending policies have enabled LIFPL to maintain asset quality as reflected in 92 per cent of on time portfolio as on 31 March 2018 (provisional) compared to 88 percent as on 31 March 2017. The company's 90+ dpd stood at 2 per cent as on 31 March 2018 compared to 3 per cent as on 31 March 2017 and 4 percent as on 31 March 2016. LIFPL. The prudent lending practice can be ascertained from the improved loan to value ratio: ~59 percent of loan portfolio had up to 50 percent LTV against 54 percent and 32 percent as on 31 March 2017 and 31 March 2016 respectively. The company also undertakes detailed due diligence on the borrowers' cashflows to assess the credit profile and repayment ability. However, the company's loan book has grown in FY2017 and FY2018 and hence the impact of seasoning remains to be seen and will remain a key monitorable. The company's one year lagged gross NPAs were at around 1.92 percent as on 31 March 2018(Provisional). Any significant deterioration in asset quality will adversely impact the credit risk profile and will remain a key rating sensitivity factor.

Highly concentrated portfolio:

LIFPL has high geographical concentration as the entire branch network is in Rajasthan currently. Occurrence of events such as slowdown in economic activity, any major natural calamity in the state, or shifting of industrial activity to other geographies could impact the cash flows of the borrowers, thereby impacting credit profile of LIFPL's borrowers. The company plans to reduce its geographical concentration in Rajasthan by extending its operations to Madhya Pradesh, Maharashtra and Gujarat. SMERA believes that LIFPL will continue to face geographical concentration risk till it achieves a major share in other regions besides Rajasthan.

Analytical Approach

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

Outlook: Stable

SMERA believes that LIFPL will maintain a 'Stable' risk profile on account of the experienced management and comfortable capitalization. The outlook may be revised to 'Positive' in case of sustained growth in the loan portfolio while maintaining asset quality and profitability. The outlook may be revised to 'Negative' in case of significant deterioration in asset quality or moderation in profitability.

About the Rated Entity - Key Financials

Particulars	Unit	FY18 (Prov.)	FY17	FY16
Total Assets	Rs. Cr.	230.38	119.03	86.93
Total Income	Rs. Cr.	15.26	8.65	6.37
PAT	Rs. Cr.	3.56	0.98	0.74
Net Worth	Rs. Cr.	60.93	40.50	34.55
Return on Average Assets (RoAA)	(%)	2.04	0.95	0.90
Return on Average Net Worth(RoNW)	(%)	7.02	2.61	2.15
Total Debt/Tangible Net Worth (Gearing)	Times	2.68	1.81	1.33
Gross NPA	(%)	1.01	0.83	0.56
Net NPA	(%)	0.86	0.12	0.09

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)

None

*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 facility	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BBB/ Stable (Assigned)

Contacts

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

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: *A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.*