

Press Release

Laxmi India Finleasecap Private Limited

July 27, 2018

Rating Assigned and Reaffirmed



Total Facilities Rated	Rs. 158.05 Cr.
Bank Facilities rated*	Rs. 148.05 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Instruments rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE Provisional^ BBB / Outlook: Stable

* Refer Annexure for details

^The rating will be converted to final rating after the:

- Finalisation of terms of NCD
- Execution of trust deed

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB**' (read as **ACUITE BBB**) to the Rs. 142.71 crore bank facilities and has reaffirmed long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 5.34 crore bank facilities of Laxmi India Finleasecap Private Limited. The outlook is '**Stable**'.

Acuite has also assigned long term rating of '**ACUITE Provisional BBB**' (read as **ACUITE Provisional triple B**) On the Rs. 10.00 crore proposed Non-Convertible Debentures of Laxmi India Finleasecap Private Limited. 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 52 branches as on 30 June 2018 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) and Mr. Surendra Mehta (Independent Director). They have over a decades of experience in the financial services industry. Over the years, LIFPL has successfully expanded its operations to 52 branches in 22 districts in Rajasthan with outstanding loan book of Rs. 200.01 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 over the near future.

• Increasing scale of operations:

LIFPL's loan portfolio has grown to Rs. 200.01 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 43.9% 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 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. 61.24 crore on 31 March 2018 (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 2.67 times as on 31 March 2018 as against 1.81 times as on 31 March 2017. Tier I and overall capital adequacy ratio were at 19.84 percent and 20.16 percent, respectively, as on 31 March 2018 as against 18.92 percent and 19.23 percent, respectively, as on 31 March 2017.

Acuite 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 2.21 percent in 2017-18 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 4.20 percent in 2017-18 from 6.00 percent in 2016-17. LIFPL is expected to continue to benefit from healthy net interest margin (NIM) of 8.49 percent in 2017-18 (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 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 compared to 88 percent as on 31 March 2017. 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' cash flows 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. 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. Acuite believes that LIFPL will continue to face geographical concentration risk till it achieves a major share in other regions besides Rajasthan.

Analytical Approach

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

Outlook: Stable

Acuite 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Total Assets	Rs. Cr.	228.94	119.03	86.93
Total Income	Rs. Cr.	15.38	8.65	6.37
PAT	Rs. Cr.	3.85	0.98	0.74
Net Worth**	Rs. Cr.	61.24	40.50	34.55
Return on Average Assets (RoAA)	(%)	2.21	0.95	0.90
Return on Average Net Worth (RoNW)	(%)	7.57	2.61	2.15
Total Debt/Tangible Net Worth (Gearing)	Times	2.67	1.81	1.33
Gross NPA	(%)	1.01	0.83	0.56
Net NPA	(%)	0.86	0.70	0.09

**Networth includes unsecured loans of Rs. 18.20 crore from promoters and family treated as quasi equity as the company has committed to maintain these in the business for long term.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.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 Instruments/ facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
24 May 2018	Proposed facility	Long Term	20.00	ACUITE BBB / Stable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.47	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	11.93	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	25.16	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.51	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.53	ACUITE BBB/Stable (Assigned)

Term Loan	Not Applicable	Not Applicable	Not Applicable	9.54	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	38.30	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.85	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	8.75	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.06	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.44	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.44	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.24	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.81	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.67	ACUITE BBB/Stable (Assigned)
Proposed Non - convertible Debentures	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE Provisional BBB/Stable (Assigned)
Proposed facility	Not Applicable	Not Applicable	Not Applicable	5.35	ACUITE BBB/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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