

Press Release

Finmax Credit & Finance Private Limited (FCFPL)

June 18, 2018

Rating Assigned & Reaffirmed



Total Facilities	Rs. 50.00 Cr.
Instruments Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed)
Instruments Rated*	Rs.15.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed)
Instruments Rated*	Rs.10.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 10.00 Crore Proposed Secured Non-Convertible Debenture issue of FCFPL. The outlook is '**Stable**'

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.25.00 Crore bank facilities of FCFPL. The outlook is '**Stable**'.

Acuite has also reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.15.00 Crore Proposed Secured Non-Convertible Debentures of FCFPL. The outlook is '**Stable**'.

FCFPL (formerly known as Volition Credit and Holding Private Limited) is a Mumbai based non-deposit taking NBFC engaged in the business of lending to micro and small traders/retailers. The company is promoted by Mr. Sanjay Agarwal and Mrs. Priyanka Modi Lodha. Its present promoters acquired NBFC license in 2014 and FCFPL picked up its pace in FY2016 under the leadership of Mr. Sanjay Agarwal.

Key Rating Drivers

Strengths

- **Comfortable capitalization**

FCFPL commenced operations with a significant capital base of Rs. 120 Cr. infused by its promoters - Mrs. Priyanka Modi Lodha, Mr. Rahul Virendra Modi and other members of the Modi and Lodha family. A further equity infusion of Rs. 80 crore is also expected from the promoters as the loan book expands in the near to medium term. The company may explore additional growth capital from private equity investors to ensure a comfortable capital position and leverage over the medium term. The capital adequacy ratio stood at 60.60% as on March 31, 2018 (P) as compared to 55.14% as on March 31, 2017. The debt-equity ratio was at 0.62 times as on March 31, 2018 (P) as against a ratio of 1 times a year ago.

- **Significant growth potential in MSME lending segment**

FCFPL has started with a focus on the lending to the MSME segment and its business model is designed to cater to MSME clusters spanning across India. India is poised to witness a steady growth in the MSME segment given the growth outlook of the economy, favourable government policies, and increased transparency arising from the introduction of GST. NBFCs like FCFPL have strong growth opportunities given the under penetration of formal financing channels and challenges being faced by public sector banks in recent years which is reflected in the slowdown in credit growth to the corporate and MSME segments. The company has been able to expand its loan portfolio from Rs.40.75 crore as on March 31, 2017 to Rs.197.47 crore as on March 31, 2018(P) and is expected to maintain strong growth momentum over the medium term.

The company's loan portfolio products comprise of Bills Discounting, Business Loans, and Loan against property, Term Loans, Working Capital Demand Loan and Onward Lending. As on 30 November 2017, ~46% of the portfolio was focused on Business Lending (unsecured loan portfolio). However, as on March 31, 2018, the proportion of this segment declined to ~32%. The ticket size in business lending ranges from Rs.5 lakhs to Rs. 25 lakhs. The company is slowly moving towards the secured loan portfolio, which is visible in the increased proportion of loan against property (LAP) from ~28% as on November 30, 2017 to ~39% as on March 31, 2018. The loan-to-value ratio in LAP segment ranges from 50-60 percent. Term loans and working capital demand loans constituted around 16% and 8%, respectively, as on March 31, 2018.

- **Experienced management**

FCFPL has a professional management team with a significant experience in MSME lending. Sanjay Agarwal, CEO, is a senior banker with 25 years of experience in corporate and SME lending including more than 15 Years in senior leadership roles across leading banks & financial institutions in India including SBI Group, SIDBI, SCB and Yes Bank. He is ably supported by a capable team comprising of Prashanth Pereira (Chief Operating Officer), Hemanshu Parekh (National Credit Head), Sameer Shimaria (Business Head) and Sanjy Trivedi (Head- Recovery team) among others.

- **Improving Profitability**

FCFPL has reported a healthy profit after tax (PAT) of Rs.4.29 crore for FY18 (P) against negligible profits in FY17 (Rs 0.24 lakhs). Hence, FCFPL's Return on Average Asset (ROAA) ratio increased sharply to 3.17 percent in FY18 as compared to 0.01 percent in FY17. Net Interest Margin (NIM) stood at 12.59 percent for FY18 (P) as compared to 8.09% in FY17. In absolute terms, the Net Interest Income increased to Rs.15.49 Crore in FY18 (P) from Rs.1.70 Crore in FY17. The company has high Operating Expenses to Total Assets (OPEX) ratio of 6.38 percent in FY18 (P) as compared to 7.33 percent in FY17, as it is in the expansion phase and in the process of adding up new branches. The opex ratio is expected to decline gradually with increase in scale of operations and increased stability. However, the profitability will remain susceptible to any increase in credit costs as the loan portfolio seasons gradually.

Weaknesses

- **Limited Track record, resulting in unseasoned loan portfolio**

FCFPL has a limited track record of four years with its operations commencing in 2014. While the company has reported low gross non-performing assets (GNPA) of 0.20% as on March 31, 2018, the loan portfolio is unseasoned given the short duration of operation. Further, a significant proportion of the exposure is unsecured which increases the inherent risk profile of FCFPL's

portfolio. Asset quality remains vulnerable to potential slippages in the portfolio, resulting in increase in GNPA's and provisioning costs. FCFPL's ability to manage asset quality will remain a key monitorable, especially as the company increases its scale of operations and diversifies across new geographies and customer segments.

Nevertheless, FCFPL has put in place prudent lending practices, and adequate systems and processes to support its portfolio growth. The company has in place a credit analysis team and fraud investigation team consisting of 20 members analyzing and vetting every loan proposal. It has a list of certain vulnerable industries to which the company does not lend. Also, the concentration of top 20 clients has reduced from 32.41 percent in Nov-2017 to 23.65 percent in March 2018.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Finmax Credit & Finance Private Limited.

Outlook: Stable

Acuite believes that FCFPL will maintain a Stable outlook on account of its comfortable capitalisation and experienced management. The outlook may be revised to 'Positive' in case of healthy growth in AUM along with sustainable improvement in profitability while maintaining asset quality. Conversely, the outlook may be revised to 'Negative' in case of growth challenges or deterioration in asset quality or decline in profitability.

About the Rated Entity - Key Financials

Particulars	Unit	FY18 (P)	FY17	FY16
Total Assets	Rs. Cr.	219.83	50.78	2.11
Total Income	Rs. Cr.	19.50	3.88	0.14
PAT	Rs. Cr.	4.29	0.00	0.02
Net Worth	Rs. Cr.	124.29	25.00	2.10
Return on Average Assets (RoAA)	(%)	3.17	0.01	1.42
Return on Average Net Worth (RoNW)	(%)	5.74	0.02	1.40
Total Debt/Tangible Net Worth (Gearing)	Times	0.73	1.00	0.00
Gross NPA	(%)	0.20	0.00	0.00
Net NPA	(%)	0.18	0.00	0.00

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.Acuite.in/criteria-default.htm>
- NBFC - <https://www.Acuite.in/criteria-nbfc.htm>
- Financial Ratios And Adjustments - <https://www.Acuite.in/criteria-fin-ratios.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. Crore)	Ratings/ Outlook
07-June-2018	Proposed long Term Bank Facilities	Long Term	43.00	ACUITE BBB*/ Stable
	Proposed Secured Non-Convertible Debentures	Long Term	15.00	ACUITE BBB*/ Stable
	Cash Credit	Long Term	2.00	ACUITE BBB*/ Stable
	Term Loan	Long Term	5.00	ACUITE BBB*/ Stable
05-June-2017	Term Loan	Long Term	50.00	ACUITE BBB*/ Stable

* Past rating rationales carry the prefix SMERA to the rating to reflect the earlier name.

***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	2.00	ACUITE BBB / Stable (Reaffirmed)
Term Loan	Not Available	Not Available	Not Available	5.00	ACUITE BBB / Stable (Reaffirmed)
Proposed Long Term Bank Facilities	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB / Stable (Reaffirmed)
Proposed Secured Non-Convertible	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB / Stable

Debentures					(Reaffirmed)
Proposed Secured Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB / Stable (Withdrawn)

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in Aditi Shah Analyst - Rating Operations Tel: 022-67141371 aditi.shah@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité.