

Press Release

ICL Fincorp Limited

July 27, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB+/Outlook: Stable

*Refer Annexure for detail

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs. 20.00 Cr. bank facilities of ICL Fincorp Limited (IFL). The outlook is 'Stable'.

About the company

IFL was established in 1991 under The Companies Act 1956 and started its non-banking financial services operation in 1999 with the approval of Reserve Bank of India. The company acquired a Chennai based NBFC company, Jawahar Finance Company, and renamed it as 'Irinjalakuda Credits and Leasing Company Limited' in 1999. The company was renamed to 'ICL Fincorp Ltd' in June 2016. IFL is based in Irinjalakuda, Thrissur, Kerala. The company started lending against consumer durables and later ventured into gold loans in 2013. The company currently offers gold loans, small business loans, personal loans, loan against property (LAP), and two-wheeler loan. The promoter is also engaged in real estate, chits, and tours and travel businesses through separate companies. The company has its presence in 5 states of South India.

Key rating drivers

Strengths

Established track record of promoters and steady growth in loan portfolio

IFL has been growing at a steady pace under the leadership of Mr K.G. Anilkumar, who is a graduate and Bachelor of Law by profession. He has an experience of around two decades in this industry which has helped design an appropriate credit assessment and underwriting methodology. He is ably supported by his wife, Mrs. Uma Anilkumar, who looks after the day to day operations.

IFL's loan book has increased by almost 6 times in a period of two years, albeit on a small base, from Rs.20.03 Cr as on March 31, 2016 to Rs.116.43 Cr as on March 31, 2018 (P). Currently IFL is majorly involved in providing gold loans and also has its presence in personal and business, hire-purchase loans, money transfer, forex, travel and tourism etc. Gold loan comprised of almost ~85% (on an average) over the last three years. The company has been scaling up operations in terms of expansion of loan book, geographical coverage, expansion of branches and number of active borrowers. In the current fiscal, the company is planning to open 10 new branches spread across states of Kerala, Andhra Pradesh & Telangana. Acuité believes that the company shall continue to benefit from its experienced management in terms of expansion of loan book over the medium term.

Adequate capitalisation

IFL's capitalisation is adequate, with networth of Rs.32.03 crore and gearing of 3.83 times as on March 31, 2018 (Rs.24.38 crore and 2.17 times, respectively, as on March 31, 2017). The capital adequacy ratio (CRAR) has remained above the regulatory requirement (15%), at 19.02 per cent as on March 31, 2018 (P) as compared to 30.94 per cent as on March 31, 2017. The promoters have been infusing capital on a timely basis in the past to support the company's operations. IFL is in plans to raise additional capital of Rs.60.00 crores in the form of rights issue in the current fiscal 2019. This infusion of capital will further strengthen the capitalization levels and support growth in the loan portfolio and also provide cushion against any asset quality deterioration.

Adequate asset quality supported by sound asset class and good systems and processes

IFL has adequate asset quality with gross non-performing assets (GNPA; 180+ day NPA recognition policy) at 2.51 per cent as on 31st March 2018 (P) and 2.46 per cent as on 31st March, 2017. While the gross NPAs are relatively high as the company majorly caters to rural borrowers who are mainly dependent on agriculture income, it has been able to recover its dues from the borrowers, resulting in low ultimate losses in the portfolio. The prudent lending policies have enabled IFL to maintain adequate asset quality. The loan to value ratio at 70-75% is one of the key factors supporting the asset quality. Out of the total loan book, more than 90% of the advances are made for a short-term period of around 6 months (on an average), which helps in managing gold price volatility risk. Gold is a highly liquid and safe asset, which will ensure that the company is adequately safeguarded against delinquencies in the portfolio.

Before disbursing the loan, the company assesses the purity of gold for fixing an appropriate value that can be lent against a gram of gold or the LTV ratio. This is done by independent assayers as well as in-house assayers. The company has adequate systems in place to ensure the safety and security of the gold that is pledged. On a regular interval, the gold stock is monitored by the auditors in the presence of in-house assayers or the branch managers.

The company also has adequate systems in place to monitor collection of interest and principal. Before the due date, the company follows up with the borrower reminding them about the due dates. Also, in case of delays for more than 30 days, the regional manager or the branch manager visits the borrowers place to understand the reason for the delays. The company constantly refines its methodology and monitors the processes to keep away from redundant policies and practices.

The company also follows adequate systems and processes for the other business verticals including small business loans, personal loans, LAP, and two-wheeler loans.

Acuité believes that the company shall be able to maintain adequate asset quality over the medium term on the back of stringent credit policies followed.

Weaknesses

Geographic concentration risk

IFL's operations are concentrated in South India. It has been operating in 5 states namely: Kerala, Tamil Nadu, Karnataka, Andhra Pradesh, and Telangana. The highest number of branches are located in Kerala (84) followed by Tamil Nadu (23). Kerala and Tamil Nadu constituted around 73.72% and 13.49% of the portfolio, respectively, as on 31st March 2018. The key risk originating from geographic concentration is that the cash flows of the borrowers are dependent on the level of economic activity in the region. Moreover, IFL focuses on rural population and middle-class income group. The rural population is mainly involved in agri-based activities and there is a

high dependence on climatic & weather conditions, which can probably impact the earnings of the rural population, and, hence, the repayment ability of the borrowers. The company is planning to open 10 branches, out of which 4 shall be in Telangana, 4 in Andhra Pradesh and 2 in Kerala in the current financial year. The ability of the company to diversify its operations and reduce geographical concentration will remain a key sensitivity factor.

Average profitability

IFL has average profitability with return on average asset (ROAA) of around 0.62 per cent and 0.63 per cent, respectively, for FY18 (P) and FY17, resulting in low accruals. The company's profitability is partly constrained by high operating expenses as it is currently in an expansion mode. The operating expense to average assets (OEAA) ratio was at 12.12 per cent in FY18 as against 11.72 per cent in the previous year.

Additionally, ICL's net interest margins (NIM) have been declining steadily on account of the increasing borrowing costs. Its NIM has declined to 18.32 per cent in FY 2017-18 (P) from 21.38 per cent in FY 2016-17 and 24.09 per cent in FY 2016-17. The company has been raising funds mainly through retail NCDs and subordinated debt which carry a high rate of interest – cost of borrowing increased to 13.41 percent in FY 2017-18 from 11.58 per cent in the previous year. Given the small scale of operations, the company's ability to compete with large players and maintain its loan yield remains a key monitorable.

The company's operating efficiency should improve steadily over the medium term with the increase in scale of operations, which should support the overall profitability. Also, the company is planning to generate fee-based income through insurance broking, which should also support the company's profitability. However, the overall profitability is expected to remain under pressure as the cost of borrowing is expected to remain high over the medium term.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of IFL.

Outlook: Stable

Acuité believes that IFL will maintain a 'Stable' risk profile in the medium term on account of its experienced management, adequate capitalisation and asset quality. The outlook may be revised to positive in case of significant improvement in scale of operations and overall profitability while maintaining asset quality. The outlook may be revised to negative in case of deterioration in asset quality along with pressure on capitalization.

About the Rated Entity - Key Financials

	Unit	FY18(P)	FY17	FY16
Total Assets	Rs. Cr.	163.32	81.61	32.29
Total Income (Net of Interest Expense)	Rs. Cr.	17.16	8.66	3.05
PAT	Rs. Cr.	0.75	0.36	0.24
Net Worth	Rs. Cr.	32.03	24.38	10.80
Return on Average Assets (RoAA)	(%)	0.62	0.63	1.33
Return on Average Tangible Networth (RoNW)	(%)	2.68	2.03	3.58
Total Debt/Tangible Net Worth (Gearing)	Times	3.83	2.17	1.76
Gross NPAs	(%)	2.51%	2.46%	1.22%
Net NPAs	(%)	2.39%	2.19%	1.08%

*Total Income = Net Interest Income + Other Income

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>
- 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>

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Rating/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB+/ Stable (Assigned)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BB+/ Stable (Assigned)

Contacts

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

About Acuité Ratings & Research:

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