

Press Release

Inditrade Microfinance Limited (IML)

August 09, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned '**ACUITE BBB-**' (**read as ACUITE triple B minus**) rating to the Rs. 100.00 crore bank facilities of Inditrade Microfinance Limited (IML). The outlook is 'Stable'.

Analytical Approach

Acuité has taken a standalone view on the rated entity and has factored in support from the ultimate holding company of Inditrade Capital group, Inditrade Capital Limited (ICL).

About the company

Incorporated in 2016 and having started operations in 2017, IML, a non-deposit taking non-banking financial company - micro finance institutions (NBFC-MFI), is in the business of offering credit in semi-urban clusters to women entrepreneurs. It offers funding to set up traditional businesses and require capital to purchase basic equipment such as sewing machines, etc. and also for working capital requirements. Inditrade forayed into this business by acquiring stake in Chennai based Tree Microfinance. The name was changed to Inditrade Microfinance Limited in 2016. The company started its operations from Sholapur, Maharashtra.

The operations of the company are actively managed by Mr. Vignesh, CEO of IML, who was associated with Maximal Finance & Investments limited, a gold and retail loan NBFC & SWAWS Credit Corporation India Private limited a micro finance company. Maximal Finance & Investments limited holds 14.55% stake in the company.

About the group

Incorporated in 1992, ICL (formerly known as JRG Associates) is the holding company of Inditrade Capital group. It is listed on Bombay Stock Exchange. In September 2015, Mr. Sudip Bandopadhyay acquired 73.38% stake in Inditrade Capital Limited from Barings Private Equity Partners and the subsequent open offer to public. In November 2016, Inditrade Capital group acquired Edelweiss Commodities Trading Limited. The company has sold off its equity broking business in the first quarter of FY19 to Choice Equity Broking Private Limited.

Key Rating Drivers

Strengths

Expectation of strong support from Inditrade Capital group

ICL, the ultimate holding company of Inditrade Capital group, owns 73.38% (as on March 31, 2018) in IML and additional 3.5% is held by the promoters directly. Inditrade capital group is a mid-sized financial services group primarily focused on commodity financing and MFI lending. It has also identified affordable housing finance and SME lending as additional focus areas for the group.

The rating factors in expectation of strong support from Inditrade Capital group driven by the majority ownership, shared brand name and management control. MFI business has been identified as a core growth area for the business and hence is expected to receive strong business and financial support from the parent company and promoters over the medium term. ICL has infused Rs.8.07 Cr till date and is expected to continue to infuse capital on a regular basis to support the company's strong growth plans. IML also benefits from the strategic direction and oversight provided by the common Board of Directors of IML and ICL. In addition, IML benefits from common functions such as finance and risk management and will benefit from the cross-sell opportunities over the medium term. IML benefits by way of its ability to raise funding at competitive borrowing cost.

Acuité believes that ICL will continue to have majority ownership in, and management control of IML over the medium term.

Adequate capitalisation

IML's capitalisation is adequate, with networth of Rs.11.04 crore and gearing of 4.28 times as on March 31, 2018. The capital adequacy ratio was at 36.01 per cent as on March 31, 2018. The promoters have been infusing capital on a regular basis to support the growth plans - Rs.5.25 Cr was infused in FY18 and the company is in the process of raising Rs.5.00 Cr in the form of rights issue currently. Also, the promoters shall infuse funds as and when required to support the growth plans over the medium term. It will also help in providing cushion against asset side risks, especially given that the profitability is expected to remain low in the initial few years of the operations.

Weaknesses

Nascent stage of operations

The company has been in operation only since past nearly one year having started operations in April 2017. This is reflected in the small scale of operations with total assets under management of Rs. 69.01 Cr as on 31st March 2018. The company disbursed loans of Rs.96.11 Cr during the year, of which Rs.54.50 Cr was outstanding as on 31st March, 2018. The company is aggressively looking to expand its reach by expanding its reach to other parts of the country. The ability of the company to scale up its operations shall remain a key sensitivity factor.

The company's asset quality (gross non-performing asset ratio of 0.10% as on March 31, 2018) is constrained by the low seasoning in the book given the short track record of operations. Nevertheless, the company has put adequate systems, policies and processes in place to minimize the risks: IML's major proportion of the portfolio is towards lending for income generating activities, 100% digital disbursements, restrictions in place on 1st cycle loans, enhanced loan amount in second cycle depending upon requirement, track record of the borrower and timeliness in repayment of dues. The company's ability to maintain asset quality while scaling up its operations will remain a key sensitivity factor.

IML's profitability is constrained as it is currently in expansion phase. IML reported a return on assets of 0.40 percent for FY18. While the net interest margin (NIM) was around 5.57 percent in FY18, the company's profitability was constrained on account of high operating expenses to earning assets ratio (OEEA) at 5.84 percent. The profitability was supported by fee income earned during the year. IML's profitability is expected to remain under pressure on account of continued high operating expenses over the next few years. Given the small scale of operations, the company's ability to compete with large players and maintain its loan yield remains a key monitorable. Furthermore, the profitability is expected to remain susceptible to increase in credit costs as the loan portfolio seasons over the medium term.

Geographical concentration in operations

IML's operations are concentrated in South & West India. It is currently operating in 2 states - Maharashtra and Tamil Nadu – with the latter constituting 75 percent of the portfolio as on 31st March 2018. The company has recently started operations in Kerala through branches in Palakkad and Thrissur. It is also in the process of setting up branch in Orissa during the current fiscal. 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. The ability of the company to diversify its operations and reduce geographical concentration will remain a key sensitivity factor.

Outlook: Stable

Acuité believes that IML will maintain a Stable outlook on account of expectation of continued strong support from Inditrade Capital group and adequate capitalisation. The outlook may be revised to 'Positive' if there is significant increase in scale of operations and improvement in profitability while maintaining adequate asset quality. However, the outlook may be revised to 'Negative' if there is sustained pressure on profitability or asset quality.

About Inditrade Capital group – Key Financials

	Unit	FY18	FY17	FY16
Total Assets	Rs. Cr.	462.10	233.09	162.87
Total Income (Net of Interest Expense)	Rs. Cr.	65.30	48.20	47.37
PAT	Rs. Cr.	11.65	7.91	17.30
Net Worth	Rs. Cr.	156.77	141.09	131.87
Return on Average Assets (RoAA)	(%)	3.35	4.00	11.38
Return on Average Net Worth (RoNW)	(%)	7.82	5.80	14.01
Total Debt/Tangible Net Worth (Gearing)	Times	0.99	0.35	Nil

About Inditrade Microfinance Limited - Key Financials

	Unit	FY18	FY17*
Total Assets	Rs. Cr.	59.80	5.68
Total Income (Net of Interest Expense)	Rs. Cr.	4.00	0.29
PAT	Rs. Cr.	0.24	(0.19)
Net Worth	Rs. Cr.	11.04	5.56
Return on Average Assets (RoAA)	(%)	0.73	NA
Return on Average Net Worth (RoNW)	(%)	2.87	NA
Total Debt/Tangible Net Worth (Gearing)	Times	4.28	Nil
Gross NPAs	(%)	0.10	Nil
Net NPAs	(%)	0.01	Nil

* FY2017 was the first year of operations

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>
- Parent & group support - <https://www.acuite.in/view-rating-criteria-24.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Rating/Outlook
Proposed Bank Facility	NA	NA	NA	100.00	ACUITE BBB-/Stable

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About Acuité Ratings & Research:

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