

Press Release

Inditrade Microfinance Limited

December 06, 2019



Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 81.00 Cr. bank facilities of Inditrade Microfinance Limited (IML). Acuité has assigned the rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 19.00 Cr. bank facilities of IML. The outlook is '**Stable**'.

Reason for revision in rating:

The upward revision in rating is driven by significant improvement in operating performance of IML which is expected to be sustained over the near to medium term. The Asset under management (AUM) of IML has grown from Rs. 69 Cr. as on March 31, 2019 to Rs. 283 Cr. as on September 30, 2019 while also exhibiting an improvement in profitability parameters. The ROAA has improved from 0.7 percent in FY2018 to 2.5 percent in H12020 (annualized). Besides the improvement in operational parameters Acuité also observes that the contribution of IML to the overall Inditrade Capital Group has increased significantly. The AUM of IML has grown from Rs. 69.0 Cr. as on March 31, 2018 (28 percent of overall consolidated lending assets AUM of ICL) to Rs. 283 Cr. as on September 30, 2019(60 percent of Consolidated AUM of ICL).

Analytical Approach:

Acuité has taken a consolidated view on business and financial risk profile of Inditrade Microfinance Limited (IML) along with Inditrade Capital Limited, (The holding company of IML) and its subsidiaries herein after referred to as 'Inditrade Capital Group' to arrive at the rating.

The companies considered for consolidation are:

- Inditrade Fincorp Limited (erstwhile JRG Fincorp Limited)
- Inditrade Microfinance Limited (IML)
- Inditrade Business Consultants Limited (IBCL)
- Inditrade Commodities Trading Limited (ICTL)
- Inditrade Derivatives and Commodities Limited (IDCL)
- Inditrade Insurance & Broking Private Limited (IIBPL)
- Inditrade Housing Finance Limited (IHFL)

Earlier, Acuité had taken a standalone view on the business and financial risk profile of IML and had factored in support from the holding company of Inditrade Capital Group, Inditrade Capital limited (ICL).

The change in approach is driven by the increased financial linkages of IML with Inditrade Capital Group. ICL's equity holding in IML has increased from 73 percent as on March 31, 2018 to 88 percent as on September 30, 2019. Besides the increase in stake the group has also supported IML by way of compulsorily convertible debentures of Rs. 8.8 Cr. in FY2019 through one of its subsidiaries Inditrade Business Consultants Limited. The ICL had extended corporate guarantees for most of the bank borrowings of IML. The management of Inditrade group has identified both Microfinance and agri commodity financing as future growth drivers. The contribution of Inditrade Microfinance Limited to the overall group's lending Asset under Management has increased considerably vis. a. vis. the levels prevailing during the initial exercise. The AUM of IML has grown from Rs. 69.0 Cr. as on March 31, 2018 (28 percent of overall consolidated lending assets AUM of ICL) to Rs. 283 Cr. as on September 30, 2019(60 percent of Consolidated AUM of ICL).

Extent of Consolidation: Full.

About the Group:

Inditrade Group operates through its flagship company Inditrade Capital Limited (ICL; formerly known as JRG Associates). The company was taken over by the present promoter Mr. Sudip Bandyopadhyay in 2015 by acquiring 71.8 percent stake from Barings Private Equity Partners and public holding.

The group is engaged in commodity financing and derivatives & commodity trading since 2016, micro finance lending since 2017, MSMEs lending since 2018 and digital lending in 2019. The group plans to foray in housing finance operations on receipt of HFC license. ICL operates through 7 subsidiaries namely Inditrade Fincorp Limited (erstwhile JRG Fincorp Limited), Inditrade Microfinance Limited, Inditrade Business Consultants Limited, Inditrade Commodities Trading Limited, Inditrade Derivatives and Commodities Limited, Inditrade Insurance & Broking Private Limited and Inditrade Housing Finance Limited. The group's consolidated lending AUM stood at Rs. 468 Cr. as on September 30, 2019.

Inditrade Capital Limited's equity capital is listed on BSE with promoter and promoter group holding 71.8 percent as on September 30, 2019.

About IML:

Incorporated in 2016, Inditrade Microfinance Limited (IML, erstwhile Tree Microfinance Limited) is an NBFC-MFI engaged in extending microfinance loans to woman borrowers arranged in joint liability groups since 2017. The company has its head office in Mumbai and primarily operates through a network of 143 branches across 8 states primarily in the southern region of India.

The Company offers funding primarily for income generation activities and education loans for the borrower children. The company is led by Mr. R. Vignesh (CEO) who has over a decade of experience in financial services. ICL holds 88.6 percent equity shares of IML, 7 percent is held by Maximal Finance and Investments Limited (Owned by Mr. R. Vignesh) and the remaining is held by entities controlled by Mr. Sudip Bandyopadhyay as on September 30, 2019. IMLs AUM stood at Rs. 283 Cr. as on September 30, 2019.

Key Rating Drivers

Strengths

- Healthy Capitalisation levels resulting in enhanced resource raising ability:**

Inditrade Capital group is a mid-sized financial services group primarily focused on commodity financing and MFI lending. The group is also engaged in commodity trading businesses.

The key promoter of the group is Mr. Sudip Bandyopadhyay, a Chartered accountant with over three decades of experience in financial services. The board comprises of experienced professionals with experience in banking and financial services. The group presently has three major verticals i.e. agri finance, microfinance lending and loans to MSMEs. The agri finance activities are carried out through IFL and microfinance activities are carried out through IML.

The group's presence in agri finance business was strengthened by its decision to acquire Edel Commodities Trading Limited in November 2016 and subsequently transferred the business to IBCL. Besides agri financing the group is also in the process of establishing its presence in microfinance segment. The group's lending AUM stood Rs. 385 Cr. as on March 31, 2019 as against Rs. 245 Cr. and Rs. 124 Cr. as on March 31, 2018 and March 31, 2017. The AUM has grown to Rs. 468 Cr. as on September 30, 2019. The growth is driven by healthy growth in microfinance operations. Microfinance Loans comprised 60 percent of the overall AUM as on September 30, 2019 as against 28 percent as on March 31, 2018. The group has identified merchant financing and digital lending as additional products besides the conventional products of Agri financing and microfinance. Considering the tremendous opportunity for loan book growth in these segments, the group's funding requirement will multiply. The group's is adequately capitalized with Networth of Rs. 180.6 Cr. and debt of Rs. 306.8 Cr. as on September 30, 2019. The Group is leveraged at 1.7 times as on September 30, 2019. Besides the on book leverage, the group has identified other financing options such as securitization and direct assignment to support AUM growth.

Acuité believes that Inditrade capital group shall continue to benefit from its experienced management

and its prudent capital structure which will enable it to raise additional funding to support its growth requirements.

- **Prudent risk mitigation practices:**

Inditrade Capital group is engaged in secured lending i.e. commodity financing, trading and unsecured lending i.e. microfinance is lending. The group has put in place sound systems and processes to manage the underlying business risks across all its business segments. The group has experienced management team in place to handle commodity financing and trading business, which has been strengthened by the acquisition of Edel Commodities Trading Limited. With respect to IFL, detailed due diligence is undertaken before lending to customers. The company mainly finances non-essential commodities (including soya bean, turmeric, rubber, castor oil, etc.) traded on the commodity exchanges. This enables the company to liquidate the stock in case of no show by the borrower on the due date.

The loans are backed by warehouse/Comtrack (dematerialized) receipts, which ensures independent confirmation of the quantity and quality of the commodity being offered as collateral. Almost 95% of the commodity financing transactions are on a fully hedged basis (on the relevant commodity exchanges) and for the balance transactions, adequate margin of about 30-40% is maintained to absorb price risks. The overall asset quality is also supported by the relatively short-tenure of the underlying loans of around three months which helps to better manage the price risks in the underlying commodities. The exposure is decided based on several parameters including volatility in prices of the underlying commodities, liquidity in the underlying commodity, and credit profile of the borrowers.

IFL has also put in place limits on exposure to individual commodities and geographies to reduce concentration in the portfolio. This is reflected in the nil gross non-performing assets (GNPAs) as on September 30, 2019 as against 0.29% as on March 31, 2018 (0.19% as on March 31, 2017). The delinquencies in prior periods primarily pertained to the group's loans against shares and LAP.

With respect to Inditrade Microfinance Limited (IML), the company has put adequate systems, policies and processes in place, especially given the short track record of operations: IML's major proportion of the portfolio is towards lending for income generating activities and 100% digital disbursements. There are restrictions in place on 1st cycle loans, and enhanced loan amount in second cycle is dependent upon requirement, track record of the borrower and timeliness in repayment of dues. The group's ability to maintain asset quality while scaling up its operations (across both existing and new business segments) will remain a key sensitivity factor. The gross NPAs in IML stood at 0.3 percent as on September 30, 2019 as against nil and 0.1 percent as on March 31, 2019 and March 31, 2018 respectively.

Acuité believes that the Group's overall credit profile will be supported by sound risk mitigating practices and their ability to attain geographical diversity over the medium term.

Weaknesses

- **Susceptibility of operations to performance of microfinance and newer segment:**

The group initially forayed in the commodity lending segment since November 2016, microfinance lending since 2017, MSME lending since 2018 and digital lending in 2019. Of the overall AUM as on September 30, 2019 of Rs. 468 Cr., 60 percent were microfinance loans, 16 percent was loans against commodity and the remaining 24 percent was loans to MSMEs, digital loans and other exposures.

Inditrade Capital Group primarily extends unsecured loans to marginal borrower with limited ability to absorb income shocks. Since the microfinance sector operates in a segment dealing with the lower economic strata of the society, the regulatory environment is stringent. This renders the MFIs such as IML to regulatory risks. Besides the regulatory risks, the inherent nature of the business renders the portfolio vulnerable to event risks such as natural calamities in the area of operations. These risks are heightened in case of geographical concentration. Of the overall microfinance portfolio as on September 30, 2019 in IML, 67 percent is originated in two states namely Kerala and Tamil Nadu. While the management has identified risk mitigating factors such as limits on single district concentration, IML's asset quality is contingent on the performance of this segment. Further, the group's loan book of Merchant advances and digital lending has been originated in the past one year and the track record of scalability and sustainability across the cycle is yet to be established. Therefore the risk of likely slippages in the segment is elevated.

Against this backdrop, the group's ability to manage the asset quality and profitability metrics while diversifying its product mix will be a key rating sensitivity.

Rating Sensitivities

- Adverse Movement in asset quality
- Movement in leverage indicators

Material Covenants: Based on documents submitted by the company, the lenders have stipulated certain covenants relating to capitalisation levels, leverage and asset quality metrics and the company has been compliant with these covenants.

Liquidity Position: Adequate

IML has adequately matched asset liability profile with no negative cumulative mismatches in the maturity buckets of upto one year based on ALM as on September 30, 2019. Of the overall loan book as on September 30, 2019, 90 percent are maturing within one year whereas of the overall borrowing 57 percent is maturing within one year. Further, the company has demonstrated its ability to raise funds by securitizing and assigning of its assets. As on September 30, 2019, the company had off book exposure of Rs. 64 Cr.

Acuité believes that the healthy buffer between the maturity pattern of loans extended and borrowing will continue to support the liquidity profile of the company.

Outlook: Stable

Acuité believes that the Inditrade Microfinance Limited will maintain a 'Stable' outlook on account of strong support from promoter group along with prudent risk mitigating practices of the company. The outlook may be revised to 'Positive' in case of significant increase in the scale of operations while maintaining adequate asset quality and profitability metrics. The outlook may be revised to 'Negative' in case of pressure on capitalisation or deterioration in profitability and asset quality metrics.

About Inditrade Capital Limited (Consolidated) - Key Financials

Parameters	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	461.5	462.1
Total Income*	Rs. Cr.	59.4	65.3
PAT	Rs. Cr.	14.5	8.5
Net Worth	Rs. Cr.	175.5	156.8
Return on Average Assets (RoAA)	(%)	3.1	2.5
Return on Average Net Worth(RoNW)	(%)	8.7	5.7
Total Debt/Tangible Net Worth (Gearing)	Times	1.2	1.0

* Total income equals to Net interest income plus other income

About Inditrade Microfinance Limited (Standalone) - Key Financials

Parameters	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	179.0	59.8
Total Income*	Rs. Cr.	16.7	4.0
PAT	Rs. Cr.	2.1	0.2
Net Worth	Rs. Cr.	41.2	11.0
Return on Average Assets (RoAA)	(%)	1.8	0.7
Return on Average Net Worth(RoNW)	(%)	8.2	2.9
Total Debt/Tangible Net Worth (Gearing)	Times	2.9	4.3
Gross NPA	(%)	0.0	0.1
Net NPA	(%)	0.0	0.0

* Total income equals to Net interest income plus other income

Any other information

Not Applicable

Applicable Criteria

- Rating of Non-Banking Financing Entities : <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition : <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of companies: <https://www.acuite.in/view-rating-criteria-60.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 the Instruments/Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
October 22, 2019	Proposed Term Loan	Long term	100.00	ACUITE BBB- Issuer not co-operating*
July 31, 2018	Proposed bank Facility	Long term	100.00	ACUITE BBB-/Stable (Assigned)

*The issuer did not co-operate; Based on best available information

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	NA	NA	NA	13.00	ACUITE BBB+/Stable (Assigned)
Term Loan	NA	NA	NA	6.00	ACUITE BBB+/Stable (Assigned)
Proposed Bank Facility	NA	NA	NA	81.00	ACUITE BBB+/Stable (Upgraded from BBB-/Stable)

Contact

Analytical	Rating Desk
Vinayak Nayak Vice President – Rating Operations Tel: 022-49294071 vinayak.nayak@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Leena Gupta Senior Rating Analyst- Rating Operations Tel: 02249294061 leena.gupta@acuite.in	

About Acuité Ratings & Research:

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