

Press Release
Inditrade Microfinance Limited
September 17, 2020
Rating Assigned and Reaffirmed



Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Reaffirmed)
Total Non-Convertible Debentures Rated*	Rs. 120.00 Cr.
Instruments Rated*	Rs. 100.00 Cr.
Long Term rating	ACUITE PROVISIONAL A-/Outlook: Stable (Reaffirmed)
Instruments Rated*	Rs. 20.00 Cr
Short Term Rating	ACUITE A2+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) on the Rs. 100.00 Cr. bank facilities and assigned the short-term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) on the Rs.20.00 Cr. short term Proposed Secured Redeemable Non-Convertible Debenture issue of Inditrade Microfinance Limited (IML). The outlook is '**Stable**'.

Further, Acuité has reaffirmed the rating of '**ACUITE PROVISIONAL A-**' (**read as ACUITE Provisional A minus**) on the Rs. 100.00 Cr. Proposed Secured Redeemable Non-Convertible Debenture (NCD) issue of IML. The outlook is '**Stable**'.

The rating on Rs. 100 Cr. Proposed NCD issue of IML is provisional and the final rating is subject to:

- Appointment of SEBI registered debenture trustee
- Execution of signing of trust deed with the proposed 'Structured Payment Mechanism' (SPM) duly incorporated.
- Receipt of final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions of term sheet.

Analytical Approach:

Acuité has taken the 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 hereinafter referred to as 'Inditrade Group' to arrive at the rating.

The companies considered for consolidation are:

- Inditrade Fincorp Limited (erstwhile JRG Fincorp Limited) (IFL)
- 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)

The consolidation is in view of the common management, shared brand along with strong operational and financial synergies between the group companies. Extent of Consolidation: Full.

Rating rationale for the proposed NCD of Rs. 100 Cr:

The difference in rating is taken due to the presence of DSRA and t minus structure present in the proposed NCD of Rs. 100 Cr. DSRA is to be maintained at a minimum of 10 percent of the outstanding principal amount. DSRA needs to be maintained in the form of bank fixed deposit, "AAA" rated debt securities, sovereign debt

securities, bank guarantee, in any combination, for the duration of the NCDs should help in partly mitigating the risk arising out of the liquidity mismatches to meet the coupon repayments.

Acuité has been guided by recent SEBI circular dated 30th March, 2020 (Circular No: SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/53) while arriving at the rating. Acuite has also relied on the recent RBI circular dated 27th March, 2020 (Circular No: RBI/2019-20/186) in this regard. Acuite observes that, there have been few instances of slippages in repayments to some of its lenders during the nationwide lockdown in April, 2020 and May, 2020. Acuite believes that this slippage is attributable to the ongoing crisis and hence has not construed these slippages as a credit event while arriving at the rating decision. Acuité policy regarding this "Transitory relaxation from compliance with certain provisions under SEBI (Credit Rating Agencies) Regulations, 1999" is as follows: <https://www.acuite.in/transitory-relaxation-from-compliance-with-certain-provisions-under-SEBI.htm>.

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 73.4 percent stake from Barings Private Equity Partners.

The group is engaged in commodity financing and derivatives & commodity trading since 2016 and in microfinance lending since 2017. The group has commenced Micro Small and Medium Enterprises (MSME) Lending in 2018 and plans to start 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. 425 Cr. as on March 31, 2020.

Inditrade Capital Limited's equity capital is listed on BSE with promoter and promoter group holding 71.8 percent as on March 31, 2020 and market capitalisation of Rs. 57.22 Cr.

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 171 branches across 9 states and 1 Union territory namely Kerala, Tamil Nadu, Karnataka, Bihar, Gujrat, Maharashtra, Odisha, Madhya Pradesh and Puducherry.

The company offers to fund primarily for income generation activities and education loans for the borrower's children. The company is led by Mr. R. Vignesh (CEO) who has over a decade of experience in financial services. ICL holds 70.5 percent equity shares of IML, 18% by IFL, 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 March 31, 2020. IML's Assets Under Management (AUM) stood at Rs. 296 Cr. as on March 31, 2020.

Key Rating Drivers

Strengths

• Healthy Capitalisation buffers likely to support near to medium-term financial flexibility:

Inditrade Capital group is a mid-sized financial services group primarily focused on lending towards MSME sector and MF lending. The group is also engaged in commodity trading and broking businesses. The key promoter of the group is Mr. Sudip Bandyopadhyay, a chartered accountant with nearly three decades of experience in financial services. The board comprises of experienced professionals with experience in banking and financial services. The group presently has two major verticals, i.e. microfinance lending and lending towards Micro, Small and Medium Enterprises (MSME). The MSME finance activities are carried out through IFL and microfinance activities are carried out through IML. The group's lending AUM (excluding lending to group companies) stood ~Rs. 425 Cr. as on March 31, 2020 as against Rs. 330 Cr. as on March 31, 2019. Microfinance Loans comprised ~62 percent of the overall AUM

as on March 31, 2020. The group has hitherto been equity funded, with a Networth of Rs. 187.55 Cr (Including minority interest) and debt of Rs. 206.91 Cr as on March 31, 2020. Besides the on-book leverage, the group has identified other financing options such as securitisation and direct assignment to support its AUM growth. As on March 31, 2020 both companies, IML and IFL had adequate capitalisation buffers at 28.2% and 98.6% respectively. In view of the current pandemic stress on asset quality is expected to be elevated, the disruption in the credit profile of the borrowers will be visible on expiry of the moratorium period. In such a situation, Acuite believes that entities with lower leverage will find it relatively easier to raise debt and thereby have better financial flexibility. The group is in talks with various PSU banks to raise debt to support its liquidity and growth plans.

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 and absorb any asset quality pressures over the near term.

Weaknesses

- **Susceptibility of the operating performance to current challenges in the operating environment:**

The group's key product offerings are spread across extending credit to MSME borrowers and microfinance loans towards borrower with limited ability to absorb income shocks. Majority of the groups MSME borrowers comprise of small traders like kirana shops, salons and other local small business operators. The extent of disruption in the credit profile of these borrowers can be established with certainty only after the expiry of the current moratorium period.

The group's lending AUM (excluding lending to group companies) stood ~Rs. 425 Cr. as on March 31, 2020 as against Rs. 330 Cr. as on March 31, 2019. Microfinance Loans comprised ~62 percent of the overall AUM as on March 31, 2020. The MFI lending segment entails providing loans to the lower economic strata of the society. The pandemic and the consequent lockdowns have resulted in significant logistical challenges, affecting the movement of men and goods. This has impacted the credit profile of most of the borrowers and the impact has been more severe on the lower economic strata of the society who are already vulnerable. The logistical challenges in reaching out to the borrowers either for collections or disbursements have disrupted the operations of most of the MF activities. The intermittent lockdowns and relaxations have resulted in volatility in collection efficiency. Most of the decisions regarding lockdowns are currently taken at the state government and local authority level. IML's top 10 districts account for ~51 percent of the AUM as on March 31, 2020 with a concentration in Kerala and Tamil Nadu. The stance of state government and local authorities will be critical in deciding the extent and timing of resumption of normal activities. This will also have an impact on the trajectory of collection efficiency.

In the event of sustained challenges in attaining optimal collection efficiency, the stance of the lenders and investors of PTCs will be critical. Acuité believes that while some of the impacts on collection efficiency are temporary, a portion of the borrowers could suffer a permanent impairment in their livelihood and this, in turn, could impact the portfolio of lenders like Inditrade. Inditrade has been required to extend the moratorium to borrowers in line with the practice followed by other players and as allowed by the regulators. While the MFI sector has demonstrated strong resilience to economic events such as natural calamities and events like demonetisation, the players had to endure a high level of credit costs.

Besides microfinance lending the group has exposure towards MSME sector, the lockdowns in the country have resulted in a slowdown in the economy, which has adversely impacted the cash flows of MSME borrowers. Further, the groups MSME portfolio is mainly located in urban and semi-urban regions with 82% concentration in Maharashtra, which has been severely affected by the lockdowns. While the group has been able to collect ~48 percent of its scheduled EMIs from these borrowers in July, 2020, the extension of these lockdowns may result in higher stress on the AUM for lenders such as Inditrade.

Acuite believes the credit costs are likely to be high over the near to medium term; however, the group's capitalisation buffers will be adequate to mitigate and absorb any income shocks. 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

The collection of the group was in the range of ~Rs. 22 to 25 Cr. for June, 2020 and July 2020, against scheduled collections Rs. 40 – 45 Cr. The group's monthly commitments (debt servicing obligations, payout to assignment investors and operating expenses) is ~Rs. 30 Cr. Acuite believes that while the collection efficiency is currently subdued, it will gradually pick up once the lockdown is lifted. In the interim, the group had unencumbered cash and bank balances of ~Rs. 30 Cr. as on July 31, 2020.

The group had availed moratorium for the month of April and May from all its lenders and has commenced repayments to them in June, 2020. The group has demonstrated the ability to raise long term debt of ~Rs. 24 Cr. from Financial Institutions over the past few months and group is in talks with various lenders to raise long term debt under the PCG route and through the windows of RBI.

Acuite believes that the ability to raise long term funding and ability to raise optimal collection efficiency will be critical to maintaining a stable liquidity profile.

Outlook: Stable

Acuité believes that the Inditrade Group will maintain a 'Stable' outlook on account of strong support from the promoter group and capital structure. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability, asset quality and capitalisation indicators. Conversely, the outlook may be revised to 'Negative' in case of significantly higher than expected asset quality pressures or profitability margins.

About Inditrade Capital Limited (Consolidated) - Key Financials

Parameters	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	456.83	454.45
Total Income*	Rs. Cr.	99.35	55.61
PAT	Rs. Cr.	14.30	15.81
Net Worth	Rs. Cr.	187.55	175.63
Return on Average Assets (RoAA)	(%)	3.14	3.45
Return on Average Net Worth(RoNW)	(%)	7.87	9.46
Total Debt/Tangible Net Worth (Gearing)	Times	1.10	1.19

* Total income equals to Net interest income plus other income

About Inditrade Microfinance Limited (Standalone) - Key Financials

Parameters	Unit	FY19 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	218.50	175.24
Total Income*	Rs. Cr.	37.19	16.48
PAT	Rs. Cr.	4.32	1.40
Net Worth	Rs. Cr.	54.29	40.11
Return on Average Assets (RoAA)	(%)	2.20	1.19
Return on Average Net Worth(RoNW)	(%)	9.16	5.49
Total Debt/Tangible Net Worth (Gearing)	Times	2.51	3.15
Gross NPA	(%)	1.00	0.0
Net NPA	(%)	0.35	0.0

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

None

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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of the Instruments/Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
August 28, 2020	Term Loan	Long Term	11.11	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	3.14	ACUITE BBB+/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	85.75	ACUITE BBB+/Stable (Reaffirmed)
	Proposed Secured Redeemable Non-Convertible Debentures	Long Term	100.00	ACUITE Provisional A-/Stable (Assigned)
December 06, 2019	Term Loan	Long Term	13.00	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	6.00	ACUITE BBB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	81.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB-/Stable)
October 22, 2019	Proposed Term Loan	Long term	100.00	ACUITE BBB- Issuer not co-operating*
August 09, 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	Not Available	NA	Not Available	11.11	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	Not Available	NA	Not Available	3.14	ACUITE BBB+/Stable (Reaffirmed)
Proposed Bank Facility	NA	NA	NA	85.75	ACUITE BBB+/Stable (Reaffirmed)
Proposed Secured Redeemable Non-Convertible Debentures	NA	NA	NA	100.00	ACUITE Provisional A-/Stable (Reaffirmed)

Proposed Secured Redeemable Non- Convertible Debentures	NA	NA	NA	20.00	ACUITE A2+ (Assigned)
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About Acuité Ratings & Research:

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