

Press Release

Inditrade Microfinance Limited

April 04, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	-	ACUITE A2+ Reaffirmed
Bank Loan Ratings	190.00	ACUITE BBB+ Negative Reaffirmed	-
Non Convertible Debentures (NCD)	10.00	ACUITE A- Negative Assigned Provisional To Final	-
Non Convertible Debentures (NCD)	20.00	ACUITE A- Negative Reaffirmed	-
Non Convertible Debentures (NCD)	20.00	Provisional ACUITE A- Negative Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	250.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed the Short-term rating of '**ACUITE A2+**' (read as ACUITE A two plus) on the Rs.10.00 Cr. bank facilities of Inditrade Microfinance Limited (IML).

Acuité has reaffirmed the long-term rating of 'ACUITE BBB+' (read as ACUITE triple B plus) on the Rs. 190.00 Cr. bank facilities of Inditrade Microfinance Limited (IML). The outlook is 'Negative'.

Acuité has reaffirmed the long-term rating of 'ACUITE A-' read as (ACUITE A minus) on the Rs. 20.00 Cr. Non-Convertible debentures of Inditrade Microfinance Limited (IML). The outlook is 'Negative'.

Acuité has reaffirmed the long-term rating of 'ACUITE PROVISIONAL A-' read as (ACUITE Provisional A minus) on the Rs. 20.00 Cr. Non-Convertible debentures of Inditrade Microfinance Limited (IML). The outlook is 'Negative'.

Further, Acuité has converted the provisional rating on the Rs. 10.00 Cr. NCD of Inditrade Microfinance Limited (IML) to final rating of 'ACUITE A-' (read as ACUITE A minus). The outlook is 'Negative'. The conversion from provisional rating to the final rating reflects the fulfilment of the conditions laid out in the press release dated January 07, 2022.

The rating of Rs. 20 Cr. proposed NCD for 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.

The Outlook is 'Negative' on account of, stressed asset quality and deterioration of financial performance at group level. GNPA and NNPA of IML and IFL at consolidated level stands at 5.40 percent and 2.16 percent as on September 30, 2021 (1.28 percent and 0.55 percent as on March 31, 2021). The company has total restructured portfolio of ~12 percent as on September 30, 2021. ICL's financial performance has decreased in H1FY22 (PAT :1.45 Cr.), main reason being IFL booked loss in H1FY21 (PAT : -3.60 Cr.),

The rating Reaffirmation takes into account, experienced management team and the group's focus on diversification of the business streams. The rating further derives strength from the healthy capitalization levels supported by group networth of Rs. 202.03 Cr (Including minority interest). As on September 30, 2021 both companies, IML and IFL had adequate capitalization buffers at 31.06 percent and 81.33 percent respectively. ICL also has good amount of sanctions in pipeline from PSU's and other private banks. Gearing of ICL stands at 1.39x at H1FY22 and 1.30x as at March 31, 2021

The rating is however constrained due to challenges faced in operating environment as 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. The rating also factors in moderate profitability metrics driven by relatively higher write offs. The company's RoAA declined to 1.83 percent for FY2021 as compared to 3.14 percent in FY2020. The rating is further constrained by the moderate scale of operations and geographical concentration of the loan portfolio.

About the company

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 8 states and 1 Union territory namely Kerala, Tamil Nadu, Karnataka, Bihar, Gujrat, Maharashtra, Odisha, Madhya Pradesh and Puducherry. The company offers funding 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 September 30, 2021. IMLs Assets Under Management (AUM) stood at Rs. 200 Cr. as on September 30, 2021.

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 rural marketing and DSA business. ICL operates through 7 subsidiaries namely Inditrade Fincorp Limited (erstwhile JRG Fincorp Limited), Inditrade Microfinance Limited, Inditrade Business Consultants Limited, Inditrade scalerator limited (erstwhile Inditrade commodities Trading Limited), Inditrade Rural Marketing Limited (erstwhile Inditrade Derivatives and Commodities Limited), Inditrade Insurance & Broking Private Limited and Inditrade Technologies Limited (erstwhile Inditrade Housing Finance Limited). The group's consolidated lending AUM stood at Rs. 302 Cr.as on March 31, 2021. Inditrade Capital Limited's equity capital is listed on BSE with promoter and promoter group holding 71.8 percent as on March 31, 2021.

Analytical Approach

Acuité has taken the consolidated view on business and financial risk profile of Inditrade

Microfinance Limited (IML) along with Inditrade Capital Limited 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)
- Inditrade Microfinance Limited (IML)
- Inditrade Business Consultants Limited (IBCL)
- Inditrade scalerator limited (ISL)
- Inditrade Rural Marketing Limited (IRML)
- Inditrade Insurance & Broking Private Limited (IIBPL)
- Inditrade Technologies Limited (ITL)

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.

Key Rating Drivers

Strength

- **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, rural marketing and DSA business for MSME services as well. 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. 302 Cr. as on March 31, 2021 as against Rs.307 Cr. as on March 31, 2020. The group has been equity funded, with a Networth of Rs. 202 Cr (Including minority interest) and debt of Rs. 280.37 Cr as on March 31, 2021. Besides the on-book leverage, the group has identified other financing options such as securitization and direct assignment to support its AUM growth. As on March 31, 2021 both companies, IML and IFL had adequate capitalization buffers at 31.06% and 81.33% 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 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. Acuite 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.

Weakness

- **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 segment 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 group's lending AUM (excluding lending to group companies) stood ~Rs. 302.01 Cr. as on March 31, 2021 as against Rs. 307.02 Cr. as on March 31, 2020. The company had introduced micro lending fintech loan product, whose tenure for repayment lied between 7-30 days, with an average ticket size of Rs. 2000- Rs. 5000. The company faced challenges in recovering dues from customers

especially for their new unsecured asset class (Micro fintech lending) and also faced covid induced challenges in other asset classes. This resulted in company writing off Rs.51.40 Crores of their loan portfolio. Currently, the company has discontinued this unsecured micro-fintech product. 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 is 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. Acuite believes the credit costs is likely to be high over the near to medium term however the groups capitalization 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.

Moderation in Asset Quality:

The group's lending AUM (excluding lending to group companies) stood ~Rs. 302.01 Cr. as on March 31, 2021 as against Rs. 307.02 Cr. as on March 31, 2020. The outbreak of the COVID-19 and the intermittent lockdowns have significantly impacted the operations of the Money lending industry. The business activities of the borrowers have been impacted, affecting their cash flows and thereby impacting the asset quality, liquidity and the collection efficiency of the NBFCs. While the MFI sector has demonstrated strong resilience to economic events such as natural calamities and events like demonetization, the players had to endure a high level of credit costs. Further the group's MSME portfolio is mainly located in urban and semi- urban regions with 90% concentration in Maharashtra. The company has total outstanding on book portfolio of Rs.320.07 Cr as on September 30, 2021, out of which restructured portfolio stands at ~12 percent as on September 30, 2021. Inditrade group has been following RBI guidelines to maintain 10% provisioning on restructured portfolio, however given the significant amount of write offs in FY21, the group might require to make further provisioning. Acuité believes, given the challenges, the company's ability to manage the additional slippages while maintaining the portfolio collections will be crucial.

ESG Factors Relevant for Rating

Inditrade Microfinance (IML) belongs to the NBFC-MFI sector which facilitates lending to the unbanked population. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks.

The entity maintains adequate transparency in its business ethics practices as can be inferred from the entity's disclosures regarding related party transactions, vigil mechanism and whistle blower policy. The board of directors of the company comprise of 4 independent directors and 1 female director out of a total of 6 directors. The audit committee formed by the entity majorly comprises of independent directors with the objective to monitor and provide an unbiased supervision of the management's financial reporting process. IML also maintains transparency in terms of disclosures pertaining to interest rate policy and its adherence to Fair Practice Code as disseminated by Reserve Bank of India's circular.

IML aims to empower women by providing micro loans to help them generate additional income opportunities, hence making an economic contribution by way of financial inclusion. It continues to work on several community development initiatives. As per RBI's guidelines on

Information Technology framework for NBFCs, IML has constituted an IT strategy committee to ensure adequate control over issues like cyber security and data privacy.

Rating Sensitivity

- Adverse Movement in asset quality
- Movement in leverage indicators
- Stagnant loan Portfolio
- Consistent decline in profits at consolidated level Profitability matrix
- Profitability matrix

Material Covenants

None

Liquidity Position: Adequate

In the interim, the group had unencumbered cash and bank balances of ~Rs. 67.64 Cr. as on September 30, 2021. The collection of the group was in the range of ~Rs. 75.75 Cr. for October, 2021, against Total group's monthly commitments (debt servicing obligations, payout to assignment investors and operating expenses) is ~Rs. 93.63 Cr. 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-Negative

Acuite believes that Inditrade's credit profile will be under pressure on account of significant impairment of asset quality and attaining optimal profitability over the near term. The outlook may be revised to 'Stable' in case Inditrade group is able to demonstrate a significant improvement asset quality as well as credit pressure. The rating may be downgraded if the company faces challenges in attaining stable profitability or asset quality for its near term business requirements. Any further deterioration in AUM or profitability or asset quality will also impart a negative bias to the rating.

Key Financials - Standalone / Originator

Parameters	Unit	FY21 (Actual)	FY20(Actual)
Total Assets	Rs. Cr.	214.56	218.50
Total Income*	Rs. Cr.	33.60	37.19
PAT	Rs. Cr.	2.23	4.32
Net Worth	Rs. Cr.	56.51	54.29
Return on Average Assets (RoAA)	(%)	1.03	2.20
Return on Average Net Worth(RoNW)	(%)	4.03	9.16
Total Debt/Tangible Net Worth (Gearing)	Times	2.71	2.51
Gross NPA	(%)	1.44%	1.23%
Net NPA	(%)	0.01%	0.15%

*Total income equals to Net interest income plus other income

Key Financials - Consolidated

Parameters	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	499.11	456.83
Total Income*	Rs. Cr.	146.98	99.35

PAT	Rs. Cr.	8.75	14.30
Net Worth	Rs. Cr.	197.74	187.55
Return on Average Assets (RoAA)	(%)	1.83	3.14
Return on Average Net Worth (RoNW)	(%)	4.54	7.87
Total Debt/Tangible Net Worth (Gearing)	Times	1.30	1.10
Gross NPA	(%)	NA	NA
Net NPA	(%)	NA	NA

*Total income equals to Net interest income plus other income

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

None

Any other information

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUITE BBB+/ Negative.

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Applicable Criteria

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jan 2022	Proposed Non Convertible Debentures	Short Term	50.00	ACUITE Provisional A- (Withdrawn)
	Term Loan	Long Term	10.00	ACUITE BBB+ Negative (Assigned)
	Proposed Non Convertible Debentures	Long Term	30.00	ACUITE Provisional A- Negative (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB+ Negative (Reaffirmed)
	Term Loan	Long Term	2.75	ACUITE BBB+ Negative (Reaffirmed)
	Term Loan	Long Term	2.81	ACUITE BBB+ Negative (Reaffirmed)
	Term Loan	Long Term	14.50	ACUITE BBB+ Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	20.00	ACUITE A- Negative (Reaffirmed)
	Proposed Term Loan	Long Term	45.94	ACUITE BBB+ Negative (Reaffirmed)
	Term Loan	Long Term	25.00	ACUITE BBB+ Negative (Assigned)
	Term Loan	Long Term	15.00	ACUITE BBB+ Negative (Assigned)
	Proposed Bank Facility	Long Term	50.00	ACUITE BBB+ Negative (Assigned)
	Term Loan	Long Term	9.00	ACUITE BBB+ Negative (Reaffirmed)
	Proposed Non Convertible Debentures	Short Term	20.00	ACUITE A2+ (Withdrawn)
31 Dec 2020	Proposed Non Convertible Debentures	Long Term	80.00	ACUITE Provisional A- Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	6.47	ACUITE BBB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	73.27	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	2.29	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Short Term	15.60	ACUITE A2+ (Reaffirmed)
	Proposed Non Convertible Debentures	Short Term	20.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	2.37	ACUITE BBB+ Stable (Reaffirmed)
17 Sep	Term Loan	Long Term	3.14	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	11.11	ACUITE BBB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	85.75	ACUITE BBB+ Stable (Reaffirmed)

2020	Proposed Non Convertible Debentures	Long Term	100.00	ACUITE Provisional A- Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Short Term	20.00	ACUITE A2+ (Assigned)
28 Aug 2020	Proposed Bank Facility	Long Term	85.75	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	11.11	ACUITE BBB+ Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	100.00	ACUITE Provisional A- Stable (Assigned)
	Term Loan	Long Term	3.14	ACUITE BBB+ Stable (Reaffirmed)
06 Dec 2019	Term Loan	Long Term	6.00	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	13.00	ACUITE BBB+ Stable (Assigned)
	Proposed Bank Facility	Long Term	81.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB-)
22 Oct 2019	Proposed Bank Facility	Long Term	100.00	ACUITE BBB- (Issuer not co-operating*)
09 Aug 2018	Proposed Bank Facility	Long Term	100.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Non-Covertible Debentures (NCD)	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- Negative Reaffirmed
Not Applicable	Not Applicable	Non-Covertible Debentures (NCD)	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A- Negative Assigned Provisional To Final
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB+ Negative Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	20.00	Provisional ACUITE A- Negative Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	45.94	ACUITE BBB+ Negative Reaffirmed
Capital Small Finance Bank	Not Applicable	Term Loan	Not available	Not available	Not available	2.81	ACUITE BBB+ Negative Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	10.00	ACUITE A2+ Reaffirmed
Jana Small Finance Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	14.50	ACUITE BBB+ Negative Reaffirmed
Dhanlaxmi Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	2.75	ACUITE BBB+ Negative Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	9.00	ACUITE BBB+ Negative Reaffirmed

Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	15.00	ACUITE BBB+ Negative Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	25.00	ACUITE BBB+ Negative Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	15.00	ACUITE BBB+ Negative Reaffirmed
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	10.00	ACUITE BBB+ Negative Reaffirmed

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About Acuité Ratings & Research

Acuité Ratings & Research 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 8,850 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 Kanjurmarg, Mumbai.

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