

Press Release

JRG Fincorp Limited (JFL)

September 25, 2018

Rating Assigned



| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 200.00 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 plus**) rating to the Rs. 200.00 Cr. bank facilities of JRG Fincorp Limited (JFL). The outlook is 'Stable'.

Analytical Approach

Acuité has taken a consolidated view on the credit profile of the Inditrade group. This is on account of strong business, operational and financial synergies between the group companies, shared brand name and common promoters and senior management.

About the group

Incorporated in 1992, Inditrade Capital Limited (ICL; formerly known as JRG Associates) is the holding company of the Inditrade Capital group. It is listed on Bombay Stock Exchange. In September 2015, Mr. Sudip Bandyopadhyay acquired 73.38% stake in ICL from Barings Private Equity Partners and the subsequent open offer. The group primarily undertakes the business of commodity financing, and micro finance, and has plans to start merchant cash advance & housing finance through group entities.

In November 2016, Inditrade Capital group acquired Edel Commodities Trading Limited. The company has sold off its equity broking business in the first quarter of FY19 to Choice Equity Broking Private Limited as it was identified as a non-core business.

About the company

JFL, a non-deposit taking non-banking financial company (NBFC-ND), is in the business of providing loans against commodities and shares. The operations are spread over northern, western and southern region of India. As on 31st March 2018, ICL and Athena India Opportunities, a fund registered in Mauritius held 57% and 43%, respectively, in JFL.

Key Rating Drivers

Strengths

Diversified business profile coupled with strong linkages amongst group entities

Inditrade Capital group has a diversified business risk profile with presence across commodity financing, commodity trading, commodity broking, micro-finance, and insurance broking businesses. The group plans to expand into housing finance and merchant cash advance segments in the near term.

JFL has an established market position in South India in the commodity trading/financing segment and hence, the group has continued with the existing branding – JRG Fincorp - for the company. All the other companies in the group have common brand name 'Inditrade'.

There are strong business and financial linkages between JFL, Inditrade Business Consultants Limited (IBCL), and Inditrade Derivatives & Commodities Limited (IDCL). JFL acts as the commodity financing vehicle for the group's customers. IBCL offers commodity trading related services under bill discounting, purchase order and letter of credit model. IDCL acts as a broking arm for undertaking commodity trading/hedging transactions on the commodity exchanges. JFL provides financing to IBCL for undertaking commodity trading business in the form of advances to IBCL. ICL acquired Edel Commodities Trading Limited in November 2016 to strengthen its presence in the commodity trading segment, and subsequently transferred the business to IBCL. The presence of IBCL and IDCL enhances the group's position in the commodity financing segment and also helps in better management of the underlying business risks.

JFL is the major contributor to the group's profits and the contribution of the other group companies remains small given the fee-based nature of the business of these companies; ICL (on consolidated basis) reported profit after tax (PAT) of Rs.11.65 Cr in FY2018 while JFL (on standalone basis) reported Rs.7.15 Cr in FY2018. JFL has an outstanding loan book of Rs.176 Cr as on 31st March 2018 as against Rs.124 Cr a year ago. Of this, loan to IBCL stood at Rs.48 Cr as on 31st March 2018 (Rs.105 Cr as on 31st March 2017). Of JFL's total disbursements, Rs. 352 Cr. was lent to IBCL during FY2018 as against Rs130 Cr. during FY2017. The loan book increased to Rs.196 Cr as on 30th June 2018, out of which Rs.35 Cr. was loan to IBCL. JFL has been focusing on growing its commodity financing book and reducing its exposure to IBCL, which will help scale-up the overall business of the group over the medium term.

Most of the group's businesses present significant growth opportunities over the medium term as retail credit in India continues to be underpenetrated, be it housing finance, SME, agri-credit or microfinance. This offers a significant growth opportunity to Inditrade Capital group to increase its scale of operations by providing finance to individuals, entrepreneurs and business owners. Also, the group is looking to benefit from the cross-sell opportunities over the medium term given its presence across diversified business segments.

Acuite believes that the company shall benefit from its diversified presence across business segments and significant growth opportunities over the medium term.

Comfortable risk management practices

Inditrade Capital group has put in place comfortable 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, trading and broking business, which has strengthened with the acquisition of Edel Commodities Trading Limited.

With respect to JFL, 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. 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. JFL has also put in place limits on exposure to individual commodities and geographies to reduce concentration in the portfolio. This is reflected in the low reported gross non-performing assets (NPAs) of 0.29% as on March 31, 2018 (0.19% as on March 31, 2017). The gross NPAs remains manageable on an adjusted basis at 0.39% of the external loan book as on March 31, 2018 (0.73% as on March 31, 2017).

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.

Adequate capitalization

Inditrade Capital group has adequate capitalization with networth of Rs.156.77 Cr. and a low gearing of 0.99 time as on March 31, 2018 (Rs. 141.09 Cr. and 0.35 time as on March 31, 2017). However, the accruals to net worth remain low at 7.82% in 2017-18 (5.80% in the previous year) as the group (under the new management) has just started to scale-up the business.

The group will need significant amount of capital to support the strong growth plans across the existing and new business segments. The group infused Rs. 5.00 Cr in IML through rights issue to support the growth plans and is committed to infuse additional capital, as and when the need arises. The group is also planning to enter into housing finance and SME lending in the near term, which will also require steady support as accruals are likely to remain low during the initial stage of the operations. ICL was into equity broking business which was sold off during Q1FY 2019 for around Rs.32 Cr. This will help the group to partly meet the funding requirement for scaling up various businesses of the group. However, the group will need to raise additional capital to support the growth plans and will remain a key monitorable. The consolidated gearing is expected to remain in the range of 2 times over the medium term.

JFL's capitalization is comfortable, with net worth of Rs.106.19 Cr and gearing of 0.81 times as on March 31, 2018 (Rs.99.04 Cr and 0.39 times as on March 31, 2017). The Tier I capital adequacy ratio of JFL was 55.66 per cent as on March 31, 2018 (72.07% as on March 31, 2017). JFL plans to raise capital of around Rs.125-150 Cr (i.e. USD \$20 million) through stake dilution in the near term, which will further boost JFL's capitalization and support its growth plans. The group's ability to raise the capital on a timely basis remains a key rating sensitivity factor. JFL's gearing is likely to remain at around 3 times over the medium term.

Weaknesses

Nascent stage of operations resulting in average profitability

Inditrade Capital group's operations are at a nascent stage with the new promoter, Mr. Sudip Bandyopadhyay acquiring controlling stake in ICL in FY2016. Later on, in November 2016, the company acquired Edel Commodities Trading Limited to scale up its commodity trading business, especially in North & West India.

The group's lending book, at Rs.182.1 Cr as on June 30, 2018 (Rs.182.05 Cr as on March 31, 2018), remains small as compared to other financial services players.

JFL has scaled up its operations only in the past one year with commodity lending portfolio increasing to Rs.124 Cr as on 31st March 2018 from Rs. 2.32 Cr a year ago. The loan against share portfolio has declined gradually with the exit from the equity broking business (Rs.4.86 Cr as on 31st March 2018 as against Rs.16.73 Cr as on 31st March 2017). JFL's loan book was Rs. 196 Cr as on June 30, 2018.

Also looking at the potential in the micro-finance business, the group started the business in the beginning of FY2018. IML had a loan portfolio of Rs. 77.80 Cr as on June 30, 2018 (Rs.54.50 Cr as on March 31, 2018). Loan book is expected to ramp up given the group's plans to significantly expand existing business and also launch new business verticals of housing finance and SME lending. Acuite believes that the group's ability to scale up its operations and ability to compete with large players remains a key monitorable.

The group has average profitability with a profit after tax (PAT) of Rs.11.65 Cr. for FY2018 as against Rs.7.91 Cr. in FY2017. The group's PAT for the quarter ended June 2018 improved to Rs.3.14 Cr from Rs.1.45 Cr during the same period of the previous financial year supported by JFL, which contributes a large share of profits (Rs.2.39 Cr during Q1FY19), while other business segments reporting very low profits or losses. While the return on average assets was at 3.35% in FY2018 (4.00% in previous year), the return on tangible networth remains low at 7.82% in FY2018 (5.80% in previous year). Given the nascent stage

of the group's operations, especially with the plans to enter new business segments, the group's profitability is expected to remain low as these businesses will require continued investments in manpower, infrastructure, systems and processes etc. Furthermore, the group's profitability will remain susceptible to increase in provisioning costs with the seasoning of the loan portfolio over the medium term. The group's ability to improve its profitability while scaling up its loan portfolio and sustaining asset quality will remain a key monitorable.

Outlook: Stable

Acuité believes that the Inditrade Capital group will maintain a 'Stable' outlook on account of diversified business risk profile supported by strong operational and financial synergies, adequate capitalisation, and benefits derived from the experienced management team. The outlook may be revised to 'Positive' if there is significant increase in the scale of operations and improvement in profitability while maintaining adequate asset quality. The outlook may be revised to 'Negative' if there is pressure on capitalisation or deterioration in profitability and 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 |

| | Unit | Q1FY19 | Q1FY18 |
|---|---------|--------|--------|
| Total Assets | Rs. Cr. | 437.58 | 252.90 |
| Total Income (Net of Interest Expense) | Rs. Cr. | 20.69 | 14.73 |
| PAT | Rs. Cr. | 3.14 | 1.44 |
| Net Worth | Rs. Cr. | 157.67 | 104.67 |
| Return on Assets (RoA) | (%) | 0.72 | 0.57 |
| Return on Net Worth (RoNW) | (%) | 1.99 | 1.38 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 1.02 | 0.49 |

About JRG Fincorp Limited - Key Financials

| | Unit | FY18 | FY17 | FY16 |
|---|---------|--------|--------|-------|
| Total Assets | Rs. Cr. | 194.46 | 139.16 | 94.95 |
| Total Income (Net of Interest Expense) | Rs. Cr. | 15.42 | 12.74 | 21.18 |
| PAT | Rs. Cr. | 7.15 | 5.75 | 15.28 |
| Net Worth | Rs. Cr. | 106.19 | 99.04 | 93.28 |
| Return on Average Assets (RoAA) | (%) | 4.29 | 4.92 | 17.39 |
| Return on Average Net Worth (RoNW) | (%) | 6.97 | 5.98 | 17.84 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 0.81 | 0.39 | 0.00 |
| Gross NPAs | (%) | 0.29 | 0.19 | 0.73 |
| Net NPAs | (%) | 0.24 | 0.16 | 0.49 |

| | Unit | Q1FY19 | Q1FY18 |
|---|---------|--------|--------|
| Total Assets | Rs. Cr. | 215.10 | 136.68 |
| Total Income (Net of Interest Expense) | Rs. Cr. | 4.57 | 3.14 |
| PAT | Rs. Cr. | 2.39 | 1.32 |
| Net Worth | Rs. Cr. | 108.57 | 100.36 |
| Return on Assets (RoA) | (%) | 1.11 | 0.97 |
| Return on Net Worth (RoNW) | (%) | 2.20 | 1.32 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 0.95 | 0.35 |

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>
- Consolidation of companies - <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 |
|--------------------------|------------------|-------------|---------------|-----------------------------|---------------------|
| Working capital facility | NA | NA | NA | 25.00 | ACUITE BBB+/ Stable |
| Working Capital Facility | NA | NA | NA | 50.00 | ACUITE BBB+/ Stable |
| Working Capital Facility | NA | NA | NA | 20.00 | ACUITE BBB+/ Stable |
| Working Capital Facility | NA | NA | NA | 20.00 | ACUITE BBB+/ Stable |
| Working Capital Facility | NA | NA | NA | 20.00 | ACUITE BBB+/ Stable |
| Proposed Bank Facility | NA | NA | NA | 65.00 | ACUITE BBB+/ Stable |

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

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