

Press Release

Vanchinad Finance Private Limited



D-U-N-S® Number: 86-044-0434

February 19, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 35.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) to the Rs. 35.00 crore bank facilities of Vanchinad Finance Private Limited (VFPL). The outlook is '**Stable**'.

VFPL is a wholly owned subsidiary of SML Finance Limited. VFPL is a non-deposit taking NBFC incorporated in 1987. It was acquired by SML Finance Limited in May 2016 with the aim to expand the latter's microfinance business. VFPL offers microfinance loans under the Self-help group (SHG) model. The registered office is in Thrissur (Kerala). Spread across 10 districts across Kerala and Tamil Nadu, the company has a network of 32 branches with assets under management (AUM) of Rs 83.44 crores as on September 30, 2018.

Analytical Approach

Acuité has considered the standalone financials of VFPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

VFPL has experienced management team having good understanding on Micro-finance business and vast experience conducting business operations in Kerala. It is led by Mr. Jijo Kuriyappan, Chief General Manager, who has around 17 years of overall experience; of which more than 11 years are in Micro-finance business. The Managing Director of the group company- SML Finance Ltd, Mr. William Varghese has more than 2 decades of experience in financial services.

Acuité believes that the strong experience of VFPL's management team will enable the company to scale-up its operations while managing the risks inherent in the business.

- **Sound asset quality and moderate profitability indicators**

The company follows 90+ days NPA recognition policy as per RBI guidelines. The asset quality of the company is sound with Gross Non-Performing Assets (GNPA) ratio of 0.01 percent as on 31 March, 2018 as against 0.40 percent as on 31 March, 2017. Further, Portfolio at Risk (PAR) beyond 30+ days stood at 0.07 percent as on March 31, 2018. Adequate credit appraisal processes, monitoring and risk management mechanisms have supported the entity to keep asset quality indicators under control. Profitability profile of VFPL is moderate with Return on Average Assets (RoAA) at 6.57 percent as on March 31, 2018. Net Interest Margin (NIM) stood at 15.27 percent in FY2018 as against 4.11 percent in FY2017. VFPL reported Profit after Tax (PAT) of Rs. 3.03 crore in FY2018 as against Rs. 0.02 crore in FY2017.

Weaknesses

- **High geographical concentration with moderate scale of operations**

VFPL's scale of operations are modest as it has an AUM (Assets under management) of Rs.83.44 crore as on 31 September, 2018 as against Rs.76.10 crore as on 31 March, 2018. VFPL is exposed to high geographical concentration risk where the portfolio is concentrated in the state of Kerala and Tamil Nadu, spread across 10 districts and 32 branches, with Kerala accounting for 86 percent of

outstanding loan portfolio. VFPL has plans to expand its operations into the state of Karnataka in FY2020. The ability of the company to improve its loan portfolio along with a geographical diversification would be key rating sensitivity factor.

• Limited funding sources

VFPL has funded its loan portfolio of Rs.25.02 crore through the equity, Non-Convertible Debenture (NCD) of Rs.20.49 crore and Subordinated Debt of Rs.10.47 crore. Tenure of NCD and Subordinated debt is 10 years and 5 years respectively, Coupon rate ranges from 12.00-12.50 percent. In terms of bank funding, the company has limited funding sources with available limit of Rs.19.50 crore of cash credit. Ability of company to supports its plans of significant growth in loan portfolio depends upon its ability to secure diverse source of funding profile. Acuité believes, going forward, the ability of the company to mobilise funding and keep its cost of borrowing under control to be major rating driver.

Liquidity Position

The company has a comfortable liquidity position due to well matched maturity of assets and liabilities. The tenure of loans ranges between 12-24 months, whereas the debentures and sub-ordinate debt is typically for 60-120 months. Further, the liquidity profile is supported by unutilised bank lines of Rs. 10.00 crore to meet business needs or in case of any mismatches.

Outlook: Stable

Acuité believes that VFPL will maintain a 'Stable' risk profile over the medium term on account of its experienced management and healthy asset quality. The outlook may be revised to 'Positive' in case of sustained increase in loan book while maintaining its asset quality. The outlook may be revised to 'Negative' in case of substantial increase in financial leverage and/or decline in profitability indicators.

About the Rated Entity - Key Financials

	Unit	FY18	FY17	FY16
Total Assets	Rs. Cr.	77.74	14.71	0.49
Total Income (Net of Interest Expense)	Rs. Cr.	8.25	0.43	0.03
PAT	Rs. Cr.	3.04	0.02	-0.02
Net Worth	Rs. Cr.	25.02	9.82	0.30
Return on Average Assets (RoAA)	(%)	6.57	0.27	-9.91
Return on Average Net Worth (RoNW)	(%)	17.43	0.41	-16.64
Total Debt/Tangible Net Worth (Gearing)	Times	2.07	9.82	0.30
Gross NPAs	(%)	0.01	0.40	19.84
Net NPAs	(%)	0.00	0.12	12.23

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Non - Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	19.50	ACUITE BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+ / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE BB+ / Stable

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About Acuité Ratings & Research:

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