

Press Release
Essel Finance Business Loans Limited

April 26, 2019



Rating Reaffirmed, Withdrawn and Assigned

Total Facilities Rated*	Rs. 500.00 Cr.
Total Bank Facilities Rated*	Rs. 450.00 Cr.
Long Term Rating	ACUITE BBB-/Negative
Total NCDs Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB-/Negative

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs. 363.00 Cr. bank facilities of Essel Finance Business Loans Limited (EFLL). The outlook is '**Negative**'.

Acuité has assigned its long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs. 87.00 Cr. bank facilities of Essel Finance Business Loans Limited (EFLL). The outlook is '**Negative**'.

Acuité has also withdrawn its long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs. 15.00 Cr. bank facilities of EFLL.

Acuité has also reaffirmed its long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs. 25.00 Cr. Non- Convertible Debentures and Rs. 25.00 Cr. Subordinated Non-Convertible Debentures of EFLL. The outlook is '**Negative**'.

About EFLL:

Essel Finance Business Loans Limited (EFLL) is a Maharashtra based Public Limited Company, engaged in extending Secured Loans (Loan Against property), Equipment financing, SME Loans, and Loans to NBFC/MFIs. EFLL was formerly known as Blue Blend Equity Limited (BBEL), an RBI registered NBFC since 1998. BBEL was completely acquired by Essel group in 2015 and renamed as EFLL.

Dakshin Mercantile Private Limited and Essel Finance Management LLP held 81.65 percent and 18.35 percent equity shares of EFLL as on March 31, 2019.

EFLL primarily operates in Maharashtra and Uttar Pradesh and is gradually expanding its presence in other states. As on March 31, 2019, the company had overall presence in 8 states and operated through a network of 16 branches.

Outlook: Negative

Acuite expects EFLL's credit profile to be constrained on account of the potential pressures on its asset quality and the overall challenging operating environment for NBFCs which are likely to impinge on its financial flexibility. The outlook will be revised to 'Stable' in case EFLL is able to demonstrate significant equity infusion over the near to medium term and an improvement in its asset quality. Conversely, the rating would be 'Downgraded', in case EFLL faces further asset quality pressures or challenges in raising fresh equity/debt, thereby impacting its growth and liquidity over the near to medium term.

Analytical Approach

Acuité has adopted a standalone approach on EFLL's business and financial risk profile for arriving at the rating.

Key Rating Drivers

Strengths

- **Improving operational performance:**

EFLL commenced its lending business in 2016 upon acquiring a Non-deposit taking NBFC- BBEL and is engaged in financing of secured loans, namely Loan Against property and Equipment finance. The company also extends SME Structured finance loans and loans to NBFC/MFIs.

EFLL is spearheaded by Mr. Amitabh Chaturvedi, who has been a part of the financial services industry for over two decades. Mr. Sabyasachi Rath (Executive Director & CEO) has over two decades of experience in the banking and financial services industry. EFLL has a 5 member board led by Mr. Amitabh Chaturvedi (Managing Director), and other members having expertise in financial services along with other industries.

EFLL is currently 81.65% held by Dakshin Mercantile Private Limited which in turn is wholly owned by the promoter family of the Essel group (Mrs. Sushila Devi Goel, wife of Dr. Subhash Chandra). Remaining 18.35% is held by Essel Finance Management LLP.

The company has adequate credit risk, operations, business and product framework in place and each vertical is headed by a seasoned professional.

EFLL's overall AUM has grown to Rs. 378.4 Cr. as on March 31, 2019 of which the on-book portfolio is Rs. 361.8 Cr. and off book is Rs. 16.6 Cr.; the AUM has grown from Rs. 161.45 Cr. as on March 31, 2016. The growth is largely derived from diversifying its product mix from LAP loans which amounted to Rs. 228.6 Cr. (i.e. 60.4 percent of overall AUM) as on March 31, 2019 as against Rs. 148.5 Cr. (i.e. 91percent of overall AUM) as on March 31, 2016. The rest comprises SME structured finance (30 percent of the overall AUM) followed by loans to MFI and NBFC (7.6 percent) and Equipment finance (~2 percent) as on March 31, 2019.

EFLL has faced challenges in the loan originations prior to January 2017, and since then has strengthened its underwriting standards and processes. The asset quality of the portfolio originated post January 2017 is reflective of the strengthened framework. The gradual rundown of the legacy portfolio coupled with continued healthy performance of the non-legacy portfolio is likely to augur well for EFLL. The management has increased its focus on smaller ticket loan and increased security cover through a lower Loan to Value (LTV) ratio. As on March 31, 2019, 60 percent of the portfolio had an LTV of less than 50 percent.

The company has gradually diversified its geographical presence by adopting the Hub and Spoke model; wherein at the Hub level both sourcing and processing of loans is carried out, while the spoke is engaged in sourcing credits. The company had adopted the Hub and spoke model post January 2017. The company's 58.4 percent of the portfolio is disbursed in Maharashtra and 23.3 percent in Uttar Pradesh. The other states namely Gujarat, Karnataka, Tamil Nadu, Haryana, Rajasthan and Delhi comprised 18.3 percent of the portfolio.

Acuité believes that EFLL's operating profile will continue to benefit from an increasingly granular portfolio along with strong support from the managerial team and stringent processes followed over the past 18 months.

Weaknesses

- **Significant overhang of legacy portfolio on asset quality:**

EFLL commenced its lending operations in 2016 and has increased its presence into various geographies and various products. The company caters to borrowers with lower income segment wherein the income streams are not firmly established, which exposes the company to volatility in the credit profile of these borrowers. The management of the company has primarily focused on Loan against Property and SME Structured Financing. LAP loans are prone to inherent risks since the collateral value is the primary focus rather than the cashflows.

The company's overall Asset under Management stood at Rs. 378.4 Cr. as on March 31, 2019 of which the legacy portfolio i.e. portfolio originated prior to January 2017, was Rs. 82.38 Cr. and non-legacy i.e.

origination post January 2017 was Rs. 296 Cr. The company has reported Gross NPA of 1.74 percent as on March 31, 2019 as against 4.38 percent as on March 31, 2018. Most of the delinquencies are out of the originations prior to January 2017, herein after referred to as Legacy portfolio.

The legacy and non-legacy portfolio has shown a divergent trend in respect of the asset quality. The legacy portfolio had 90+dpd Portfolio at Risk of Rs. 19.17 Cr. as against relatively low 90+dpd PAR of Rs. 4 Cr. from the non-legacy portfolio.

The legacy portfolio has reduced from Rs.137.4 Cr. as on March 31, 2018 to Rs. 82.38 Cr. as on March 31, 2019, on account of recoveries and a write down of Rs. 15.7 Cr. on account of sale of asset to a Private Bank. In view of the significant delinquent portfolio, the company's focus in the past 12 to 18 months has been more on recovery than disbursement.

The delinquency from the regular portfolio are lower. The average collection efficiency of the non-legacy portfolio in the 12 months ended March 31, 2019 has been ~88 percent. Acuité believes that the company's asset quality profile will depend on their ability to contain the delinquency in both i.e. the legacy and non-legacy portfolio and will remain key determinant of the overall credit profile for over the medium term.

• Limited financial flexibility:

EFLL has a presence in LAP and SME financing. At present, LAP accounts for 60.4 percent of the AUM. The tenure for LAP loans are in the range of 8 to 10 years. The company's funding profile includes a mix of equity, bank term loans and NCDs. EFLL's gearing as on March 31, 2019 was 2.35 times as against 2.66 times as on March 31, 2018. Of the overall debt of Rs. 288.9 Cr. as on March 31, 2019, term loans o/s from banks and Financial Institutions were Rs. 215.7 Cr. i.e. 75 percent of the total debt. The debt availed from banks/Financial Institutions is mostly by way of term loans with maturities ranging from 24 to 48 months. The company faces a negative mismatch in the near to medium term buckets. It will need to approach lenders and investors to seek long term funds by way of debt/Equity for meeting these mismatches in its ALM profile and funding future growth.

The recent adverse credit events have impacted the overall operating environment for NBFCs. The lenders and investors have been cautious in taking fresh exposures on NBFCs. Further, the developments in the Essel Group may also impact or delay the fund raising plans in EFLL.

Acuité believes that the ability of EFLL to raise fresh equity and long term debt at a competitive price will be a key monitorable.

Liquidity Position:

EFLL has minor negative cumulative mismatch in 6 months to 1 year time bucket and significant mismatches in the one to three year time buckets. The management plans to address these mismatches by availing longer tenured funding from lenders and exploring various options to raise equity capital. The company is availing cash credit limits from various banks aggregating to Rs. 23.5 Cr. as on March 31, 2019, where the utilisation is 87 percent (six months average).

About the Rated Entity - Key Financials

Parameters	Unit	FY19 (Provisional)	FY18 (Actual)	FY17(Actual)
Total Assets	Rs. Cr.	421.90	402.12	237.94
Total Income*	Rs. Cr.	30.91	23.94	20.52
PAT	Rs. Cr.	(3.95)	1.04	1.33
Net Worth	Rs. Cr.	122.86	106.80	77.77
Return on Average Assets (RoAA)	(%)	(0.96)	0.32	0.64
Return on Average Net Worth(RoNW)	(%)	(3.44)	1.12	1.89
Total Debt/Tangible Net Worth (Gearing)	Times	2.35	2.66	1.97

Gross NPA	(%)	1.74	4.38	3.19
Net NPA	(%)	1.52	3.91	2.87

* Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA

None

Any other information

None

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-17.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
April 17, 2019	Cash Credit	Long Term	8.5	ACUITE BBB-/Negative (Assigned)
	Overdraft	Long Term	5.00	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long Term	15.00	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long Term	20.00	ACUITE BBB-/Negative (Assigned)
	Proposed Bank Facility	Long Term	391.5	ACUITE BBB-/Negative (Assigned)
	Subordinated Non-convertible Debentures	Long Term	25.00	ACUITE BBB-/Negative (Assigned)
	Non-convertible Debentures	Long Term	25.00	ACUITE BBB-/Negative (Assigned)

*Annexure – Details of instruments rated

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
-	Cash Credit	NA	NA	NA	8.5	ACUITE BBB-/Negative (Reaffirmed)
-	Overdraft	NA	NA	NA	5.00	ACUITE BBB-/Negative (Reaffirmed)
-	Term Loan	NA	NA	NA	15.00	ACUITE BBB- (Withdrawn)
-	Term Loan	NA	NA	NA	10.00	ACUITE BBB-/Negative (Reaffirmed)
-	Term Loan	NA	NA	NA	20.00	ACUITE BBB-/Negative (Reaffirmed)

-	Proposed Bank Facility	NA	NA	NA	319.5	ACUITE BBB-/Negative (Reaffirmed)
-	Term Loan	NA	NA	NA	15.00	ACUITE BBB-/Negative (Assigned)
-	Term Loan	NA	NA	NA	35.00	ACUITE BBB-/Negative (Assigned)
-	Term Loan	NA	NA	NA	7.00	ACUITE BBB-/Negative (Assigned)
-	Term Loan	NA	NA	NA	20.00	ACUITE BBB-/Negative (Assigned)
-	Cash Credit	NA	NA	NA	10.00	ACUITE BBB-/Negative (Assigned)
INE684V08014	Subordinated Non-convertible Debentures	19-Aug-2016	13.99%	19-Aug-2022	25.00	ACUITE BBB-/Negative (Reaffirmed)
INE684V08030	Non-convertible Debentures	29-Jun-2017	12.75%	29-Jun-2020	25.00	ACUITE BBB-/Negative (Reaffirmed)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings 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 6,000 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 Mumbai.

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