

Press Release

Essel Finance Business Loans Limited

November 06, 2019

Rating Downgraded



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

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating from '**ACUITE BBB- (read as ACUITE triple B minus)**' to '**ACUITE C (read as ACUITE C)**' on the Rs. 450 Cr. bank facilities of Essel Finance Business Loans Limited (EFLL).

Acuité has also downgraded the long term rating from '**ACUITE BBB- (read as ACUITE triple B minus)**' to '**ACUITE C (read as ACUITE C)**' on the Rs. 25.00 Cr. Non-Convertible Debentures and Rs. 25.00 Cr. Subordinated Non-Convertible Debentures of EFLL.

The downward revision in the rating is in view of significant pressure on the liquidity profile of the company which has impeded its ability to service the debt obligation in a timely manner. The liquidity pressure is primarily on account of continued pressure on the company's asset quality resulting in lower cashflows. The company's average collection efficiency in the twelve months ended June 30, 2019 was at 47 percent. The company's fund raising efforts through additional equity infusion has not materialized which has also impacted the liquidity.

Going forward, the company plans to sell down its loan assets for which the management is in advanced stage of discussions with potential investors. The proceeds of the said transaction are expected to significantly reduce the debt of the company.

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 (DMPL) and Essel Finance Management LLP held 81.65 percent and 18.35 percent equity shares of EFLL as on March 31, 2019. DMPL is wholly owned by the promoter family of the Essel group (Mrs. Sushila Devi Goel, wife of Dr. Subhash Chandra).

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.

Analytical Approach

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

Key Rating Drivers

Weaknesses

- **Significant liquidity pressures:**

The company's liquidity profile is stressed due to negative mismatches in the inflows to service the debt obligations in a timely manner. The company's financial flexibility has been impaired on account of the subdued overall operating environment for NBFCs along with the developments in Essel Group resulting in delay in the fund raising plans in EFLL. The management was in plans to raise equity capital which has also not materialised.

Acuité believes that the company's liquidity will continue to be under pressure till they are able to raise significant long term funds by way of equity or other arrangements like sell down of existing loan assets.

- **Subdued 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. 349.3 Cr. as on June 30, 2019 as against Rs. 378.4 Cr. as on March 31, 2019. The company has reported Gross NPA of 6.9 percent as on June 30, 2019 as against 5.7 percent as on March 31, 2019(90 days past due basis). The average collection efficiency of company for the 12 months ended June 30, 2019 has been ~47 percent.

Strengths

- **Day to day operations supported by seasoned professionals:**

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.

Acuité believes that EFLL will continue to be supported by the seasoned managerial team.

Rating Sensitivities:

- Ability to raise long term funds to support liquidity
- Change in ownership

Material Covenants: The lenders have stipulated covenants with regards to asset quality, leverage and credit ratings, some of which the company has breached.

Liquidity position: Poor

The company's liquidity profile is stretched with significant negative mismatches in over one to three year bucket based on the ALM statement dated June 30, 2019. Acuité believes that the company will be required to arrange long term funding support to ensure timely servicing of debt obligations.

About the Rated Entity - Key Financials

Parameters	Unit	FY19(Actual)	FY18 (Actual)	FY17(Actual)
Total Assets	Rs. Cr.	420.27	402.12	237.94
Total Income*	Rs. Cr.	28.77	23.94	20.52
PAT	Rs. Cr.	(6.76)	1.04	1.33
Net Worth	Rs. Cr.	120.05	106.80	77.77
Return on Average Assets (RoAA)	(%)	(1.64)	0.32	0.64
Return on Average Net Worth (RoNW)	(%)	(5.96)	1.12	1.89
Total Debt/Tangible Net Worth (Gearing)	Times	2.41	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 26, 2019	Cash Credit	Long Term	8.5	ACUITE BBB-/Negative (Reaffirmed)
	Overdraft	Long Term	5.00	ACUITE BBB-/Negative (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB- (Withdrawn)
	Term Loan	Long Term	10.00	ACUITE BBB-/Negative (Reaffirmed)
	Term Loan	Long Term	20.00	ACUITE BBB-/Negative (Reaffirmed)
	Proposed Bank Facility	Long Term	319.5	ACUITE BBB-/Negative (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long Term	35.00	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long Term	7.00	ACUITE BBB-/Negative

April 17, 2019	Term Loan	Long Term	20.00	(Assigned) ACUITE BBB-/Negative (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB-/Negative (Assigned)
	Subordinated Non-convertible Debentures	Long Term	25.00	ACUITE BBB-/Negative (Reaffirmed)
	Non-convertible Debentures	Long Term	25.00	ACUITE BBB-/Negative (Reaffirmed)
	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)

***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 C (Downgraded from ACUITE BBB-/Negative)
-	Overdraft	NA	NA	NA	5.00	ACUITE C (Downgraded from ACUITE BBB-/Negative)
-	Term Loan	NA	NA	NA	10.00	ACUITE C (Downgraded from ACUITE BBB-/Negative)
-	Term Loan	NA	NA	NA	20.00	ACUITE C (Downgraded from ACUITE BBB-/Negative)
-	Proposed Bank Facility	NA	NA	NA	319.5	ACUITE C (Downgraded from ACUITE BBB-/Negative)
-	Term Loan	NA	NA	NA	15.00	ACUITE C (Downgraded from ACUITE BBB-/Negative))
-	Term Loan	NA	NA	NA	35.00	ACUITE C (Downgraded from ACUITE BBB-/Negative)
-	Term Loan	NA	NA	NA	7.00	ACUITE C (Downgraded from ACUITE BBB-/Negative)
-	Term Loan	NA	NA	NA	20.00	ACUITE C (Downgraded from ACUITE BBB-/Negative)
-	Cash Credit	NA	NA	NA	10.00	ACUITE C (Downgraded from

						ACUITE BBB-/Negative)
INE684V08014	Subordinated Non-convertible Debentures	19-Aug-2016	13.99%	19-Aug-2022	25.00	ACUITE C (Downgraded from ACUITE BBB-/Negative)
INE684V08030	Non-convertible Debentures	29-Jun-2017	12.75%	29-Jun-2020	25.00	ACUITE C (Downgraded from ACUITE BBB-/Negative)

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About Acuité Ratings & Research:

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