

Press Release

Jatinder Finance Private Limited

September 20, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB+/Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 20.00 Cr. bank facilities of Jatinder Finance Private Limited (JFPL). The outlook is '**Stable**'.

About JFPL:

Jharkhand-based, JFPL is an NBFC primarily engaged in asset-backed financing, wherein the key product offerings include two-wheeler and three-wheeler financing along with secured and unsecured loans to individual borrowers. The company has presence in four states primarily in Eastern India through a network of 53 branches as on June 30, 2019.

The company was originally incorporated in 1986 with a different set of owners, and subsequently the company was taken over in 2008 by the present promoters, Mr. Ummed Jain and his sons, Mr. Gautam Jain and Mr. Vikram Jain.

Mr. Gautam Jain (Director) was initially engaged in traditional financing and gradually instrumented his aim to transform his lending operations into a recognised and regulated NBFC-MFI i.e. Vedika Credit Capital Limited (**VCCL - ACUITE A-/Stable**); and an NBFC i.e. JFPL.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established presence in two wheeler lending:

JFPL commenced its lending operations, since 2008, and is engaged in two-wheeler financing, three wheeler financing, and secured and unsecured loans to individuals. JFPL's has a three member Board led by Mr. Ummed Jain (Director), Mr. Gautam Jain (Director) and Mr. Vikram Jain (Director). The Directors have over a decade of experience in the lending activity.

The company's AUM has grown to Rs. 173.9 Cr. as on June 30, 2019 from Rs. 58.23 Cr. as on March 31, 2017. The growth has been driven by higher growth in the managed book. The company's managed portfolio has grown to Rs. 136 Cr. as on June 30, 2019 from Rs. 11 Cr. as on March 31, 2017. JFPL has grown its managed portfolio through business correspondent relation with IDFC First Bank. The company has also increased its geographical reach from two states i.e. Bihar and Jharkhand in FY2017 to four states by expanding in West Bengal and Uttar Pradesh during April 2017 to June 2019 and operates through a network of 53 branches as on June 30, 2019; an increase from 35 branches as on March 31, 2017. As on June 30, 2019, 53 per cent of the portfolio was disbursed across Bihar, 35 per cent across Jharkhand and the remaining was disbursed in West Bengal (4 per cent) and Uttar Pradesh (8 per cent).

Acuité believes that JFPL's overall business risk profile will be supported by the management's track record in lending segment.

Weaknesses

• Ability to scale up its operations:

JFPL is engaged in two and three wheeler financing along with lending to individuals. The company's management plans to grow on book as well as off book exposure by increasing its presence in the existing geographies. The company's AUM stood at Rs. 173.9 Cr. as on June 30, 2019 as against Rs. 58.23 Cr. as on

March 31, 2017. Over the years, the contribution of owned portfolio to overall AUM has reduced to 22 per cent as on June 30, 2019 from 31 per cent as on March 31, 2019 and 58 per cent as on March 31, 2018.

The company's Capital Adequacy ratio stood at 42.79 per cent as on June 30, 2019 of which Tier I capital contributed 32 per cent and Tier II capital contributed 11 per cent. The Tier II capital is by way of subordinated debt from IDFC First Bank Limited. The company's gearing stood at 2.4 times as on June 30, 2019 (2.6 times as on March 31, 2019). The debt comprises Term loans, and subordinated debt from Banks/FIs.

The ongoing NBFC crises has made it challenging for the NBFCs to raise fresh debt from banks. As a result, players such as JFPL are likely to face challenges in raising debt capital, thereby impacting their ability to scale up their operations. To address this challenge, the management of JFPL engages into business correspondent relations.

The company's ability to scale up its operations is likely to be further impinged by the sluggish growth that the automobile industry is facing. Of the overall AUM as on June 30, 2019, two wheeler comprised 80 per cent, three wheeler comprised 13 per cent, and secured and unsecured individual loans comprised 3 per cent and 4 per cent, respectively. The automobile industry is facing challenges both on demand and supply side primarily due to changing consumer sentiments and sluggish NBFC scenario. Against this backdrop, the company's ability to observe a significant growth in this segment is likely to be impinged.

Acuite believes that the company's ability to scale up its operations while addressing the challenges in the operating environment will remain a key sensitivity.

• **Modest profitability and asset quality metrics:**

JFPL has grown its AUM largely through the managed route through business correspondent relations. The AUM growth has supported the company to manage its cost; however, lower contribution from high yielding owned portfolio to its operating income has resulted in modest profitability. The company reported return on average assets (ROAA) of 1.6 per cent for FY2019 as against 1.5 per cent for FY2018. This is primarily due to higher cost to income ratio of 90 per cent for FY2019 as against 76 per cent for FY2018.

The company has also been facing asset quality challenges as reflected in gross NPA of 2.28 per cent as on June 30, 2019 as against 0.5 per cent as on March 31, 2017. The spike in Gross NPA is primarily because the company is yet to stabilize in the newer geographies. The company's average collection efficiency in the 17 months ended June 2019 was 82 per cent. The company's ability to manage its asset quality at moderate levels will remain a key rating sensitivity.

Acuite believes that the company's ability to successfully execute its strategy of off balance sheet growth while maintaining earning profile will be key monitorable.

Liquidity Position: Moderate

JFPL's overall liquidity profile remains moderate, given that advances comprise relatively shorter-tenure loans with average tenure of 17 to 18 months compared to the tenure of borrowed funds of 24 months. There are no cumulative negative mismatches in any of the time buckets upto 5 years.

Outlook: Stable

Acuite believes that JFPL will maintain a 'Stable' credit profile over the near to medium owing to established presence in two wheeler financing. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability, asset quality and capitalisation indicators. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in asset quality or profitability margins.

About the Rated Entity - Key Financials

Parameters	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	57.3	56.0	60.0
Total Income*	Rs. Cr.	13.1	8.4	7.2
PAT	Rs. Cr.	0.9	0.8	0.7
Net Worth	Rs. Cr.	15.3	13.7	11.1
Return on Average Assets (RoAA)	(%)	1.6	1.5	1.3
Return on Average Net Worth (RoNW)	(%)	6.4	6.8	6.6
Total Debt/Tangible Net Worth (Gearing)	Times	2.6	3.0	4.1
Gross NPA	(%)	2.3	2.1	0.5
Net NPA	(%)	Nil	Nil	Nil

* Total income equals to Net interest income plus other income

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

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)

Not applicable

*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
-	Term Loan	NA	NA	NA	4.39	ACUITE BB+/Stable (Assigned)
-	Term Loan	NA	NA	NA	3.89	ACUITE BB+/Stable (Assigned)
	Term Loan	NA	NA	NA	5.00	ACUITE BB+/Stable (Assigned)
	Proposed Term Loan	NA	NA	NA	6.72	ACUITE BB+/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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