

Press Release
Jatinder Finance Private Limited
 November 18, 2020
**Rating Downgraded &
 Withdrawn**



| | |
|-------------------------------------|------------------------------------------|
| Total Bank Facilities Rated* | Rs. 20.00 Cr. |
| Long Term Rating | ACUITE BB (Downgraded & Withdrawn) |

* Refer Annexure for details

Rating Rationale

Acuité has downgraded & withdrawn the long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs. 20.00 crore bank facilities of Jatinder Finance Private Limited to **ACUITE BB** (**read as ACUITE double BB**). The withdrawal is in accordance with Acuite's policy on withdrawal and NOC received from Banks.

Rationale for Downgrade

The current revision in ratings is primarily driven by the sharp deterioration in operating profitability and the expectation that the company will continue to face challenges in achieving a revival in its key metrics due to the current economic environment.

The company reported return on average assets (ROAA) of 0.21 percent for FY2020 as against 1.14 percent for FY2019 on account of higher operating expenses. JFPL expanded its operations to two states which in turn resulted in an increase of Staff Expenses. JFPL also made an additional provision for COVID -19 of Rs. 1.25 Crore which significantly impacted the performance.

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 a presence in six states primarily in eastern India through a network of 50 branches as on June 30, 2020.

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 recognized and regulated NBFC-MFI, i.e. Vedika Credit Capital Limited (**VCCL - ACUITE BBB/Negative**); and an NBFC, i.e. JFPL.

Analytical Approach

Acuité has adopted the 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.

Ummad Jain (Director), Mr. Gautam Jain (Director) and Mr. Vikram Jain (Director). The Directors have over a decade of experience in lending activity.

The company's AUM has grown to Rs. 270.76 Cr. as on June 30, 2020 from Rs. 69.43 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. 208.97 Cr. as on June 30, 2020 from Rs. 29.18 Cr. as on March 31, 2018. JFPL has growth its managed business through business correspondent relation with IDFC First Bank. The company has also increased its geographical reach from four states, namely, Bihar, Jharkhand, West Bengal and Uttar Pradesh to six states by expanding in Odisha and Assam in FY2020 and operates through a network of 50 branches as on June 30, 2020. As on June 30, 2020, of the on book portfolio, ~54 percent was dispersed across Bihar, followed by ~27 percent in Jharkhand, ~13 percent in Uttar Pradesh and the remaining was dispersed in West Bengal (~7 per cent), Odisha (0.11 percent) and Assam (0.08 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. 270.76 Cr. as on June 30, 2020 as against Rs. 272.05 Cr. as on March 31, 2020 and Rs. 142.97 Cr. As on March 31, 2019. Over the years, the contribution of an owned portfolio to overall AUM has reduced to 22 percent as on June 30, 2020 from 23 percent as on March 31, 2020 and ~27 percent as on March 31, 2019.

The company's Capital Adequacy ratio stood at 25.57 percent as on March 31, 2020, of which Tier I capital contributed 17 percent and Tier II capital contributed 8 percent. The Tier II capital is by way of subordinated debt from IDFC First Bank Limited. The company's gearing stood at 3.6 times as on March 31, 2020 (2.6 times as on March 31, 2019). The debt comprises Term loans, NCD and subordinated debt from Banks/FIs.

The ongoing NBFC crises have 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 in business correspondent relations.

Of the overall AUM as on June 30, 2020, two wheeler comprised 80 per cent, three wheeler comprised 19 percent, and secured and unsecured individual loans comprised 0.7 percent and 1 percent, 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 has observed a significant growth in this segment.

Acuité 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 0.21 percent for FY2020 as against 1.14 percent for FY2019. This is primarily due to higher cost to income ratio of 80 per cent for FY2020.

The company has also been facing asset quality challenges as reflected in gross NPA of 1.15 percent as on June 30, 2020 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 12 months ended in September, 2020 was 62 per cent. The company's ability to manage its asset quality at moderate levels will remain a key rating sensitivity.

Acuité 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: Adequate

JFPL's overall liquidity profile remains moderate, given that advances comprise relatively shorter-tenure loans with an 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 up to 1 year.

Rating Sensitivities

- Growth in AUM while maintaining asset quality
- Movement in profitability parameters

Material Covenants

JFPL is subject to covenants stipulated by its lenders in respect of various parameters. As per confirmation received from the client, vide mail dated November 17, 2020. 'The company is complying with the material covenants imposed by its lenders/investors.'

About the Rated Entity - Key Financials

| Parameters | Unit | FY20 | FY19 |
|-----------------------------------|---------|-------|-------|
| Total Assets | Rs. Cr. | 92.58 | 57.58 |
| Total Income* | Rs. Cr. | 20.62 | 12.78 |
| PAT | Rs. Cr. | 0.16 | 0.64 |
| Net Worth | Rs. Cr. | 15.20 | 15.05 |
| Return on Average Assets (RoAA) | (%) | 0.21 | 1.14 |
| Return on Average Net Worth(RoNW) | (%) | 1.04 | 4.48 |
| Debt/Equity | Times | 3.62 | 2.62 |
| Gross NPA | (%) | 1.83 | 2.31 |
| Net NPA | (%) | 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>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition -<https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of the Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|----------------------------------|------------------------|-----------|--------------------|------------------------------|
| 20 th September, 2019 | Term Loan | Long Term | 4.39 | ACUITE BB+/Stable (Assigned) |
| | Term Loan | Long Term | 3.89 | ACUITE BB+/Stable (Assigned) |
| | Term Loan | Long Term | 5.00 | ACUITE BB+/Stable (Assigned) |
| | Proposed Term Loan | Long Term | 6.72 | ACUITE BB+/Stable (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|-------------|---------------|-----------------------------|------------------------------------|
| Term Loan | 11.12.2017 | 13.50% | 04.04.2020 | 4.39 | ACUITE BB (Downgraded & Withdrawn) |
| Term Loan | 09.10.2017 | 14.00% | 22.04.2023 | 3.89 | ACUITE BB (Downgraded & Withdrawn) |
| Term Loan | 19.02.2018 | 13.75% | 01.02.2025 | 5.00 | ACUITE BB (Downgraded & Withdrawn) |
| Proposed Term Loan | NA | NA | NA | 6.72 | ACUITE BB (Downgraded & Withdrawn) |

Contacts

| Analytical | Rating Desk |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
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About Acuité Ratings & Research:

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