

Press Release

Shri Ram Finance Corporation Private Limited

February 20, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	ACUITE BBB+/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB+ (read as ACUITE triple B plus)**' on the Rs. 40.00 Cr. bank facilities of Shri Ram Finance Corporation Private Limited (SFCPL). The outlook is '**Stable**'.

About SFCPL:

Incorporated in 2004, SFCPL is a Raipur based Non deposit-taking, Non-banking financial company registered with RBI effective 2008. The company is engaged in two and four wheeler financing and is also engaged in financing to SMEs and unsecured loans to individuals. The company is promoted by Mr. Gaurav Bhattar who has over a decade of experience in two wheeler financing.

The company primarily operates in four states namely Chhattisgarh, Madhya Pradesh, Odisha and Jharkhand through a network of 108 branches.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established presence in area of operations:

SFCPL was incorporated in 2004 and received its NBFC license in 2008. The company initially was engaged in two wheeler financing and gradually since 2010 has diversified their product mix to include four wheeler financing, financing to SMEs and microfinance lending. Presently the company's operations are spread over four states namely Chhattisgarh, Odisha, Madhya Pradesh and Jharkhand and operates through a network of 108 branches as on October 31, 2019. The group also has established relationships with dealers and intermediaries for supporting their forays in two-wheeler segment.

The company's Asset under Management (AUM includes on book and off book portfolio) has grown to Rs. 385 Cr. as on March 31, 2019 as against Rs. 206 Cr. as on March 31, 2018 and Rs. 92 Cr. as on March 31, 2017. The group had AUM of Rs. 457 Cr. as on October 31, 2019. The growth in AUM is supported by promoter's ability to infuse equity capital along with their ability to raise external debt. Of the overall AUM as on October 31, 2019, two wheeler financing contributed 64 percent, 22 percent of the AUM was to SMEs, 10 percent were four wheeler loans and microfinance loans contributed 3 percent.

The company is promoted by Mr. Ganesh Bhattar and Mr. Gaurav Bhattar who have been engaged in two wheeler financing since 2003 through a proprietorship concern. The promoters are supported by professionals with significant experience in various functional areas.

Acuité believes that SRFCL's business profile will continue to benefit from the established presence in the area of operations backed by strong managerial support.

- **Moderate asset quality and earnings profile:**

The company largely caters to borrower base with mid to low income segment along with SMEs. The company has established its presence since 2008 and has navigated through various business cycles on the strength of stringent credit risk mechanisms in place. SFCPL's asset quality remained healthy among peers with Gross NPA (on 180+ days past due basis) of 0.7 percent as March 31, 2019 as against 0.6 percent as on March 31, 2018. The company reported GNPA of 0.6 percent as on October 31, 2019. The company has demonstrated collection efficiency of 89 percent in the last thirteen months ended October 31, 2019. The company reported Net NPA of 0.5 percent as on October 31, 2019.

The group's earning profile is supported by strong profitability and an increasing scale of operations. The Net Interest Margins (NIMs) improved to 17.6 percent in FY2019 as against 12.4 percent in the previous year. The group's Return on Average Assets (ROAA) improved to 4.8 percent in FY2019 from 1.6 percent in FY2018. This is primarily due to improved operating expenses to income ratio of 53 percent in FY2019 as against 74 percent in FY2018. The company maintained a ROAA of 6.1 percent for the period April to October 2019(annualized). Further the operating expensed to income ratio improved to 48 percent for the period April to October 2019(annualized). The company has maintained healthy operating efficiency which is reflected in its operating expenses to earning assets ratio of 7.8 percent in FY2019 as against 7.1 percent in FY2018.

Acuite believes that the company will be able to sustain its profitability and asset quality metrics on the back of their ability to raise and deploy funds at competitive spreads across various asset classes.

Weaknesses

- **Ability to scale up operations:**

SFCPL AUM stood at Rs. 457 Cr. as on October 31, 2019 as against Rs. 385 Cr. as on March 31, 2019 and Rs. 206 Cr. as on March 31, 2018. The company primarily focused on two wheeler financing with 64 percent of the AUM being disbursed to this segment as on October 31, 2019. The company is largely focused on owned portfolio growth which is largely dependent on the promoter's ability to improve the company's funding profile.

The company has a networth of 83.1 Cr. and total debt of Rs. 351.7 Cr. as on October 31, 2019, thereby reporting a gearing of 4.2 times as on October 31, 2019. The company has established relations with a network of 26 lenders including public sector banks and financial institutions which has supported the growth. The debt comprises of Term loans, working capital borrowings and subordinated debt from Banks/FIs. The promoters have infused Rs. 14 Cr. over the period April 2016 to March 2019. The company's overall capital adequacy stood at 25.32 percent as on October 31, 2019 of which Tier one capital comprised 16.83 percent and tier two comprised 8.49 percent. The Tier II capital is by way of subordinated debt from IDFC First Bank Limited and Vivriti Capital.

SFCPL targets to achieve a growth in AUM of ~45 to 50 percent in FY2020. The company's growth objectives may be impinged on the back of the challenging operating environment for NBFCs resulting in a liquidity stretch along with the slowdown in automobile industry. The two wheeler sales has observed a contraction in Q1FY2020 due to various reasons like liquidity crunch along with spike in on road price, spike in insurance premium among others. Further, the NBFC crises post September 2018 has made it difficult for the NBFCs to raise fresh debt from banks, since banks have been adopting a cautious and selective approach towards this sector. Against this backdrop, SFCPL's ability to demonstrate a healthy growth remains to be observed.

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.

Rating Sensitivity:

- Movement in asset quality and collection efficiency levels
- Movement in leverage indicators

Material Covenants: Based on documents submitted by the company, the lenders have stipulated certain covenants relating to capitalisation levels, leverage and asset quality metrics and the company has been compliant with these covenants.

Liquidity Position: Adequate

SFCPL's liquidity profile is moderate with no mismatches in individual buckets of upto one year based on the static ALM statement as on October 31, 2019. There are no cumulative mismatches in up to four year time buckets. Around 63 percent of the advances mature within 1 year and ~49 percent of the borrowings are due within 1 year as per the liquidity statement as on October 31, 2019. The company had working capital lines of Rs. 63.10 Cr. as on October 31, 2019 of which 65 percent was utilized on an average for thirteen months ended October 31, 2019. Further the company has unavailed lines of Rs.32.00 Cr. to support its liquidity. The company has demonstrated its ability to raise funds by assigning its portfolio which supports its liquidity profile.

Outlook: Stable

Acuité believes that SFCPL will maintain a 'Stable' outlook over the near to medium owing to its established track record along with demonstrated ability to manage asset quality and earning profile at moderate levels. 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 any deterioration in asset quality or sharp decline in asset quality or profitability margins.

About the Rated Entity - Key Financials

Parameters	Unit	FY19(Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	393.96	232.97
Total Income*	Rs. Cr.	53.33	19.75
PAT	Rs. Cr.	15.06	2.87
Net Worth	Rs. Cr.	64.76	41.19
Return on Average Assets (RoAA)	(%)	4.80	1.58
Return on Average Net Worth(RoNW)	(%)	32.27	8.80
Total Debt/Tangible Net Worth (Gearing)	Times	4.85	4.39
Gross NPA	(%)	0.7**	0.6**
Net NPA	(%)	1.3	0.5

* Total income equals to Net interest income plus other income

**180dpd basis

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
-	Proposed bank facility	NA	NA	NA	40.00	ACUITE BBB+/Stable (Assigned)

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About Acuité Ratings & Research:

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