

Press Release

Shri Ram Finance Corporation Private Limited

September 02, 2020

Rating Reaffirmed and Assigned



Total Facilities Rated*	Rs. 75.00 Cr.
Total bank facilities rated	Rs.40.00 Cr.
Long Term Rating	ACUITE BBB+/Stable (Reaffirmed)
Proposed Secured Redeemable Non-Convertible Debentures	Rs.35.00 Cr.
Long Term Rating	ACUITE PROVISIONAL A-/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the 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**'.

Acuité has also assigned the rating of '**ACUITE PROVISIONAL A- (read as ACUITE Provisional A minus)**' on the Rs.35.00 Cr. of Proposed Secured Redeemable Non-Convertible Debentures (NCD) of SFCPL. The outlook is 'Stable'.

The rating on Rs.35.00 Cr. Proposed NCD issue of SFCPL is provisional and the final rating is subject to:

- Appointment of SEBI registered debenture trustee
- Execution of signing of trust deed with the proposed 'Structured Payment Mechanism' (SPM) duly incorporated.
- Receipt of final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions of term sheet

About SFCPL:

Incorporated in 2004, SFCPL is a Raipur (Chhattisgarh) based Non-deposit-taking Non-Banking Financial Company (ND-NBFC) engaged in providing two and four wheeler financing, LAP towards SME borrowers and unsecured microloans to individuals. The company is promoted by Mr. Ganesh Bhattar and his son Mr. Gaurav Bhattar who have over a decade of experience in two-wheeler financing. The day to day operations of the company are managed by Mr. Gaurav Bhattar (MD&CEO).

The company primarily operates in four states namely Chhattisgarh, Madhya Pradesh, Odisha and Jharkhand through a network of 112 branches as on March 31, 2020.

Analytical Approach

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

It is to be noted that Acuité has maintained a differential of one notch between the ratings on bank loan facilities and proposed NCDs. The difference in these two ratings is due to the presence of DSRA and T minus structure present in the proposed NCD of Rs. 35.00 Cr. DSRA is to be maintained at a minimum of 10 percent of the outstanding principal amount. DSRA needs to be maintained in the form of bank fixed deposit, "AAA" rated debt securities, sovereign debt

securities, bank balance or bank guarantee, in any combination, for the duration of the NCDs and should help in partly mitigating the risk arising out of the liquidity mismatches to meet the coupon repayments.

Key Rating Drivers

Strengths

- Established presence in vehicle financing through a wide branch network**

SFCPL initiated its lending activities in 2008 upon receiving its NBFC license. The company initially was engaged in two-wheeler financing and gradually since 2010 has diversified its product mix to include four wheeler financing, financing LAP towards SME borrowers and microfinance lending. The company's operations are currently spread across four states namely Chhattisgarh, Odisha, Madhya Pradesh and Jharkhand and operate through a network of 112 branches as on March 31, 2020. The company also has established relationships with ~600 dealers and intermediaries for supporting their forays in two-wheeler segment. SFCPL has a major presence in Chhattisgarh and Madhya Pradesh with ~87 percent of the AUM of ~Rs.465.3 Cr. as on March 31, 2020 spread across 44 districts in these two states as on March 31, 2020.

The company is promoted by Mr. Ganesh Bhattar and his son Mr. Gaurav Bhattar (MD&CEO) who have been engaged in two-wheeler financing since 2004 through a proprietorship concern. The promoters are supported by professionals with significant experience in various functional areas.

The company's Asset Under Management (AUM) has grown to Rs.465.3 Cr. as on March 31, 2020 as against Rs.384.9 Cr. as on March 31, 2019. Of the overall AUM as on March 31, 2020, two-wheeler financing comprised ~58 percent, followed by LAP towards SME borrowers of ~25 percent and balance comprising of four-wheeler financing and microfinance loans. Of the overall AUM as on March 31, 2020, ~92 percent comprised of book exposure and balance was off-book exposure in the form of direct assignment transactions and business correspondent relationships. SFCPL has business correspondent relation with SIDBI and has demonstrated its ability to sell down its pools to reputed counterparties like Muthoot Capital Services Limited, NIYOGEN Fintech and IDFC First bank.

Acuité believes that SFCPL's business profile will continue to benefit from the established presence in the area of operations backed by a wide network of branches.

Weaknesses

- Expectation of elevated stress in asset quality**

SFCPL's key product offerings comprise two-wheeler financing, LAP towards SME borrowers, four wheeler financing and micro-lending. Based on AUM of ~Rs.465.3 Cr. (as on March 31, 2020), two-wheeler loans comprised ~58 percent of AUM, followed by LAP towards SME borrowers of ~25 percent and balance comprised four-wheelers financing and micro-lending. Majority of the SME borrowers comprise of small traders like kirana shops, provisional stores and other local small business operators.

While SFCPL's loan book has grown significantly on the back of robust disbursements during FY 2020, its asset quality has also been showing signs of stress. The increase in asset quality pressures have been visible even before the COVID-19 outbreak with its 90+ dpd (days past due) profile increasing to ~Rs.21.5 Cr. as on March 31, 2020 from ~Rs.10.6 Cr. as on March 31, 2019. While the company has been able to maintain high collection efficiency even during the lockdown period, the ability to contain its asset quality pressures against the backdrop of subdued operating environment will be critical.

SFCPL's overall borrower profile typically comprise salaried class belonging to mid to low-income segment in rural areas. With overall contraction in economic activities due to lockdowns and possibility of job losses, the credit profile of its borrowers is likely to be impacted which, in turn could result in a build-up of asset quality pressures. As per 180+ dpd (days past due) recognition, SFCPL's Gross Non-performing assets (GNPAs) on AUM basis increased to ~Rs.5.5 Cr. (~1.2 percent of AUM) as on March 31, 2020 from ~Rs.2.4 Cr. (~0.6 percent of AUM) as on March 31, 2019. Of the overall GNPA of ~Rs.5.5 Cr. as on March 31, 2020 (provisional), ~58 percent was contributed by two-wheeler segment, followed by ~25 percent from SME financing and

remaining from four wheeler segment and microfinance loans. With economic activity likely to resume only in a gradual manner, the delinquencies and stress is expected to increase. SFCPL's overall capital adequacy ratio (CAR) is at 26.12 percent as on March 31, 2020. With any sharp increase in credit costs, SFCPL's capitalization buffers could be impacted.

Acuité believes that containing additional slippages while maintaining the growth in AUM will be a key determinant of its future credit profile.

Rating Sensitivity:

- Adverse movement in asset quality
- Movement in Liquidity buffers
- Movement in Profitability and capital adequacy buffers
- Movement in leverage indicators

Material Covenants:

SFCPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others. As per confirmation received from the client via mail dated August 28, 2020, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors'.

Liquidity Position: Adequate

SFCPL's liquidity profile is adequate with no cumulative mismatches in individual buckets up to one year based on the ALM statement as on March 31, 2020. Around 58 percent of the advances mature within 1 year and ~48 percent of the borrowings are due within 1 year as per the ALM statement. The company had working capital lines of Rs. 65.1 Cr. as on March 31, 2020 of which ~66 percent was utilized on an average for seven months ended July 31, 2020. Further, the company has liquidity buffers of ~Rs.36.4 Cr. available in the form of unencumbered cash/bank balance and unutilized cc facilities as on July 31, 2020 to support its liquidity.

With RBI allowing banks/NBFCs and MFIs to extend the moratorium to their borrowers due to COVI-19, SFCPL had also extend the moratorium to their borrowers like most other industry players. Under phase 2 moratorium from June to August, 2020, only ~10 percent of the portfolio of SFCPL was under moratorium. SFCPL's on book collections stood at ~Rs.26 Cr. for June 2020 and Rs.28 Cr. for July 2020 against scheduled on book collections of ~Rs.35 Cr. and ~Rs.33 Cr. for the months of June and July, respectively. SFCPL had availed moratorium from most of its lenders from April to May 2020. Under phase 2 of the moratorium, SFCPL availed moratorium from some of its lenders till August 2020 and has commenced making payments to other lenders from June 2020. SFCPL has demonstrated the ability to raise long term debt of ~Rs. 38 Cr. from Financial Institutions over the past few months and is in talks with various lenders to raise long term debt under the PCG route.

Outlook: Stable

Acuité believes that SFCPL will maintain a 'Stable' outlook over the near to medium term owing to its established track record along with the ability to scale up its operations. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining its profitability and asset quality. Conversely, the outlook may be revised to 'Negative' in case of any further significant deterioration in asset quality or profitability margins.

About the Rated Entity - Key Financials

Parameters	Unit	FY20(Prov)	FY19 (Actual)
Total Assets	Rs. Cr.	443.05	387.25
Total Income*	Rs. Cr.	73.75	53.33
PAT	Rs. Cr.	20.33	15.06
Net Worth^	Rs. Cr.	81.09	58.06
Return on Average Assets (RoAA)	(%)	4.90	4.90
Return on Average Net Worth(RoNW)	(%)	32.33	37.32
Total Debt/Tangible Net Worth (Gearing)	Times	4.28	5.52

Gross NPA**	(%)	1.18	0.63
Net NPA**	(%)	0.82	0.49

* Total income equals to Net interest income plus other income

**180dpd basis

^excluding revaluation reserve

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

None

Any other information

SFCPL's account for FY 2019 was audited by R D N A and CO LLP. The company has now changed its auditors to Deloitte Haskins & Sells LLP for FY 2020.

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-52.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.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 Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
February 20, 2020	Proposed bank facility	Long Term	40.00	ACUITE BBB+/Stable (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
-	Proposed bank facility	NA	NA	NA	40.00	ACUITE BBB+/Stable (Reaffirmed)
-	Proposed Secured Redeemable Non-convertible debentures	NA	NA	NA	35.00	ACUITE PROVISIONAL A-/Stable (Assigned)

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About Acuité Ratings & Research:

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