

Press Release

Shri Ram Finance Corporation Private Limited

March 11, 2021

Rating Reaffirmed & Assigned



Total Facilities Rated*	Rs. 440.00 Cr.
Total bank facilities rated	Rs.300.00 Cr. (Enhanced from Rs. 50 Cr.)
Long Term Rating	ACUITE A-/Stable (Reaffirmed)
Non-Convertible Debentures	Rs.140.00 Cr.
Long Term Rating	ACUITE A-/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A- '(read as ACUITE A minus)**' on the Rs. 300.00 Cr. bank facilities of Shri Ram Finance Corporation Private Limited (SFCPL). The outlook is '**Stable**'.

Acuite has assigned the long-term rating of '**ACUITE A- '(read as ACUITE A minus)**' on the Rs. 140.00 Cr. non-convertible debentures of Shri Ram Finance Corporation Private Limited (SFCPL). The outlook is '**Stable**'.

The rating takes into account the improvement in the capitalization levels and equity infusion plan of the company to the tune of Rs.125-150 Cr. The expected equity infusion will significantly improve the capital position of SFCPL, which in turn will help to enhance its business profile

The rating also draws strength from persistent improvements in disbursements as well as collections on month-on-month basis since April, 2020. Further, SFCPL has been reporting more than 100% collection rate for last three months that ended in December 2020.

The rating continues to factor in the company's demonstrated track record of operations in vehicle financing segment, experienced management, healthy profitability metrics and comfortable capitalization levels. SFCPL has also demonstrated ability to raise funds from banks and financial institutions. The gearing level is moderate 2.98 times as on December 31, 2020 (Provisional) (includes Rs.7.00 Cr. of quasi equity) as against 4.01 times as on March 31, 2020.

The ratings are, however, constrained by the company's modest scale of operation and moderate asset quality on account of increase in 1-90 DPD to 25.41% as on December 31, 2020 from 12.24% as on March 31, 2020. Further, the ratings factor in the geographical concentration risk with 49 % of the lending portfolio concentrated in Chhattisgarh. Going forward, the timeliness of raising equity, growth in AUM while maintaining asset quality and operating metrics will be key monitorables.

About SFCPL:

Raipur (Chhattisgarh) based, SFCPL was incorporated in 2004 as a Non-Deposit-taking Non-Banking Financial Company (ND-NBFC). Subsequently, it started lending business in 2008 upon receiving NBFC license. SFCPL is engaged in extending 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 company primarily operates in four states, namely Chhattisgarh, Madhya Pradesh, Odisha and Jharkhand through a network of 112 branches and 73 collection points as on December 31, 2020.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of lending in vehicle financing through a wide branch network and collection points**

SFCPL commenced lending activities in 2008 upon receiving its NBFC license. The company started the lending business with two-wheeler financing only and gradually since 2010, has diversified its product mix to four wheeler financing, financing LAP towards SME borrowers and microfinance lending. The two wheeler financing & MSME transit vehicle segment contributes 61%, followed by SME financing and four wheeler financing segment at 26% and 12%, respectively of the total AUM outstanding as on December 31, 2020,. The company is making gradual efforts to diversify its portfolio into other segments. The AUM also contains off-book exposure for only two wheeler financing segment of ~9% of the total AUM as on December 31, 2020. The off-book exposure is in the form of direct assignment transactions, pass through certificates 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.

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. With the support of able management, SFCPL has associated with ~600 dealers and intermediaries for supporting their forays in two-wheeler segment. The extensive experience of the promoters has helped the company to sustain the business growth during economic downturn.

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 and 73 collection points as on December 31, 2020. These collection points across the operational areas ensure the collection efficiency to improve on month-on-month basis since April, 2020. SFCPL has a major presence in Chhattisgarh and Madhya Pradesh with ~86 percent of the AUM of ~Rs.454.38 Cr. as on December 31, 2020 spread across various districts in these two states. Acuite 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.

- **Adequate financial position**

SFCPL's networth stood at Rs. 104.07 Cr. as on December 31, 2020 (Provisional) includes Rs.7.00 Cr. of quasi equity, as against Rs. 86.03 Cr. as on March 31, 2020. The company's leverage indicators improved to 2.98 times as on December 30, 2020 (Provisional) from 4.01 times as on March 31, 2020, which further improved form 5.41 times as on March 31, 2019. The company reported a healthy capital adequacy ratio (CAR) of 30.46 percent, comprising Tier 1 capital at 22.42 percent and Tier II capital at 8.04 percent, improve from 26.12 percent as on March 31, 2020. Further, company's plan to raise private equity in the range of Rs.125-150 Cr. by December 2021 shall further bolster its capitalization levels.

The company has demonstrated resource raising ability from both banks and large NBFC/FIs, with total debt of Rs. 316.36 Cr. (from 26 lenders in total) outstanding as on December 31, 2020 (Provisional). SFPL's borrowing profile comprised Term loans (~76 percent), Sub-debt (~10 percent) and working capital facilities (~14 percent) as on December 30, 2020 (Provisional). Acuite believes that the infusion of debt and equity capital will together stimulate the business growth and in turn, improve the financial risk profile of the company.

- **Improving business volumes & healthy profitability metrics**

The disbursements and collections have been improving month-on-month basis since April, 2020. SFCPL has disbursed Rs.230.71 Cr. against collection of Rs.305.85 Cr. in 10MFY2021. Due to the increasing collections, AUM registered marginal growth to Rs.454.37 Cr. as on December 31, 2020

from Rs.450.25 Cr. as on March 31, 2020.

Further, SFCPL's profitability indicators are healthy marked by Net Interest Margin (NIM) of 17.36 percent as on December 31, 2020 (Provisional) as against 19.60 percent as on March 31, 2020. The company's Return on Average Assets (RoAA) have declined marginally to 4.10 percent as on December 31, 2020 (Provisional) from 4.44 percent as on March 31, 2020. The marginal decline in RoAA was on account of operating expenses incurred for the rapid expansion of its collection points. Operating Expense to Earning Assets stood at 9.15 percent as on December 31, 2020 (Provisional) as against 9.57 percent as on March 31, 2020. The experience of the top management and their active focus on maintaining robust collections has supported the company's performance in this challenging environment.

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

Weaknesses

• Moderate asset quality and geographic concentration

SFCPL's product mix comprises of two-wheelers financing, LAP towards SME borrowers, four wheeler financing and micro-lending. Based on AUM of ~Rs.454.3 Cr. (as on March 31, 2020), two-wheeler & four-wheeler loans comprised ~73% of AUM, followed by LAP towards SME borrowers of ~26 percent and a small contribution is made by micro-lending. SFCPL's overall borrower profile typically has dual income profile in terms of salary and agriculture income; these borrowers belong to mid to low-income segment in rural areas.

The delinquencies and stress in 1-90DPD has increased to 25.41% as on December 31, 2020 from 12.24% as on March 31, 2020. This rise is on account of moratorium extended to the borrowers and the company has made adequate provisions against it. The company has been registering more than 100% collection for the past three months ended in December 31, 2020. As a result, SFCPL's overall GNPA and NNPA levels improved to 3.13% and 2.63% as on December 31, 2020 from 3.67% and 3.31% as on March 31, 2020, respectively. Of the overall GNPA of ~Rs.14.24 Cr. as on December 31, 2020, ~63 percent was contributed by two-wheeler segment, followed by ~25 percent from SME financing and remaining from four wheeler segment and microfinance loans.

SFCPL operates in 4 states, namely Chhattisgarh, Madhya Pradesh, Odisha and Jharkhand. Of the total AUM of Rs.454.38 Cr. as on December 31, 2020, Chhattisgarh accounts 49%, followed by Madhya Pradesh around 37%. However, the company has started expanding into newer regions with a view to ameliorate the concentration risk. Acuite believes that containing additional slippages while maintaining the growth in the loan portfolio and ability of expanding operations in others states will be key rating monitorables.

Rating Sensitivities:

- Timeliness of capital infusion
- Business growth & profitability
- Adverse movement in asset quality
- Movement in Liquidity buffers

Material Covenants:

None

Liquidity Position: Adequate

SFCPL's liquidity profile is adequate with no cumulative mismatches in individual buckets up to three years based on the ALM statement as on December 31, 2020. Around 69 percent of the advances mature within 1 year and ~59 percent of the borrowings are due within 1 year as per the ALM statement. The company had working capital lines of Rs. 63.1 Cr. as on December 31, 2021 of which ~61 percent was utilized on an average for ten months ended December 31, 2020. Further, the company has liquidity buffers of ~Rs.30.66 Cr. available in the form of unencumbered cash/bank balance and unutilized cc facilities as on Jan 31, 2021 to support its liquidity. Acuite

believes, going forward, the ability of the company to mobilise additional lower cost funding through debt/ sub debt and its ability to deploy the funds profitably will be a key rating monitorable.

Outlook: Stable

Acuite believes that SFCPL will maintain a 'Stable' outlook over the near to medium owing to committed equity infusion, established track record of promoters and their demonstrated ability to sustain the business growth. The outlook may be revised to 'Positive' in case of higher than envisaged growth in loan portfolio while maintaining profitability and asset quality metrics. Conversely, the outlook may be revised to 'Negative' in case of any derailment of equity infusion plans, deterioration in asset quality or profitability metrics.

About the Rated Entity - Key Financials

Parameters	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	450.02	387.25
Total Income*	Rs. Cr.	78.96	53.33
PAT	Rs. Cr.	18.57	15.06
Net Worth^	Rs. Cr.	86.03	58.06
Return on Average Assets (RoAA)	(%)	4.44	4.90
Return on Average Net Worth (RoNW)	(%)	28.41	37.32
Total Debt/Tangible Net Worth (Gearing)	Times	4.01	5.41
Gross NPA	(%)	3.67**	1.47
Net NPA	(%)	3.31	1.32

* Total income equals to Net interest income plus other income

**120dpd basis in FY2020

^excluding revaluation reserve

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-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
Mar 04, 2021	Proposed bank facility	Long Term	40.00	ACUITE A-/Stable (Upgraded from ACUITE BBB+/ Stable)
	Proposed Secured Redeemable Non-convertible debentures	Long Term	35.00	ACUITE Provisional A-(Withdrawn)
	Proposed bank facility	Long Term	10.00	ACUITE A-/Stable (Assigned)
Sep 02, 2020	Proposed bank facility	Long Term	40.00	ACUITE BBB+/Stable (Reaffirmed)
	Proposed Secured Redeemable Non-convertible debentures	Long Term	35.00	ACUITE Provisional A-/Stable (Assigned)

Feb 20, 2020	Proposed bank facility	Long Term	40.00	ACUITE BBB+/Stable (Assigned)
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***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	300.00 (Enhanced from Rs. 50 Cr.)	ACUITE A-/Stable (Reaffirmed)
INE08E808017	Secured Redeemable Non-convertible debentures	20-Mar-19	14.37%	20-Apr-24	20.00	ACUITE A-/Stable (Assigned)
-	Proposed Secured Redeemable Non-convertible debentures	NA	NA	NA	90.00	ACUITE A-/Stable (Assigned)
-	Creations Investments FPI LLC- Non convertible debentures	NA	NA	NA	30.00	ACUITE A-/Stable (Assigned)

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About Acuité Ratings & Research:

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