

Press Release

Shri Ram Finance Corporation Private Limited

October 29, 2021

Rating Reaffirmed



Total Facilities Rated*	Rs. 440.00 Cr.
Total Bank Facilities Rated	Rs. 300.00 Cr.
Long Term Rating	ACUITE A-/ Stable (Reaffirmed)
Non- Convertible Debentures	Rs. 140.00 Cr.
Long Term Rating	ACUITE A-/Stable (Reaffirmed)

*Refer Annexure for details

Rating Rationale

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

Further, Acuité has reaffirmed the long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) to 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 comfortable capital structure, healthy resources raising ability and expectations of equity infusion in the near term. The expected equity infusion (ranging from Rs.125-150 Cr) shall improve the capital position of SFCPL, which in turn will help to enhance its AUM. The rating continues to factor in the company's demonstrated track record of operations in vehicle financing segment, experienced management and healthy profitability metrics. SFCPL has also demonstrated ability to raise funds from banks and financial institutions. The gearing level is moderate at 2.93 times as on March 31, 2021 as against 4.17 times as on March 31, 2020. While Acuité takes cognizance of the SFCPL's declining collections during the second wave of COVID, however collections have improved post resumption of activities. The ratings are, however, constrained by the company's modest scale of operation and moderate asset quality on account of increase in 90+ DPD to 3.95% as on June 30, 2021 from 3.67 percent as on March 31, 2020. Further, the ratings factor in the geographical concentration risk with ~49 percent 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 monitorable.

About the company

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

Acuité has considered the standalone business and financial risk profile of SFCPL to arrive 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 March 31, 2021. 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 March 31, 2021. 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 March 31, 2021. These collection points across the operational areas ensure the collection efficiency to improve on month-on-month basis. SFCPL has a major presence in Chhattisgarh and Madhya Pradesh with ~86 percent of the AUM as on March 31, 2021 spread across various districts in these two states.

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.

- **Adequate Financial Position:**

SFCPL's net worth stood at Rs. 104.89 Cr. as on March 31, 2021 as against Rs. 83.33 Cr. as on March 31, 2020. The company's leverage indicators improved to 3.00 times as on March 31, 2021 from 4.17 times as on March 31, 2020, which further improved from 5.41 times as on March 31, 2019. The company reported a healthy capital adequacy ratio (CAR) of 31.53 percent, comprising Tier 1 capital at 24.19 percent and Tier II capital at 7.34 percent as on March 31, 2021. Further, company's plan to raise private equity in the range of Rs.125-150 Cr. by March 2022, 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. 313.54 Cr. outstanding as on March 31, 2021. SFPL's borrowing profile comprised Term loans (~76 percent), Sub-debt (~10 percent) and working capital facilities (~14 percent) as on March 31, 2021.

Acuité 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 rating draws strength from persistent improvements in disbursements, SFCPL has disbursed Rs. 280.86 Cr. and registered AUM of Rs 448.33 Cr as on March 31, 2021. While collections too have been improving post resumption of activities.

Further, SFCPL's profitability indicators are healthy marked by Net Interest Margin (NIM) of 19.00 percent as on March 31, 2021 as against 19.60 percent as on March 31, 2020. The company's Return on Average Assets (RoAA) have increased marginally to 4.89 percent as on March 31, 2021 from 4.44 percent as on March 31, 2020. Operating Expense to Earning Assets stood at 8.97 percent as on March 31, 2021 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.448.33 Cr. (as on March 31, 2021), 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.

SFCPL's overall GNPA and NNPA levels weakened to 3.90 percent and 3.00 percent as on March 31, 2021 from 3.67 percent and 3.31 percent as on March 31, 2020, respectively. Of the overall GNPA, ~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, 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.

Acuité 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.

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 June 30, 2021. Further, the company has liquidity buffers of ~Rs.29.22 Cr. available in the form of unencumbered cash/bank balance and unutilized cc facilities as on March 31, 2021 to support its liquidity. Acuité 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.

Rating Sensitivity

- Timeliness of capital infusion.
- Movement in profitability metrics and Business growth.
- Movement in Asset Quality and Collection efficiency.
- Liquidity and provisioning buffers.

Material Covenants

SFCPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

Outlook-Stable

Acuité 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 coupled with . 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

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	432.47	450.02
Total Income*	Rs. Cr.	76.14	78.96
PAT	Rs. Cr.	21.56	18.57
Net Worth	Rs. Cr.	104.89	86.03
Return on Average Assets (RoAA)	(%)	4.89	4.44
Return on Average Net Worth (RoNW)	(%)	24.29	28.41
Debt/Equity	Times	2.93	4.01
Gross NPA	(%)	3.90	3.67
Net NPA	(%)	3.00	3.31

*Total income equals to Net Interest Income plus other income.

Status of non-cooperation with previous CRA (if applicable):
Not Applicable.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- 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>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of the Facilities	Term	Amount (Rs Cr)	Ratings/Outlook
07-October-2021	Proposed Bank Facility	Long Term	296.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE A-/Stable (Reaffirmed)
	Non-Convertible Debentures	Long Term	20.00	ACUITE A-/Stable (Reaffirmed)
	Proposed Non-Convertible Debentures	Long Term	90.00	ACUITE A-/Stable (Reaffirmed)
	Non-Convertible Debentures	Long Term	30.00	ACUITE A-/Stable (Reaffirmed)
11-March-2021	Proposed Bank Facility	Long Term	300.00	ACUITE A-/Stable (Reaffirmed)
	Non-Convertible Debentures	Long Term	20.00	ACUITE A-/Stable (Assigned)
	Proposed Non-Convertible Debentures	Long Term	90.00	ACUITE A-/Stable (Assigned)
	Non-Convertible Debentures	Long Term	30.00	ACUITE A-/Stable (Assigned)
4-March-2021	Proposed Bank Facility	Long Term	40.00	ACUITE A-/Stable (Upgraded)
	Proposed Non-Convertible Debentures	Long Term	35.00	ACUITE Provisional A- (Withdrawn)
	Proposed Bank Facility	Long Term	10.00	ACUITE A-/Stable (Assigned)
2-Sept-2020	Proposed Bank Facility	Long Term	40.00	ACUITE BBB+/Stable (Reaffirmed)
	Proposed Non-Convertible Debentures	Long Term	35.00	ACUITE Provisional A-/Stable (Assigned)
20-Feb-2020	Proposed Bank Facility	Long Term	40.00	ACUITE BBB+/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Date of Maturity	Size of the Issue (Rs. Cr.)	Rating/Outlook
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	278.00	ACUITE A-/Stable (Reaffirmed)
SIDBI	Term Loan	Not Available	Not Available	Not Available	18.00	ACUITE A-/Stable (Reaffirmed)
IDFC First Bank	Cash Credit	Not Available	Not Available	Not Available	4.00	ACUITE A-/Stable (Reaffirmed)
Not Applicable	Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-/Stable (Reaffirmed)
Not Applicable	Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE A-/Stable (Reaffirmed)
Not Applicable	Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in KanjurMarg, Mumbai.

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