

Press Release

Shri Ram Finance Corporation Private Limited

October 29, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	300.00	ACUITE A- Stable Reaffirmed	-
Non Convertible Debentures (NCD)	140.00	ACUITE A- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	440.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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 (SRFCPL). The outlook is '**Stable**'.

Acuite 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 (SRFCPL). The outlook is '**Stable**'.

The rating takes into account comfortable capital structure, healthy resources raising ability and multiple infusions from the promoter since February 2021 amounting to ~Rs. 32 Cr. as on September 30, 2022. The rating continues to factor in the company's demonstrated track record of operations in vehicle financing segment, experienced management and healthy profitability metrics. SRFCPL has also demonstrated ability to raise funds from banks and financial institutions. The gearing level is moderate at 2.99 times as on March 31, 2022 as against 2.93 times as on March 31, 2021. The ratings are, however, constrained by the company's modest scale of operation and moderate asset quality as marked by GNPA of 2.95 percent as on March 31, 2022. Further, the ratings factor in the geographical concentration risk with ~39 percent and ~41 percent of the lending portfolio concentrated in Chhattisgarh and Madhya Pradesh respectively. 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, SRFCPL 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. SRFCPL is engaged in extending two and four wheeler financing, secured and unsecured loans towards SME borrowers, unsecured microloans to individuals and personal loans. 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 six states namely Chhattisgarh, Madhya Pradesh, Odisha, Jharkhand, Maharashtra and Rajasthan through a network of 144 branches as on June 30, 2022.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SRFCPL to arrive at the rating.

Key Rating Drivers

Strength

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

SRFCPL 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. SRFCPL 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, SRFCPL 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 six states namely Chhattisgarh, Odisha, Madhya Pradesh, Jharkhand and have recently expanded to Maharashtra and Rajasthan and operate through a network of 144 branches as on June 30, 2022. SRFCPL has a major presence in Chhattisgarh and Madhya Pradesh with ~80 percent of the AUM as on June 30, 2022 spread across various districts in these two states.

Acuité believes that SRFCPL'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

SRFCPL's net worth stood at Rs. 142.67 Cr. as on March 31, 2022 as against Rs. 104.89 Cr. as on March 31, 2021. As on June 30, 2022, the networth stood at Rs. 152.35 Cr. The increase in networth is attributable to capital raised during FY22 and Q1FY23 from the promoter group. The company's leverage indicators stood at 2.99 times as on March 31, 2022 as against 2.93 times as on March 31, 2021. SRFCPL reported a healthy capital adequacy ratio (CAR) of 27.89 percent, comprising Tier 1 capital at 25.13 percent and Tier II capital at 2.76 percent as on March 31, 2022.

The company has demonstrated resource raising ability from both banks and large NBFC/FIs, with total debt of Rs. 491.03 Cr. outstanding as on June 30, 2022 as against Rs. 313.54 Cr. outstanding 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, SRFCPL has disbursed Rs. 381.49 Cr. and registered AUM of Rs 544.12 Cr as on March 31, 2022. Further, SRFCPL's profitability indicators are healthy marked by Net Interest Margin (NIM) of 17.26 percent as on March 31, 2022. The experience of the top management and their active focus on maintaining robust collections has supported the company's performance in this challenging environment.

Acuité 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.

Weakness

Moderate asset quality and geographic concentration

SRFCPL's product mix comprises of two-wheelers financing, secured and unsecured loans towards SME borrowers, four wheeler financing, micro-lending and personal loans. Based on AUM of Rs.680 Cr. (as on Sep 30, 2022), two-wheeler & four-wheeler loans comprised ~56

percent of AUM, followed by secured and unsecured loans towards SME borrowers of ~37 percent, personal loans comprising ~7 percent and a small contribution is made by micro-lending. SRFCPL'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. SRFCPL's overall GNPA and NNPA levels stood to 2.95 percent and 2.45 percent as on March 31, 2022 respectively. SRFCPL operates in 6 states namely Chhattisgarh, Madhya Pradesh, Odisha, Jharkhand, Maharashtra and Rajasthan. Of the total AUM, Chhattisgarh accounts 39 percent, followed by Madhya Pradesh around 41 percent. 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.

ESG Factors Relevant for Rating

SRFCPL belongs to the NBFC sector which continues to complement the efforts of banks in enhancing small ticket retail lending in India. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. The entity has made adequate disclosures regarding its policies on related party transactions, vigil mechanism and whistle blowing. The board of directors consist of 3 directors. The company also maintains adequate level of transparency with regards to business ethics issues like related party transactions. In terms of its social impact, SRFCPL is actively engaged in community development programmes through its CSR activities.

Rating Sensitivity

- Timely infusion of capital
- Movement in profitability metrics and business growth
- Movement in asset quality and collection efficiency
- Liquidity and provisioning buffers

Material Covenants

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

Liquidity Position

Adequate

SRFCPL's liquidity profile is adequate with no cumulative mismatches in individual buckets up in near to medium term based on the ALM statement as on June 30, 2022. Further, the company has liquidity buffers of Rs. 30.07 Cr. as on June 30, 2022 available in the form of cash and cash equivalents to support its liquidity. Also, the company has maintained deposits with banks and financial institutions amounting to Rs. 19.01 Cr. as on June 30, 2022.

Outlook : Stable

Acuité believes that SRFCPL will maintain a 'Stable' outlook over the near to medium owing to the 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 deterioration in asset quality, profitability metrics and capital structure.

Other Factors affecting Rating

Not applicable

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	589.90	432.47
Total Income*	Rs. Cr.	78.12	76.14

PAT	Rs. Cr.	19.94	21.56
Net Worth	Rs. Cr.	142.67	104.89
Return on Average Assets (RoAA)	(%)	3.90	4.89
Return on Average Net Worth (RoNW)	(%)	16.98	24.29
Debt/Equity	Times	2.99	2.93
Gross NPA	(%)	2.95	3.98
Net NPA	(%)	2.45	3.25

*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

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Oct 2021	Cash Credit	Long Term	4.00	ACUITE A- Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	90.00	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	278.00	ACUITE A- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	18.00	ACUITE A- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
07 Oct 2021	Non Convertible Debentures	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	296.00	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)
	Cash Credit	Long Term	4.00	ACUITE A- Stable (Reaffirmed)
11 Mar 2021	Non Convertible Debentures	Long Term	20.00	ACUITE A- Stable (Assigned)
	Non Convertible Debentures	Long Term	30.00	ACUITE A- Stable (Assigned)
	Proposed Bank Facility	Long Term	300.00	ACUITE A- Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	90.00	ACUITE A- Stable (Assigned)
04 Mar 2021	Proposed Bank Facility	Long Term	10.00	ACUITE A- Stable (Assigned)
	Proposed Non Convertible Debentures	Long Term	35.00	ACUITE Provisional A- (Withdrawn)
	Proposed Bank Facility	Long Term	40.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
02 Sep 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's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
IDFC First Bank Limited	Not Applicable	Cash Credit	Jan 7 2022 12:00AM	12.25	Not Applicable	6.00	ACUITE A- Stable Reaffirmed
Not Applicable	INE08E808017	Non-Convertible Debentures (NCD)	Mar 19 2019 12:00AM	14.37	Apr 20 2024 12:00AM	20.00	ACUITE A- Stable Reaffirmed
Not Applicable	INE08E807035	Non-Convertible Debentures (NCD)	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A- Stable Reaffirmed
Not Applicable	INE08E807019	Non-Convertible Debentures (NCD)	Mar 15 2021 12:00AM	14.06	Mar 15 2024 12:00AM	30.00	ACUITE A- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	159.38	ACUITE A- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A- Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	18.00	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Jan 31 2022 12:00AM	9.65	Jan 31 2027 12:00AM	50.00	ACUITE A- Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Term Loan	Mar 5 2022 12:00AM	10.25	Mar 3 2027 12:00AM	20.00	ACUITE A- Stable Reaffirmed
IDFC First Bank Limited	Not Applicable	Term Loan	Jun 22 2018 12:00AM	12.90	Jul 1 2023 12:00AM	13.91	ACUITE A- Stable Reaffirmed
IDFC First Bank Limited	Not Applicable	Term Loan	Jan 30 2018 12:00AM	12.50	Jul 11 2023 12:00AM	5.21	ACUITE A- Stable Reaffirmed
IDFC First Bank Limited	Not Applicable	Term Loan	Nov 16 2021 12:00AM	12.50	May 31 2024 12:00AM	13.50	ACUITE A- Stable Reaffirmed
IDFC First Bank Limited	Not Applicable	Term Loan	Nov 16 2021 12:00AM	12.50	Jun 28 2024 12:00AM	14.00	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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