

Press Release

BWDA Finance Limited

June 12, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 135.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable

* Refer Annexure for details

Erratum: In the original PR dated 26th Feb, 2020, the sections on Rating sensitivity Factors was inadvertently left out which have been included in this version, further the hyperlinks to the relevant rating criteria referred to an earlier version which have now been updated in this version.

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 135.00 crore bank facilities of BWDA FINANCE LIMITED (BFL). The outlook is '**Stable**'.

Tamil Nadu based BFL was established in 1999. It is a Non-banking financial institution (NBFC) Micro finance institution (MFI) promoted by Mr. Joslin Thambi. As on December 31, 2019 BFL has a branch network of 54 branches spread across 3 states and 2 union territories.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of BFL to arrive at the rating.

Key Rating Drivers

Strengths

Established presence of promoters in the microfinance segment:

BFL is promoted by Mr. Joslin Thambi, who has over two decades experience in micro financing activities. Prior to this he had established BWDA society in 1985, which is engaged in forming groups of women members through Self Help Groups (SHGs) of bullock-cart workers families, who are then trained to use their pooled savings for meeting their credit needs. The day to day operations of the company is supported by other director who have vast experience in the BFSI segment. The company commenced lending in 1999 through the SHG model, to the SHGs promoted by BWDA society. Acuite believes that established presence of the promoters in the microfinance segment will be central to support the business risk profile of the company in the near to medium term.

Healthy asset quality:

BFL primarily focuses on lending to SHGs of women primarily in Tamil Nadu who are mainly engaged in income generating activities. The initial loan amount is linked to adequate cash flows of each member of the group and the repayment track record of the existing loans by the members. The subsequent loan amount is linked to the earlier loan cycles and the repayment track record therein. A detailed assessment of the borrowers is undertaken including a visit to the borrowers to assess their eligibility. Most of the loan portfolio is towards income generating activities.

The stringent credit assessment and monitoring processes in place has enabled the company to maintain healthy asset quality. The company reported Gross NPA of 0.45 percent as on December 31, 2019 and 1.0 percent and as on March 31, 2019. The company has demonstrated healthy collection efficiency with a track record of over ~100 percent collection, mainly on account of prepayments, on an average for the twelve months ended December 31, 2019.

Acuite believes that BFL will maintain a healthy asset quality level on the back of its stringent credit assessment and monitoring process in the near to medium term.

Weaknesses

Modest Scale of operations; scalability of business to be demonstrated:

BFL's overall Assets Under Management (AUM) stood at Rs.63.17 Cr as on December 31, 2019 which increased from Rs.52.81 Cr as on March 31, 2019 and Rs. 28.70 Cr. as on March 31, 2018. The growth in AUM is mainly on account of increase in network of branches to 54 as on December 31, 2019 from 40 branches as on March 31, 2018, which in turn has increased the borrower base.

Acuite believes, going forward, the ability of the company to mobilise additional funding through debt /sub debt and its ability to deploy the funds profitably while maintaining asset quality will be crucial to the credit profile of the company.

Geographical concentration risk:

BFL has presence in three states and 2 Union Territories, namely, Tamil Nadu (92 percent of the overall AUM) and Pondicherry (5.5 percent). It has 54 branches located over 17 districts. This exposes the company to high geographical concentration risk. Thus, the company's performance is expected to remain exposed to competitive landscape in these areas, occurrence of events such as natural calamities may adversely impact the credit profile of the borrowers.

Rating Sensitivity:

- Scaling up of operations while maintaining asset quality
- Decline in profitability

Liquidity Position

BFL has adequately matched asset liability maturity pattern as on December 31, 2019 as cumulative surplus is available in all maturity buckets. Most of the loan portfolios are upto two year tenures, while the borrowings are upto a period of three year tenure, leading to positive mismatches in the near to medium term. The company's liquidity position is supported by unutilised bank facilities of Rs.5.00 crore to meet business needs or in case of any mismatches.

Outlook: Stable

Acuite believes that BFL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to maintain asset quality and liquidity levels. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio while maintaining asset quality and capital structure. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality and profitability metrics. The outlook may be revised to 'Negative' in case of any deterioration in the capital structure.

About the Rated Entity - Key Financials

	Unit	FY19 (Audited)	FY18 (Audited)	FY17 (Audited)
Total Assets	Rs. Cr.	32.33	31.91	26.40
Total Income*	Rs. Cr.	7.04	7.60	4.41
PAT	Rs. Cr.	1.85	1.98	0.83
Net Worth	Rs. Cr.	27.45	25.60	23.62
Return on Average Assets (RoAA)	(%)	5.76	6.78	2.84
Return on Average Net Worth (RoNW)	(%)	6.98	8.03	3.34
Total Debt/Tangible Net Worth (Gearing)	Times	0.11	0.20	0.00
Gross NPA	(%)	0.48	0.99	9.57
Net NPA	(%)	-	-	0.06

*Total income equals to Total Income net off interest expense

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

Not Applicable

Material Covenants

None

Any other information

Not Applicable

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/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB-/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable (Assigned)
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	120.00	ACUITE BBB-/Stable (Assigned)

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