

Press Release

BWDA Finance Limited

May 18, 2021

Rating Assigned and Reaffirmed



Total Bank Facilities Rated	Rs.175.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned and Reaffirmed)

Rating Rationale

Acuite has reaffirmed the long term rating of **'ACUITE BBB-' (read as ACUITE Triple B Minus)** on the Rs.135.00 Cr. bank facilities of BWDA Finance Limited (BFL). The outlook is **'Stable'**.

Further, Acuite has assigned a long term rating of **'ACUITE BBB-' (read as ACUITE Triple B Minus)** on the Rs.40.00 Cr. bank facilities of BWDA Finance Limited (BFL). The outlook is **'Stable'**.

The rating continues to factor in the company's experienced management team, adequate capitalisation with Capital Adequacy Ratio (CAR) of 39.23% and low gearing levels of 1.67 times as on December 31, 2020. The rating also factors in the company's capital raising ability with ~Rs. 41 Cr. of debt funds raised during 9MFY2021 and sound asset quality with GNPA (90 dpd+) at 0.87% as of December 2020 given the challenging environment. The rating is, however, constrained by the company's modest scale of operations, geographically concentrated portfolio with Tamil Nadu contributing ~91 percent of the overall AUM as on December 31, 2020 and subdued profitability during 9MFY2021 with Profit After Tax (PAT) (Provisional) of Rs.0.38 Cr. Acuite notes that given the inherent nature of microfinance, company's asset quality and capitalisation may get impacted amidst challenging operating environment emanating from second wave of COVID-19 pandemic and believes that the company's ability to scale up its operations while maintaining asset quality are key rating sensitives.

About BWDA Finance Limited (BFL)

Incorporated in 2003, Tamil Nadu based BFL is a Non-banking financial institution- Micro finance institution (NBFC-MFI) engaged in providing financial services predominantly to women borrowers through Self Help Group (SHG) and Joint Liability Group (JLG) model. BFL is promoted by Mr. Joslin Thambi and is providing financing mainly for agriculture and allied activities and micro business activities. The company reported AUM of Rs.95.88 Cr. as on December 31, 2020. Of the total AUM, SHG and JLG loans constituted 80% and 10% respectively.

Analytical Approach

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

Key rating drivers:

Strengths

Adequate capitalisation and resources profile

BFL had adequate capitalization levels as on December 31, 2020 as reflected in Capital Adequacy Ratio (CAR) of 39.23% (72.80% as on March 31, 2020) and Tier I CAR of 38.74% (71.88% as on March 31, 2020). The company's networth stood at Rs.29.34 Cr. as on December 31, 2020 as against Rs.29.04 Cr. as on March 31, 2020, while its borrowings stood at Rs.48.87 Cr. as on December 31, 2020 as against Rs.19.15 Cr. as on March 31, 2020, resulting in gearing levels of 1.67 times as on December 31, 2020 as against 0.66 times as on March 31, 2020. Despite the challenging operating environment, the company was able to raise bank loans of ~Rs.41 Cr. during 9MFY2021 from multiple lenders, thereby enabling it to augment its AUM growth. While the company granted moratorium to majority of its borrowers, it availed moratorium from only one lender and timely serviced dues of balance lenders during this period.

Acuite believes that the ability of the company to mobilise capital in a timely manner to support its growth plans while maintaining healthy capitalisation and gearing levels will be important from credit perspective.

Established presence of promoters in the microfinance segment

BFL is promoted by Mr. Joslin Thambi, who has over three decades of experience in micro financing activities. Prior to this, he established BWDA society in 1985, which is engaged in forming groups of women members through Self Help Groups (SHGs) of bullock-cart workers families and training them to use their pooled savings for meeting their credit needs. BFL is supported by second line of management comprising professionals with an average experience of over two decades in BFSI sector. Further, strategic support is extended by its board having adequate representation of shareholders.

Acuité 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.

Sound Asset Quality

BFL primarily focuses on lending to SHGs of women primarily in Tamil Nadu who are mainly engaged in income generating activities. Despite the challenging environment on account of Covid-19 pandemic, the company has been able to maintain sound asset quality parameters since a significant portion of the company's lending is towards clients with repayment track record. Further geographically, the state of Tamil Nadu has exhibited one of the lowest delinquencies in the sector. The company reported sound asset quality with GNPA (90 dpd+) at 0.87% as of December 2020 as against 0.55% as of March 2020. Further, its collection efficiency (scheduled collections vs. scheduled demand) for January 2021, February 2021 and March 2021 stood at ~86 percent, ~86 percent and ~94 percent, respectively.

Acuité believes that BFL's ability to maintain sound asset quality level amidst Covid-19 led economic uncertainty in the near to medium term will be key monitorable.

Weaknesses

Weak Earnings Profile

The company reported subdued profitability during 9MFY2021 with Profit After Tax (PAT) at Rs.0.38 Cr. (Provisional) during 9MFY2021 (Rs.1.59 Cr. during FY2020 and Rs.1.85 Cr. during FY2019). This is mainly on account of steady rise in operational expenses (Rs.7.28 Cr. during 9MFY2021 as against Rs.6.80 Cr. during FY2020 and Rs.5.34 Cr. during FY2019). The company ramped up its operations during FY20 in anticipation of higher Business Correspondence (BC) business which was impacted due Covid-19 induced lockdowns. The company reported lower credit costs ((Rs.0.08) Cr. (Provisional) during 9MFY2021 as against (Rs.0.27) Cr. during FY2020 and (Rs.0.56 Cr.) during FY2019) on account of sound asset quality. Higher operating expenses have more of less offset impact of lower credit costs, thereby impacting profitability. NIM and ROTA, on annualised basis, stood at 14.76 and 0.59 percent respectively during 9MFY21.

Modest Scale of operations; Geographical concentration risk

BFL commenced its operations in 2003 and operates through a network of 59 branches located in 17 districts across three states and two Union Territories, namely, Tamil Nadu, Pondicherry, Kerala, Karnataka and Andaman and Nicobar Islands. Its Assets Under Management (AUM) stood at Rs.95.88 Cr. as on December 31, 2020 as against Rs.62.32 Cr. as on March 31, 2020 [P.Y.: Rs.52.81 Cr.]. Of the total AUM of Rs.95.88 Cr., on book portfolio comprised Rs.69.85 Cr. (~73 percent) with the balance Rs.26.03 Cr. (~27 percent) being off book portfolio. This growth in AUM in recent period is driven by management's decision to increase penetration in existing area of operations. Against this backdrop, the company has highly concentrated portfolio with Tamil Nadu alone contributing ~91 percent of the overall AUM as on December 31, 2020 (~92 percent as on March 31, 2020). Resultantly, the company's performance is expected to remain exposed to competitive landscape in these areas and occurrence of events such as natural calamities may adversely impact the credit profile of the borrowers.

Acuité believes that the company's modest scale of operations coupled with geographic concentration in the backdrop of second wave of COVID-19 will continue to weigh on the company's credit profile over the near to medium term.

Rating Sensitivities

- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability and capitalisation buffers
- Changes in regulatory environment

Material Covenants

BFL 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 company via email dated May 07,2021, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors'.

Liquidity Position: Adequate

BFL has well matched liquidity profile as on December 31,2020 with no negative cumulative mismatches up to one year. BFL reported cash and cash equivalents of Rs.3.58 Cr. as on December 31,2020 and its contractual debt obligations over the next three months stood at Rs.7.94 Cr. and contractual inflows from advances for the corresponding period stood at Rs.13.59 Cr. Acuite notes that the company is in talks with multiple lenders to raise debt in medium term.

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.

About the Rated Entity Financials

Items	Unit	FY20 (Actual)	FY19(Actual)
Total Assets	Rs. Cr.	50.56	32.33
Total Income (Net of Interest Expense)	Rs. Cr.	8.73	7.04
PAT	Rs. Cr.	1.59	1.85
Net Worth	Rs. Cr.	29.04	27.45
Return on Average Assets (RoAA)	(%)	3.85	5.76
Return on Average Net Worth (RoNW)	(%)	5.64	6.98
Total Debt/Tangible Net Worth (Gearing)	Times	0.66	0.11
Gross NPAs	(%)	0.55	0.47
Net NPAs	(%)	0.00	0.00

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

None

Any other information

Not Applicable

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>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.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
26 Feb, 2020	Term Loan	Long term	5.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long term	1.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long term	2.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long term	5.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long term	2.00	ACUITE BBB-/Stable (Assigned)
	Proposed Term Loan	Long term	120.00	ACUITE BBB-/Stable (Assigned)

*Annexure – Details of instruments rated

Bank	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Indian Bank	Term Loan	26.12.2017	Not Available	Dec-22	1.00	ACUITE BBB-/Stable (Reaffirmed)
EcLEAR Leasing & Finance Pvt Ltd	Term Loan	13.01.2018	Not Available	May-20	2.00	ACUITE BBB-/Stable (Reaffirmed)
EcLEAR Leasing & Finance Pvt Ltd	Term Loan	20-02-2020	Not Available	Aug-21	2.00	ACUITE BBB-/Stable (Reaffirmed)
EcLEAR Leasing & Finance Pvt Ltd	Term Loan	03.09.2020	Not Available	Mar-22	2.00	ACUITE BBB-/Stable (Reaffirmed)
EcLEAR Leasing & Finance Pvt Ltd	Term Loan	03.09.2020	Not Available	Jul-21	2.00	ACUITE BBB-/Stable (Reaffirmed)
Jain Sons Finlease Pvt Ltd	Term Loan	24.07.2019	Not Available	Nov-20	2.00	ACUITE BBB-/Stable (Reaffirmed)
Jain Sons Finlease Pvt Ltd	Term Loan	31-01-2020	Not Available	Aug-21	2.00	ACUITE BBB-/Stable (Reaffirmed)
Usha Financial Service Pvt Ltd	Term Loan	14-08-2019	Not Available	Feb-21	1.00	ACUITE BBB-/Stable (Reaffirmed)
Usha Financial Service Pvt Ltd	Term Loan	14-08-2019	Not Available	Jun-21	1.00	ACUITE BBB-/Stable (Reaffirmed)
Usha Financial Service Pvt Ltd	Term Loan	25.02.2021	Not Available	Feb-21	1.00	ACUITE BBB-/Stable (Reaffirmed)

Union Bank of India	Term Loan	01.10.2019	Not Available	Sep-22	5.00	ACUITE BBB-/Stable (Reaffirmed)
Samunnati Financial Pvt., Ltd.,	Term Loan	07.11.2019	Not Available	Nov-21	5.00	ACUITE BBB-/Stable (Reaffirmed)
Electronica Finance Ltd	Term Loan	27.11.2019	Not Available	Jul-21	1.00	ACUITE BBB-/Stable (Reaffirmed)
Electronica Finance Ltd	Term Loan	12.03.2020	Not Available	Feb-22	1.75	ACUITE BBB-/Stable (Reaffirmed)
Electronica Finance Ltd	Term Loan	09.09.2020	Not Available	Oct-20	1.00	ACUITE BBB-/Stable (Reaffirmed)
State Bank of India	Term Loan	30.06.2020	Not Available	Sep-22	25.00	ACUITE BBB-/Stable (Reaffirmed)
Mudra Repayment	Term Loan	26.08.2020	Not Available	Aug-23	1.00	ACUITE BBB-/Stable (Reaffirmed)
Small Industries development Bank of India	Term Loan	30.06.2020	Not Available	Apr-20	3.00	ACUITE BBB-/Stable (Reaffirmed)
Western Capital Advisors pvt ltd	Term Loan	20.10.2020	Not Available	Jan-22	3.00	ACUITE BBB-/Stable (Reaffirmed)
Ambit Finvest pvt ltd	Term Loan	19.11.2020	Not Available	Jun-22	1.50	ACUITE BBB-/Stable (Reaffirmed)
Moneywise Financial Services Pvt.Ltd (SMC Finance)	Term Loan	12.12.2020	Not Available	Dec-22	2.50	ACUITE BBB-/Stable (Reaffirmed)
Arohan Aviskar Groups (Arohan Financial services)	Term Loan	31.12.2020	Not Available	Jun-22	5.00	ACUITE BBB-/Stable (Reaffirmed)
Union Bank of India	Term Loan	21.03.2021	Not Available	Mar-21	5.00	ACUITE BBB-/Stable (Reaffirmed)
Bank of Maharashtra	Term Loan	25.03.2021	Not Available	Mar-21	5.00	ACUITE BBB-/Stable (Reaffirmed)
Proposed Bank Facility	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	54.25	ACUITE BBB-/Stable (Reaffirmed)
Proposed Bank Facility	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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