

Press Release

Velicham Finance Private Limited

July 20, 2020



Rating Assigned

Total Facilities Rated	Rs.20.00 crore
Total Bank Facilities Rated	Rs.20.00 crore
Long Term Rating	ACUITE BB / Stable (Assigned)

*Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.20.00 Cr. bank facilities of Velicham Finance Private Limited (VFPL). The outlook is '**Stable**'.

About VFPL:

VFPL, incorporated in 1981, is a Chennai based Non-deposit taking Non-Banking Finance Company (ND-NBFC) promoted by Mr. M Nagarajan. The company is engaged in extending income generation loans to women borrowers (co-borrower as husband) and MSME loans to women entrepreneurs having existing family business in rural areas.

The day to day operations is managed by Mr. M Nagarajan, who is the Managing Director (MD) of VFPL. The company presently operates through a network of 6 branches spread across Tamilnadu and Puducherry as on March 31, 2020.

Analytical Approach:

Acuité has considered the standalone view on VFPL's business and financial risk profile to arrive at the rating.

Acuité has been guided by recent SEBI circular dated 30th March, 2020 (Circular No: SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/53) while arriving at the rating. Acuité has also relied on the recent RBI circular dated 27th March, 2020 (Circular No: RBI/2019-20/186 in this regard. The company has confirmed to Acuité that they had sought moratorium from only one of its lender from April to August 2020 and has received the same. As per further confirmation from the client, Acuité understands that VFPL has not sought moratorium from any other lenders and have made the repayments for month of April, May and June 2020.

Acuité believes that this slippage of payment is attributable to the ongoing crisis and hence has not construed the non-payment for April, May and June 2020 as a credit event while arriving at the rating decision. Acuité policy regarding this "Transitory relaxation from compliance with certain provisions under SEBI (Credit Rating Agencies) Regulations, 1999" is as follows: <https://www.acuite.in/transitory-relaxation-from-compliance-with-certain-provisions-under-SEBI.htm>

Key Rating Drivers

Strengths

• Experienced Management

VFPL commenced its lending operations in 2016. VFPL's key product offerings include extending MSMEs loans to women borrowers having an existing family business. The company is also engaged in providing income generation loans to women borrowers (co-borrower as husbands) in rural areas. VFPL mainly operates in Tamilnadu and Puducherry with a network of 6 branches as on March 31, 2020.

VFPL acquires its genesis from Bharathi Women Development Centre (BWDC), a society supported

by Mr. M. Nagarajan (Secretary of BWDC). The society has been in operations since 1987 and over the years has established its track record in social and microfinance activities. In 2016, current promoters of VFPL acquired a dormant NBFC called Sushil Hire Purchase Private Limited and changed the name to Velicham Finance Private Limited (VFPL) in 2017.

VFPL's day to day operations are managed by Mr. M Nagarajan, (MD & CEO). Mr. M Nagarajan has over three decades of experience in Project planning and designing, participatory rural appraisal, water management, community development and microfinance business.

VFPL's board comprise six members, including Mr. M Nagarajan. The board is supported by various seasoned professionals who have over three decades of experience in banking and financial services sector.

Acuité believes that VFPL will continue to benefit from its experienced promoters and management in scaling up its business.

Weaknesses

- **Modest scale of operations;**

VFPL commenced its lending operations in 2016. VFPL's portfolio stood at Rs.9.76 Cr. as on March 31, 2020 as compared to Rs. 5.24 Cr. as on March 31, 2019 and Rs. 1.15 Cr. as on March 31, 2018. The company also has off-book exposure of ~Rs.1 Cr. in form of business correspondence relationship as on March 31, 2020. Around ~81 percent of VFPL's portfolio as on March 31, 2020, comprise MSME loans to women entrepreneurs having an existing family business and balance comprise income-generating loans extended to women borrowers (co-borrower as husbands) under Joint Lending Group (JLG) model in rural areas.

While VFPL is in the process of scaling up its operations, going forward the ability of the company to access timely capital infusion and its ability to mobilize low-cost debt, will be a key factor in the scalability of a business. Further, the impact of Covid-19 may also impair the scalability of business operations, which has currently disrupted access to funds, collections and disbursement processes for most of the NBFCs.

VFPL's return on average assets (ROAA) as on March 31, 2020 stood at ~6.7 percent vis. a vis. ~7.0 percent as on March 31, 2019. The company had zero gross non-performing assets (GNPAs) as on March 31, 2020.

Acuité believes, going forward, the ability of the company to mobilize additional funding through debt /equity and its ability to deploy the funds profitably while maintaining its asset quality will be key rating sensitivity.

- **Geographical concentration**

VFPL has a major presence in Tamilnadu with ~84 percent of the AUM spread across 6 districts as on March 31, 2020. This exposes the company to high geographical concentration risk. The company's performance is expected to remain exposed to the competitive landscape in these regions and the occurrence of events such as natural calamities, are likely to adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework, thereby impacting the credit profile of VFPL.

Rating Sensitivities

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency
- Movement in asset quality
- Movement in liquidity buffers
- Changes in the regulatory environment

Material Covenants:

VFPL 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 client via mail dated July 07, 2020, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity Position: Adequate

VFPL's overall liquidity profile remains adequate in near to medium term. VFPL's borrowings stood at ~Rs.5.1 Cr. with a gearing of ~1.0 times as on March 31, 2020 (provisional). The borrowings of an VFPL have average maturity of 2 to 3 years against average lending tenure of ~18 to 24 months. The company has maintained cash and bank balance of ~Rs. 0.16 Cr. as on March 31, 2020. Based on the company's modest portfolio and since the operations are confined to remote rural areas, VFPL was able to recover Rs. 0.97 Cr. in collections for the month of June 2020.

Outlook: Stable

Acuité believes that VFPL will maintain a 'Stable' outlook over the medium term supported by its experienced management. The outlook may be revised to 'Positive' in case of higher than expected growth in the loan portfolio while maintaining asset quality. 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 - Key Financials:

Parameters	Unit	FY20 (Prov)	FY19(Actual)
Total Assets	Rs. Cr.	10.26	5.69
Total Income*	Rs. Cr.	2.24	1.43
PAT	Rs. Cr.	0.53	0.24
Net Worth	Rs. Cr.	4.81	2.62
Return on Average Assets (RoAA)	(%)	6.69	6.99
Return on Average Net Worth(RoNW)	(%)	14.37	12.78
Total Debt/Tangible Net Worth (Gearing)	Times	1.05	1.10
Gross NPA (90+dpd)	(%)	0.00	0.00
Net NPA (90+dpd)	(%)	0.00	0.00

* Total income equals to Net interest income plus other income

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>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***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
-	Term Loan	24.12.2018		2.07.2023	1.21	ACUITE BB / Stable (Assigned)
-	Term Loan	Not Available	-	Not Available	2.56	ACUITE BB / Stable (Assigned)
-	Term Loan	29.2.2020	-	17.1.2022	1.00	ACUITE BB / Stable (Assigned)
-	Proposed bank facility	-	-	-	15.23	ACUITE BB / Stable (Assigned)

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About Acuité Ratings & Research:

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