

Press Release

Velicham Finance Private Limited

October 21, 2021



Rating Upgraded

Total Bank Facilities Rated	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB+/ Stable (Upgraded)

*Refer annexure for details

Rating Rationale

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

Reason for Upgrade

The rating upgrade takes into account an uptick in disbursements supported by modest resources raising ability, comfortable capitalisation and asset quality metrics. The ratings continue to factor in VFPL's established presence in its area of operations and experienced management VFPL's CAR stood at 53.10 percent as on March 31, 2021. While Acuite takes cognizance of asset quality challenges in general on account of disruptions due to Covid-19 spread, VFPL has been able to maintain healthy asset quality metrics. The company's on-time portfolio stood at 98.92 percent with nil GNPA's as on August 31, 2021. Likewise, average overall collection efficiency for six months ended August 31, 2021 stood at 96.73 percent. The rating is however, constrained by its modest scale of operations, limited financial flexibility, and geographic concentration and risks inherent to micro finance sector. Going forward, the company's ability to raise capital and profitably scale up its operations shall be key monitorables.

About VFPL

Chennai based Velicham Finance Private Limited (VFPL) is an NBFC engaged in extending loan against property (LAP) towards MSME borrowers and income generation loans. Velicham Finance Private Limited (VFPL) has its genesis with Bharathi Women Development Centre (BWDC), which was established in December 1987 as a Society by Mr. Nagarajan Muthukrishnan, who is the Managing Director of Velicham Finance Private Limited (VFPL). The company operates in Tamil Nadu and Puducherry with a network of 21 branches as on August 31, 2021.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established management in micro-finance segment

VFPL is engaged in extending loans to MSMEs and for income generation purpose to women entrepreneurs in rural areas since 2016. The Company mainly operates in Tamilnadu and Puducherry with a network of 21 branches as on August 31, 2021. The company is promoted by Mr. Nagarajan (MD) who has over three decades experience in the micro finance business and has been associated with various societies and micro-finance institutions. Mr. Nagarajan is the secretary of Bharathi Women Development Centre, a society that primarily offers unsecured Income generation loans (IGL) to Self Help Groups (SHG - Women) and under Joint Liability Group (JLG) model for economically weaker section of women borrowers. The society has been in operations since 1987 and over the years has established its track record in social and micro finance activities. The company has comfortable capitalization levels to support the future growth prospects. VFPL's overall CAR stood at 53.10 percent as on March 31, 2021

consisting mainly of Tier I CAR. Its loan portfolio increased to Rs.16.76 crore in March 2021 as against Rs.9.76 crore in March 2020. As on August 2021, its loan portfolio further increased to Rs.17.92 crore. Around 98.92 percent of VFPL's portfolio is on time and has nil GNPA's as on August 31, 2021. Its AUM stood at Rs.18.32 crore in March 2021 as against Rs.10.78 crore in March 2020. Its AUM augmented to Rs.21.27 crore in August 31, 2021. VFPL has reported an average collection efficiency of ~97.8 percent with monthly average scheduled collection of Rs.1.36 crore for 12 months ended August 31, 2021. The overall collection efficiency for 6 months ended August 31, 2021 stood at 96.73 percent.

During FY21 VFPL's PAT stood at Rs.0.73 crore as against Rs.0.52 crore during FY20. Disbursements scaled up to Rs.11.14 crore in H1 FY2021-22 as against Rs.4.95 crore in H1 FY2020-21 leading to increase in profits.

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.

Weaknesses

• Modest scale of operations; scalability of business yet to be demonstrated

VFPL's loan portfolio stood at Rs.16.76 crore as on March 31, 2021 as compared to Rs. 9.76 crore as on March 31, 2020 and Rs. 5.25 crore as on March 31, 2019. Around ~81 percent of the portfolio is extended towards MSME lending and balance for income generating activities to women entrepreneurs in rural areas. VFPL extends loans typically for 18 to 24 months.

Given the company's modest scale of operations, Acuite believes, the ability of the company to mobilize additional funding through debt /equity and profitably increase its scale will be key rating sensitivity.

• Geographical concentration

VFPL has presence majorly in Tamilnadu with ~93.44 percent of the AUM spread across 10 districts as on August 31, 2021. This exposes the company to high geographical concentration risk. The company's performance is expected to remain exposed to competitive landscape in these regions and 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 credit profile of VFPL.

Acuite believes that profitable expansion in scale of operations will be key rating sensitivity.

Rating Sensitivity

- Resources raising ability
- Movement in profitability metrics
- Movement in collection efficiency and asset quality
- Movement in liquidity and capitalization buffers
- Changes in 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 client the company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.

Liquidity: Adequate

VFPL's liquidity profile is adequate as on June 30, 21. The borrowings of VFPL have maturity upto 5 years vis a vis its loan book which has average tenure of 18 to 24 months. As per discussion with VFPL, Acuite understands that VFPL had sought moratorium only from one lender for April and May 2020 and had received the same. VFPL did not sought further moratorium extension during Q1 FY2022.

Outlook: Stable

Acuite 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 capital raising, higher than expected growth in loan portfolio while maintaining asset quality. The outlook may be revised to 'Negative' in case of any headwinds faced in capital raising, scaling up of operations or in case of significant deterioration in asset quality and profitability metrics.

About the Rated Entity - Key Financials

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	17.69	10.25
Total Income*	Rs. Cr.	2.78	2.24
PAT	Rs. Cr.	0.73	0.52
Networth	Rs. Cr.	7.04	4.80
Return on Average Assets (RoAA)	(%)	5.25	6.55
Return on Net Worth (RoNW)	(%)	12.41	14.07
Total Debt/Tangible Net Worth (Gearing)	Times	1.43	1.05
Gross NPA's	(%)	0	0
Net NPA's	(%)	0	0

*Total income equals to Net interest income plus other income

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

Not Applicable

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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-July-20	Term Loan	Long Term	1.21	ACUITE BB/ Stable (Assigned)
	Term Loan	Long Term	2.56	ACUITE BB/ Stable (Assigned)
	Term Loan	Long Term	1.00	ACUITE BB/ Stable (Assigned)
	Proposed Bank Facility	Long Term	15.23	ACUITE BB/ Stable (Assigned)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
City Union Bank	Term Loan	18-Jun-2021	12.79%	02-Jul-2023	0.79	ACUITE BB+/ Stable (Upgraded)
(Milaap)-Kashi Vishwanatha Vidya Samasthe	Term Loan	06-Feb-2021	12.00%	Not Available	1.10	ACUITE BB+/ Stable (Upgraded)
Samunnati Financial Intermediation and Services Private Limited,	Term Loan	Not available	18.00%	17-Jul-2022	0.28	ACUITE BB+/ Stable (Upgraded)
ASHV Finance Pvt Ltd	Term Loan	02-Aug-2018	17.5	Not Available	0.67	ACUITE BB+/ Stable (Upgraded)
ECLEAR Leasing Pvt Ltd	Term Loan	27-Nov-2020	16.00%	Not Available	0.58	ACUITE BB+/ Stable (Upgraded)
Catholic Syrian Bank	Term Loan	29-Dec-2020	11.85%	Not Available	1.20	ACUITE BB+/ Stable (Upgraded)
Mas Finance Pvt Ltd	Term Loan	17-Feb-2020	15.75%	Not Available	1.37	ACUITE BB+/ Stable (Upgraded)
Not applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	14.01	ACUITE BB+/ Stable (Upgraded)

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About Acuité Ratings & Research Limited:

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