

Press Release

Velicham Finance Private Limited

September 07, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BB+ Stable Reaffirmed	-
Bank Loan Ratings	30.00	ACUITE BB+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Acuite has assigned the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 30.00 Cr. bank facilities of Velicham Finance Private Limited (VFPL). The outlook is '**Stable**'.

The ratings continue to factor in VFPL's established presence in its area of operations and experienced management. The rating also factors in healthy capitalisation and healthy asset quality metrics of VFPL. VFPL's CAR stood at 26.28 percent as on March 31, 2022. The company's asset quality was marked by on-time portfolio of 99.42 percent with GNPA's at 0.12 percent as on March 31, 2022. The asset quality was also aided by average overall collection efficiency for six months ended June 30, 2022, which stood at 94.51 percent. The rating is however, constrained by its modest scale of operations, limited financial flexibility, and geographic concentration and risks inherent to MSME sector. Going forward, the company's ability to raise capital and profitably scale up its operations shall be key monitorables.

About the company

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 24 branches as on June 30, 2022.

Analytical Approach

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

Key Rating Drivers

Strength

Established management in MSME 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 24 branches as on June 30, 2022. 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.

VFPL has comfortable capitalization levels to support the future growth prospects. VFPL's overall CAR stood at 26.28 percent as on March 31, 2022, fully consisting of Tier I CAR. Its AUM stood at Rs. 62.16 crore in March 2022 as against Rs. 18.32 crore in March 2021. Its AUM augmented to Rs.73.85 crore in June 30, 2022. The off book portfolio of VFPL, consisting of BC arrangements, increased to Rs.31.53 Crore in March 31, 2022 from Rs. 1.56 crore as on March 31, 2022. Its own book loan portfolio increased to Rs.30.63 crore in March 2022 as against Rs.16.76 crore in March 2021. As on June 2022, its own book loan portfolio stood at Rs.33.87 crore. Around 99.42 percent of VFPL's portfolio is on time and GNPA's stood at 0.12 percent on March 31, 2022. VFPL has reported an average monthly due collection efficiency of ~97.55 percent with the overall collection efficiency for 6 months ended June 30, 2022 at ~94.51 percent.

During FY22 VFPL's PAT stood at Rs.0.90 crore (provisional) as against Rs.0.73 crore during FY21. Total disbursements scaled up to Rs.69.41 crore in FY2022 as against Rs.18.34 crore in FY2021. Acuité believes that established presence of the promoters in the MSME segment will be central to support the business risk profile of the company in the near to medium term.

Weakness

Modest scale of operations; Albeit improving

VFPL's loan portfolio stood at Rs.30.63 crore in March 31, 2022 as compared to Rs.16.76 crore in March 31, 2021. Around ~53 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 moderate scale of operations, Acuité 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 Tamil Nadu with ~98 percent of the AUM spread across 13 districts as on June 30, 2022. 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.

Acuité 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.

Liquidity Position

Adequate

VFPL's liquidity profile is adequate as on March 31, 2022. The borrowings of VFPL have maturity upto 5 years vis a vis its loan book which has average tenure of 18 to 24 months. The company reported an average monthly collection of Rs. 4.43 crores for the six months ended June 30, 2022. There were no negative cumulative mismatches in ALM statement dated March 31, 2022.

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 capital raising, higher than expected growth in loan portfolio while maintaining asset quality and profitability. 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.

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Provisional)	FY21 (Actual)
Total Assets	Rs. Cr.	35.04	17.69
Total Income*	Rs. Cr.	4.44	2.78
PAT	Rs. Cr.	0.90	0.73
Networth	Rs. Cr.	8.95	7.04
Return on Average Assets (RoAA)	(%)	3.40	5.25
Return on Net Worth (RoNW)	(%)	11.21	12.41
Total Debt/Tangible Net Worth (Gearing)	Times	2.77	1.43
Gross NPA's	(%)	0.12%	0.05%
Net NPA's	(%)	0.03%	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

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Oct 2021	Term Loan	Long Term	0.28	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Term Loan	Long Term	1.10	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Term Loan	Long Term	0.58	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Term Loan	Long Term	0.79	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Term Loan	Long Term	0.67	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Term Loan	Long Term	1.37	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Proposed Bank Facility	Long Term	14.01	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Term Loan	Long Term	1.20	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
20 Jul 2020	Term Loan	Long Term	2.56	ACUITE BB Stable (Assigned)
	Proposed Bank Facility	Long Term	15.23	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	1.21	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	1.00	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	0.94	ACUITE BB+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BB+ Stable Assigned
Credit Gate Private Limited	Not Applicable	Term Loan	16-12-2021	18.00	Not available	2.75	ACUITE BB+ Stable Reaffirmed
Ashv Finance (formally known as Intellegrow)	Not Applicable	Term Loan	27-11-2020	17.5	Not available	0.42	ACUITE BB+ Stable Reaffirmed
Ecclar Leasing & Finance Private	Not Applicable	Term Loan	29-12-2020	18.00	Not available	0.24	ACUITE BB+ Stable Reaffirmed
Catholic Syrian Bank	Not Applicable	Term Loan	25-02-2021	13.00	Not available	0.95	ACUITE BB+ Stable Reaffirmed
MAS Financials Services Limited	Not Applicable	Term Loan	18-06-2021	15.50	Not available	1.00	ACUITE BB+ Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	30-10-2021	9.45	Not available	4.62	ACUITE BB+ Stable Reaffirmed
UC Inclusive Private Ltd.	Not Applicable	Term Loan	15-03-2022	17.00	Not available	2.00	ACUITE BB+ Stable Reaffirmed
Caspian Impact Investment Private Ltd.	Not Applicable	Term Loan	21-03-2022	17.00	Not available	2.00	ACUITE BB+ Stable Reaffirmed
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	01-02-2022	12.00	Not available	1.96	ACUITE BB+ Stable Reaffirmed
Usha Financial Services Private Limited	Not Applicable	Term Loan	13-01-2022	16.00	Not available	0.66	ACUITE BB+ Stable Reaffirmed
Profectus Capital Private Ltd.	Not Applicable	Term Loan	22-02-2022	16.00	Not available	0.99	ACUITE BB+ Stable Reaffirmed

Millap Social Ventures Private Limited	Not Applicable	Term Loan	20-09-2018	4.0	01-06-2024	1.47	ACUITE BB+ 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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