

Press Release

Gaddala Financial Services Private Limited

September 09, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	ACUITE BB-/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs. 12 crore bank facilities of Gaddala Financial Services Private Limited (GFSL). The outlook is '**Stable**'.

About the company

Telangana based Gaddala Financial Services Private Limited(GFSL) (Erstwhile: 'Vanki Neni') was founded by Mr John Gaddala. It is registered with Sa-dhan and extends individual loans. The operations of the company are spread across four districts of Telangana, namely, Warangal, Mahubudabad, Jangoan and Hyderabad as on March 31, 2020.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced Management**

GFSL's founder Mr. John Gaddala started with an NGO (Pragati Seva Samithi) in 1991. The operations are currently managed by promoters - Mrs. Reena Mandula and Mr. Shravankumar Mandula, both of whom have around a decade experience in the Financial Services Industry. Over these years they have promoted various co-operative societies and farmer producer companies catering to Financial Services in Telangana region. In future, the promoters plan to consolidate the operations of all the promoted co-operative societies and farmer producer companies, under GFSL. The company has raised funds by way of Compulsorily Convertible Debentures (CCDs) of Rs. 1.83 Cr from Prowess Software Services, Singapore and plan to infuse CCDs up to Rs. 3 Cr till the end of Q3FY2021 to support the operations of the company.

Acuité believes that GFSL will benefit from its experience of the promoter and management team to expand its operations and grow its loan portfolio.

Weaknesses

- **Modest scale of operations and high geographic concentration**

GFSL's commenced its operations in 2010, over the years the company's operations have remained modest. It has an outstanding portfolio of Rs. 4.93 Cr as on March 31, 2020 and Rs. 3.35 Cr as on March 31, 2019. Further, GFSL's portfolio is exposed to high risk as 100% of the portfolio is concentrated in the state of Telangana, spread across 4 districts & 5 Branches. Generally, the risk profile of a non-banking finance company with a geographically diversified portfolio is more resilient compared to that of an entity with a geographically concentrated portfolio.

Acuité believes that modest scale of operations coupled with geographic concentration in its portfolio will continue to weigh on the company's credit profile over the near to medium term.

Liquidity Position: Adequate

GFSL's liquidity buffers primarily depend on its cash inflows (collections from clients, drawdowns from borrowings and equity inflows) vis-a-vis the cash outflows (disbursements, debt servicing commitments and operating expenses). The cash collections from borrowers are currently impacted but improving because of the moratorium extended by the company to its borrowers which is in line with general practice followed by other Financial Institutions. The collections for the month of June improved to 47%. The company's ability to raise funds is key monitorable in assessing the liquidity position. As the company has extended the moratorium to its borrowers, similarly they had availed Moratorium from two of its borrowers for two months (April & May). GFSL's scheduled monthly average collections as on March 31,2020 are around Rs. 0.16 Crore against which it has monthly debt service obligations of around Rs. 0.06 Crore.

Rating Sensitivities

- Growth in Loan portfolio
- Asset Quality & Collection efficiency
- Scaling up operations

Material Covenants

- Operating Cost will be maintained at <10%
- PAR > 30 days should be <1%

Outlook: Stable

Acuité believes that GFSL will maintain a 'Stable' outlook on account of its experienced management. The outlook may be revised to 'Positive' in case the company is able to scale up its operations and geographically diversify while maintaining their asset quality. Conversely, the outlook may be revised to 'Negative' in case of continued growth challenges or asset quality pressures.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	5.42	3.52
Total Income (Net of Interest Expense)	Rs. Cr.	0.45	0.43
PAT	Rs. Cr.	0.06	0.09
Networth	Rs. Cr.	4.15	2.26
Return on Average Assets (RoAA)	(%)	1.40	2.36
Return on Net Worth (RoNW)	(%)	1.95	3.99
Total Debt/Net Worth (Gearing)	Times	0.30	0.54
Gross NPA's	(%)	0.00	0.00
Net NPA's	(%)	0.00	0.00

Status of non-cooperation with previous CRA (if applicable): CRISIL vide its press release dated April 28, 2020 has stated, "on account of inadequate information and lack of management co-operation, CRISIL has migrated the rating on the long term bank facilities of GFS to **CRISIL B/Stable Issuer Not Cooperating.**"

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)

None

*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	18.04.2017	7.00%	22.12.2020	2.00	ACUITE BB-/Stable (Assigned)
Term Loan	01.04.2019	7.00%	22.08.2021	0.25	ACUITE BB-/Stable (Assigned)
Term Loan	18.03.2019	19.00%	02.04.2020	0.30	ACUITE BB-/Stable (Assigned)
Term Loan	14.08.2019	19.00%	21.10.2020	0.30	ACUITE BB-/Stable (Assigned)
Term Loan	10.05.2019	17.00%	28.01.2021	0.30	ACUITE BB-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.85	ACUITE BB-/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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