

Press Release

Hindon Mercantile Limited

October 06, 2021



Rating Assigned

Total Facilities Rated	Rs.50.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs.50.00 Cr. proposed bank facilities of Hindon Mercantile Limited (HML). The outlook is '**Stable**'.

The rating takes into account experienced promoters capital support from investor, Resilient Innovations Private Limited (RIPL, popularly known as BharatPe). In addition to regular capital support, RIPL has representation through Mr. Nishit Sharma, Chief Revenue Officer at RIPL who has been appointed as observer on the board of HML. The rating also factors in digital lending business model of the company which has enabled it to break-even and moderate earnings profile with profit after tax (PAT) of Rs.3.5 Cr. for FY2021 (Rs.0.96 Cr. for FY2020). Also, GNPA remained at comfortable levels at 0.59% as on May 31,2021, albeit limited seasoning of portfolio. The rating strengths are partially offset by nascent stage of operations considering that the company scaled up its portfolio mainly in second half of FY2021. The rating is further constrained by limited resources raising ability, low capitalization and high gearing levels at 15.90% and 8.63 times respectively as on March 31,2021.

Going forward, HML's ability to raise capital, demonstrate sustainable growth in its scale of operations while maintaining capital adequacy levels and gearing at prudent levels will remain key monitorables.

About the Company:

Delhi-based Hindon Mercantile Limited (HML), is a Non-Bank Finance Company (NBFC) engaged in the business of providing secured loans like business loans, vehicle loans, LAP and gold loans. The company commenced its operations from August 2019 and is promoted by Mr. Mr. Kapil Garg, who has more than 15 years in Legal, Bank Audits, Compliance and Consultancy and Mr. Rajat Goyal having 17 years of experience in risk assessment and consultancy on risk mitigation having over three decades of experience in their respective domains. HML operates through a branch network of 2 branches as on March 31, 2021 and has geographical presence across 21 states with AUM of ~Rs.334 Cr. as on June 30,2021.

Analytical approach:

Acuité has taken a standalone view on the business and financial risk profile of HML.

Key Rating Drivers:

Strengths:

• **Support from Promoters and Investor**

Hindon Mercantile Limited (HML) is a Delhi based Non-Deposit Non-Bank Finance Company (ND-NBFC) engaged in providing business loans, vehicle loans, Loan Against Property (LAP) and gold loans. The company commenced its lending operations in August 2019 post merger of promoter owned entities, Mufin Finance Limited and QTP Financial Services Ltd. Mr. Kapil Garg, co-promoter and CEO of HML has experience of more than 15 years in Legal, Bank Audits, Compliance and Consultancy and Mr. Rajat Goyal, co-promoter and Chief Risk Officer (CRO) has 17 years of experience in risk assessment and consultancy on risk mitigation. The promoters along with their family members' owned 65.8% stake as of June 2021. They are assisted by professional management team including Mr. Praveen Sabharwal, Vice President, possessing over 35 years of experience of working with Oriental Bank of Commerce and responsible for managing fintech partnerships

of the company.

In FY2021, Resilient Innovations Pvt. Ltd (RIPL, popularly known as BharatPe) acquired 13.92% equity stake in the company besides extending inter corporate deposit financing of upto Rs.400 Cr. in the form of subordinated debt. RIPL also has representation in the company through Mr. Nishit Sharma, Chief Revenue Officer at RIPL who has been appointed as observer on the board of HML. Acuité derives comfort from RIPL's commitment to the company's growth prospects via capital and managerial support. Further, RIPL along with other external investors collectively infused about Rs.6 Cr. in July 2021.

• Moderate Earnings Profile

HML's branch light, digital lending business model has enabled it to break-even at an early stage. During FY21, HML reported profit after tax (PAT) of Rs.3.5 Cr. (Rs.0.96 Cr. for FY20) on total income of Rs.26.57 crore (Rs.2.24 crore for FY20). This improvement in the earnings is primarily on account of significant growth in incremental disbursements made in FY2021 as the company partnered with several fintech companies. This enabled it to expand its geographical presence to 21 states as on March 31,2021 as against 6 states as of March 2020. This has also reflected in improved NIM of 12.9% as on March 31,2021. Profitability was partially offset by higher operating expenses (Rs.21.2 Cr. for FY2021 as against Rs.0.9 Cr. for FY2020) on the back of higher fees to fintech partners. Credit Costs (as % of AUM) remained at comfortable levels at 0.7% as on March 31,2021 (0.9% as on March 31,2020).

Acuité believes that company's ability to sustain improvement in earnings profile in the current operating environment coupled with the intense competition in the retail segment will be key rating monitorable.

Weaknesses:

• Limited track record of operations coupled with limited seasoning of portfolio

HML commenced its lending operations with vehicle loans and gradually diversified its product offerings to business loans, LAP and gold loans. The AUM stood at ~Rs.355 Cr. as on March 31,2021 (Rs.42 Cr. as of March 2020), of which business loans comprised ~77% followed by vehicle loans at ~19%, gold loans at ~3% and LAP ~1%. The AUM grew significantly in FY2021 mainly on account of business loan disbursements (~81% of the total disbursements of Rs.818 Cr. during FY2021). Though business loans are offered for short tenor ranging 0-24 months, disbursements of these loans in FY2021 were made largely in the second half of FY2021 indicating limited seasoning of the AUM. This is also reflected in asset quality as depicted by GNPA of 0.56% as of May 2021 (0.59% as of March 2021).

Acuité believes that the ability of the company to maintain sustainable growth of portfolio while managing its asset quality through business cycles will be key monitorable.

• Weak Capitalization and leverage:

Given the significant scale up in operations, HML's capitalization levels declined with CRAR at 15.90% (41.25% as on March 31,2020) and tier I capital at 10.60% (32.30% as on March 31,2020) as on March 31,2021 despite equity infusion aggregating ~Rs.20 Cr. in FY2021. Further, outstanding debt borrowings rose to ~Rs.324 Cr. as on March 31,2021 (Rs.33 Cr. as on March 31,2020) primarily on account of subordinated debt raised from RIPL. This led to jump in gearing ratio of 8.63 times as on March 31,2021 as against 2.41 times as on March 31,2020. The gearing improved marginally to 7.49 times as of June 2021 as the company paid off some debt during this period.

While Acuité derives comfort from management's indication of financial support from RIPL besides equity infusion of ~Rs.6 Cr. in July 2021, the company shall require significant capital infusion in near to medium term in order to sustain growth and maintain prudent leverage indicators.

Rating Sensitivities

- Capital infusion
- Lower than expected growth in AUM
- Significant spike in Credit costs translating into material reduction in profitability
- Capital adequacy & leverage

Material Covenants

The company is subject to covenants stipulated by its lenders/investors in respect of parameter like capital structure. As per confirmation received from the Company vide mail dated October 05,2021, "The Company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors."

Liquidity Position: Adequate

HML's liquidity profile as on March 31,2021 is well matched with no negative cumulative mismatches across time buckets. The company reported cash and cash equivalents of Rs.13.44 Cr. and its contractual outflows for next six months ended September 30,2021 stood at Rs. 11.66 Cr. whereas contractual inflows for corresponding period stood at Rs.334 Cr. Further, the company had overdraft facilities aggregating to Rs.12 Cr. as on August 31,2021.

Outlook: Stable

Acuité believes that HML will maintain 'Stable' outlook over the near to medium term on account of support healthy capital position and support from investors. The outlook may be revised to 'Positive' in case GIPL demonstrates significant and sustainable growth in its scale of operations while maintaining capital adequacy levels and gearing at prudent levels. Conversely, the outlook may be revised to 'Negative' in case of any challenges in scaling up operations or in case of any sharp deterioration in asset quality and profitability levels.

HML - Key Financials (Standalone)

	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	375.87	47.96
Total Income*	Rs. Cr.	26.57	2.24
PAT	Rs. Cr.	3.54	0.96
Networth	Rs. Cr.	37.54	13.69
Return on Average Assets (RoAA)	(%)	1.67	3.75
Return on Net Worth (RoNW)	(%)	13.84	11.44
Total Debt/Tangible Net Worth (Gearing)	Times	8.63	2.41
Gross NPA's	(%)	-	-
Net NPA's	(%)	-	-

*Total income equals to Total Income net off interest expense
 Ratios as per Acuité calculations

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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**

Lender Name	ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outloo
Not Applicable	Not Applicable	Proposed Facility	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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