



Press Release
Embaby General Finance India Private Limited
May 29, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	30.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 30.00 crore bank facilities of Embaby General Finance India Private Limited (EGFL). The outlook is '**Stable**'.

Rationale for the rating

The rating factors in the experienced promoters, healthy asset quality, marked by an on time portfolio at 99.00 percent as of December 31, 2022 and comfortable capitalisation levels. CRAR stood at 40.13 percent (Tier 1: 35.78 percent) as on December 31, 2022 and gearing levels stood steady at 1.74 times as of December 31, 2022. The rating further takes into consideration comfortable profitability metrics supported by stable growth in disbursements. The company reported disbursements of Rs 133.24 Cr till February 2023, Rs 124.73 Cr. during FY 2021-22. The rating further draws comfort from adequate risk management practises adopted by the company in order to mitigate risks and limit losses.

The rating is, however, constrained by geographical concentration, modest scale of operations, limited financial flexibility, and the highly competitive business of lending against gold. Going forward, the company's ability to raise capital, profitably scale-up its loan portfolio, and maintain asset quality will be key monitorables.

About the company

Embaby General Finance (India) Private Limited (EGFL) a Non-Banking Financial Company (NBFC) incorporated in November 2008 and based out of Kattappana, in the Idukki district of Kerala, mainly operates by providing loans against collateral of gold jewellery primarily to individuals having limited or no access to formal credit to meet their short term personal requirements. The promoter, Mr. E.M. Baby, has been operating in this business since 1966. Over the years, the company has expanded its presence across two districts (i.e., Idukki and Kottayam) with branch base of 21 as on December 31, 2022. The operations will remain confined to the state of Kerala over the medium term. Apart from loans against gold jewellery, it also provides money transfer facilities in India, foreign inward money transfer services, encashment of foreign currencies, etc. EGFL is the flagship company of the E.M. Baby Group, which also operates in hospitality, trade distribution, finance, industry, money exchange, and general insurance.

Analytical Approach

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

Key Rating Drivers

Strength

Experienced promoters

EGFL, a Kerala based NBFC was promoted by Mr. Edavanamadathil Mathai Baby

(Chairman). Currently, the operations are managed by Mr. Rajesh Baby (Managing Director & CEO), who has more than two decades of experience in gold business & financing, and a decade of experience in wholesale business. Given the group's long track record of operations, they have established a presence in other businesses. The late Mr. Edavanamadathil Mathai Baby, held 37.01 percent of shares as of December 31, 2021 with the remaining stake being held by other family members of Mr. E.M. Baby. Presently, Lizamma Baby holds 37.01 percent of shares as of March 31, 2022. Mrs. Lizamma Baby (Director) and Mr. Ramesh Baby (Executive Director) have extensive experience of over four decades and two decades, respectively, in gold business and financing. Promoters have also inducted experienced professionals with experience in the banking and retail segments.

Acuité believes that EGFL will continue to benefit from the established presence and experience of the promoters in the gold loan segment.

Healthy Asset Quality

EGFL's loan portfolio stood at Rs. 48.32 Cr as on December 31, 2022 as compared to Rs. 61.12 Cr in FY2022 and Rs. 59.29 Cr in FY2021 with an average tenure of 12 months. As per the company, an average of 80-90% of the accounts gets prepaid before completing the one year loan tenure. Asset quality has remained healthy, as evidenced by the on time portfolio at 99.00 percent for 9M-FY2022. On time dpd profile has remained in the range of 97 - 99 percent since FY2019 till YTD. Gross NPA stood at 0.40 percent (NNPA: - 0.31 percent) as of December 31, 2022 as against 0.34 percent (NNPA: - 0.31 percent) as of March 31, 2022 and 0.25 percent (NNPA: - 0.22 percent) as of March 31, 2021. The company has adequate risk management systems and mechanisms in place with respect to the assessment and storage of gold ornaments. The company has a three member audit team that undertakes branch audits once a week and surprise verifications of the pledged gold jewellery.

Going forward, Acuité believes that stringent risk management policies provide comfort and are expected to keep asset quality under control, however, risk arising from adverse gold prices would be critical.

Comfortable profitability metrics:

The company's profitability metrics remain comfortable on account of stable growth in disbursements. The company reported disbursements of Rs 133.24 Cr till February 2023, Rs 124.73 Cr. during FY 2021-22 (Rs 155.02 Cr. during FY 2020-21). The company has reported Net Interest Income of Rs 4.62 Cr. till 9MFY2023, Rs 5.30 Cr during FY 2021-22 and Rs 5.75 Cr. during FY 2021-22. This has resulted in PAT of Rs 1.51 Cr. till 9MFY2023, Rs 0.62 Cr. during FY 2021-22 and Rs 1.82 Cr. during FY 2021-22. Consequently, ROAA stood at 3.32 percent (annualised) as on 9MFY2023 0.97 percent as on March 31, 2022 and 3.03 percent as on March 31, 2021.

Weakness

Small scale of operations with high geographical concentration

The average tenure of all gold loans disbursed by the company is 12 months. The rate of interest is dependent on the tenure of the loan. The company's AUM stood at Rs 48.32 Cr. as on December 31, 2022, Rs 61.12 Cr. as on March 31, 2022 (Rs 59.29 cr. as on March 31, 2021). The company reported disbursements of Rs 133.24 Cr till February 2023, Rs 124.73 Cr. during FY 2021-22 (Rs 155.02 Cr. during FY 2020-21). It has presence across 2 districts in Kerala (i.e. Idukki and Kottayam) with branch base of 21 as on December 31, 2022. 44.94 percent of the branch concentration is in the Idukki district. EGFL is a small sized but a stable growing player in the lending against gold jewellery. The operations will remain confined to the state of Kerala over the medium term.

Going forward, Acuité believes that geographical concentration will continue to weigh on the company's credit profile.

Limited financial flexibility

The capital structure of EGFL is supported by a net worth of Rs. 20.21 Cr, Total Debt of Rs. 35.09 Cr and resultant gearing of 1.74 times as on December 31, 2022. EGFL has a modest resource profile with a relationship with only one bank. The other funding source includes privately placed debentures, placed with close friends and relatives, and remains largely dependent on promoters for funding requirements. The company has raised these debentures

at interest rates in the range of ~ 11.00 percent.

Acuite believes that the ability of the company to mobilise additional funding through debt/equity will be critical.

Rating Sensitivity

- Ability to raise capital
- Profitable scaling up in operations
- Movement in liquidity buffers
- Movement in profitability metric
- Changes in the regulatory environment

Material Covenants

EGFL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

Liquidity Position

Adequate

EGFL's overall liquidity profile remains adequate, with no negative cumulative mismatches in near to medium term as per the ALM dated December 31, 2022. Out of total borrowings of Rs. 35.08 crore, Rs. 23.48 Cr. (~66.93 percent of 35.08 crore) would be due for repayment in buckets upto 1 year. The majority of the loans are repaid within the first three months, and collection efficiency stood at an average of 91.47 percent for the 12 months ended December 2022. The company has Rs. 0.77 Cr of encumbered cash as on December 31, 2022. The liquidity policy of the company includes holding cash at individual offices / branches equivalent to the day-to-day business requirements. Normally, cash of Rs. 2.5-3 lakhs is maintained in each branch; however, in branches where disbursements are higher, liquidity of Rs. 6-7 lakhs is maintained.

Outlook:

Acuite believes that EGFL will maintain a 'Stable' outlook over the medium term supported by its established presence in the gold loan segment along with experienced promoters and demonstrated ability to maintain asset quality levels. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio while maintaining asset quality and capital structure. 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.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs Cr.	64.08	62.93
Total Income*	Rs Cr.	5.40	5.82
PAT	Rs Cr.	0.62	1.82
Networth	Rs Cr.	18.69	19.56
Return on Average Assets (ROAA)	(%)	0.97	3.03
Return on Net Worth (RoNW)	(%)	3.22	9.67
Total Debt/Tangible Net Worth (Gearing)	Times	2.29	2.10
Gross NPA's	(%)	0.34%	0.25%
Net NPA's	(%)	0.31%	0.22%

*Total income equals to Net Interest Income plus other income

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

None

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Mar 2022	Working Capital Demand Loan	Long Term	7.07	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	0.69	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	0.97	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	0.69	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	2.00	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	1.26	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	1.14	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	1.45	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	1.26	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.52	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	11.75	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	0.46	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	0.74	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Federal Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	11.60	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	7.78	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.33	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	4.71	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	0.66	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	1.37	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	0.06	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	0.06	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	0.11	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	0.57	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Working Capital Demand Loan	Not available	Not available	Not available	Simple	0.63	ACUITE BBB- Stable

		(WCDL)						Reaffirmed
Federal Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	0.63	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	1.49	ACUITE BBB- 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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