

Press Release

Indel Money Limited (Erstwhile Indel Money Private Limited)

April 01, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	Provisional ACUITE A CE Stable Assigned	-
Bank Loan Ratings	85.00	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	92.50	ACUITE BBB+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	187.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of **ACUITE BBB+** (read as **ACUITE triple B plus**) on the Rs. 92.50 Cr. Bank Facilities of Indel Money Limited (IML). The outlook is 'Stable'.

Acuite has assigned the long-term rating of '**ACUITE Provisional A (CE)**' (read as **ACUITE Provisional A (Credit Enhancement)**) on the Rs.10.00 Cr. proposed partially credit enhanced term loan facility of Indel Money Limited (IML). The outlook is 'Stable'.

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs.85.00 Cr. bank loan facilities of Indel Money Limited (IML). The outlook is 'Stable'.

The rating derives strength from IML's parentage & promoter support (Indel Corporation Private Limited, holds 99.99% stake in IML), experienced promoters & management team as well as expectations of continued capital support going forward. Capital Adequacy Ratio and gearing stood at 22.72 percent (FY2021:-28.76 percent) and 5.81 times (FY2021:- 4.17 times), respectively as on December 31, 2021. While Acuite takes cognizance of IML's rising gearing levels in tandem with its growing portfolio, the company has plans to raise Rs.440 crore over the next two years via promoter/ investor infusions which is expected to support medium term growth plans. The rating is also driven by comfortable resources raising ability, adequate liquidity buffers and sound asset quality metrics with Gross Non-Performing Assets (GNPA) of 0.96 percent (FY2021:- 0.46 percent) and Net Non-Performing Assets (NNPA) of 0.83 percent (FY2021:- 0.11 percent) as on February 28, 2022. The rating further takes into account improving, though modest profitability metrics marked by Net Interest Margin of 13.39 percent in FY2021 (11.34 percent in FY2020).

The rating is, however, constrained due to small scale of operations and geographical concentration of the company along with highly competitive business of lending against gold. Going forward the ability of company to raise capital, profitably scale up its operations, while maintaining asset quality will be key rating sensitivities.

The Rs 10.00 Cr transaction has a PCE in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 18 percent of the issue size of debentures. The

level of guarantee as a percentage of the aggregate outstanding principal of the debentures is, however, capped at 24 percent.

The rating on the Rs. 10.00 Cr proposed term loan (partial credit guarantee) is provisional and the final rating is subject to execution of following documents:

1. Debenture Trusteeship Agreement
2. Debenture Trust Deed
3. Deed of Hypothecation

About the company

Indel Money Limited (IML) is a part of Indel Corporation Private Limited, promoted by Mr. Mahanan Gopalkrishnan, a business group with investments across financial services, automobile, hospitality, infrastructure development, media, communication and entertainment. Incorporated in 1986, Indel Money Limited, is a Non-Deposit Taking NonBanking Finance Company (ND-NBFC) based out of Kerala. The company is promoted by Mr. Mahanan Gopalkrishnan (Managing Director) and his son Mr. Umesh Mohanan (CEO). IML provides fund based services like Gold Loan, MSME Loans, Business Loans (Secured & Unsecured), loans to group companies and a small portion of personal & trader loans. IML also provides fee based services by way of money transfer facilities. As on February 28, 2022, IML operates in 6 states, Kerala, Karnataka, Tamil Nadu, Andhra Pradesh, Telangana, Odisha and 1 Union Territory - Pondicherry with a network of 201 branches across 71 districts.

About Northern Arc Capital Limited ("Northern Arc")

Northern Arc, previously known as IFMR Capital Finance Ltd., is a Non-Deposit taking NonBanking Financial Company (ND-NBFC) incorporated in 1989. It is involved in the placement (arranging funding for its clients via loan syndication, securitisation and assignment among others) and lending business. The company acts as a link between mainstream capital markets investors and highquality last mile lending institutions and businesses. The company's business is categorized as finance sector exposure, i.e., microfinance, affordable housing finance, commercial vehicle finance, consumer finance, agri-finance and small business loans, and non-finance sector exposure, i.e., mid-market finance and corporates.

Northern Arc reported Assets Under Management (AUM) of Rs. 6,457.01 Cr. as on December 31, 2021 as against Rs. 5,220.87 Cr. as on March 31, 2021. Northern Arc's asset quality moderated with GNPA (90+dpd) at 1.13% (provisional) as on December 31, 2021 as against 2.23% as on March 31, 2021. The company's Profit After Tax (PAT) stood at Rs. 124.71 Cr as per 9MFY22 (Rs. 67.51 Cr as on March 31, 2021). The company's debt/equity ratio was 2.53 times as on March 31, 2021 as compared to 1.96 times as on March 31, 2020. However, the debt/equity ratio increased to 3.00 times as on December 31, 2021.

Analytical Approach

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

Standalone rating considered for the PCE transaction of Rs 10.00 Cr: ACUITE BBB+

Key Rating Drivers

Strength

Strength of underlying structure

The Rs 10.00 Cr transaction has a PCE in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 18 percent of the issue size of debentures. The level of guarantee as a percentage of the aggregate outstanding principal of the debentures is, however, capped at 24 percent.

If due to the amortization of the debentures, the credit enhancement percent exceeds 24 percent of the aggregate outstanding principal of the debentures, the Guarantee Cap shall be reduced to 24 percent of the aggregate outstanding principal of the debentures (Revised Guarantee Cap).

IML shall make payments of interest and principal amounts due along with all other obligations (if any) under the Transaction Document on T-5 business days. In the event of

failure of the Issuer to comply, on T-4 Business Days, the Trustee shall invoke the PCE and the credit enhancement shall be dipped on T-1 Business days.

The Debentures shall be secured by way of a first ranking, exclusive and continuing charge on identified receivables. The Hypothecated Receivables shall at all times be equal to the value of 1.1 times the outstanding amounts of the facility.

In case of Issuer rating (as per Rating Agency's view) downgrade to below BBB-, the Borrower will ensure that the percentage of outstanding principal value of PAR > 0 loans in the hypothecated pool does not exceed 10 percent of the outstanding principal value of the hypothecated pool.

Acuité believes that the structure provides adequate covenants to safeguard the interest of the investors.

Promoter support and experienced management team:

The extensive experience of the promoters and senior management team, with the addition of independent directors, should continue to support the business. Mr. Mohanan Gopalakrishnan (chairman and managing director) is a banking professional with more than 30 years of experience in the Gulf Cooperation Council (GCC). He was also the head of trade finance operations of United Arab Bank for a span of 11 years commencing from 2001. Mr. Umesh Mohanan (executive director and CEO) handled a Middle Eastern conglomerate, spearheading its global operations for 12 years till 2016. Apart from the promoter directors, the board members of IML consists of prominent independent directors such as Mr N S Venkatesh (CEO of Association of Mutual Funds in India), Mr C R Sasikumar (former Managing Director of State Bank of Travancore), Mr S Ganesh (former principal chief general manager of RBI), Anantharaman T R (CA) & Mr. Salilvenu (Admin Professional). The company has plans to raise Rs.440 crore over the next two years via promoter/ investor infusions which is expected to support medium term growth plans.

Acuite believes that company will continue to benefit from the extensive experience of the promoters and management team along with Independent Director.

Adequate capitalization levels

As on December 31, 2021, IML's overall CRAR stood adequate at 22.72% consisting of Tier I CAR of 15.13% as compared to 28.76% as on March 31, 2021 and 32.38 percent as on March 31, 2020. Despite low internal accruals, the company has comfortable capitalization levels to support the future growth prospects. The company's capital structure is supported by a Networth of Rs.94.85 Crore as on December 31, 2021. The Networth comprises of equity capital of Rs. 82.15 Crore and reserves and surplus of Rs. 12.70 Crore. Total debt has increased by 50.45 percent in 9MFY2022 as compared to FY2021. This has resulted in gearing of 5.81 times in 9MFY2022 as against 4.17 times in FY2021 and 3.66 times in FY2020. The company has internal gearing limit of 6x. While Acuite takes cognizance of IML's rising gearing levels in tandem with its growing portfolio, the company has plans to raise Rs.440 crore over the next two years via promoter/ investor infusions which is expected to support medium term growth plans. This infusion will also help improve the capital adequacy ratio.

Going forward, Acuité believes that the company's ability to manage its gearing levels will be a key monitorable and infusion of capital will not only contain gearing levels but also help support business growth.

AUM growth & sound Asset Quality

Loan portfolio outstanding as on February 28, 2022 grew by 18.7 percent YTD to Rs. 609.46 Cr as compared to Rs. 513.48 Cr in FY2021 (FY2020: Rs. 336.29 Cr). Loan against gold contributes 83.69 percent to the total POS followed by SME loans – unsecured (6.76 percent), SME loans secured (5.74 percent) and other loans (3.81 percent) as on February 28, 2022. The loans have an average tenure of 12 months.

IML has demonstrated sound asset quality, as reflected in the low Gross Non-Performing Assets (GNPA) of 0.96% as on February 28, 2022 (December 31, 2021: 1.33 percent) and 0.46% March 31, 2021 (0.36 percent as on March 31, 2020). The decline in the GNPA's was mainly on account of auctions held in December 31, 2021. Further, NNPA stood at 0.83 percent as on February 28, 2022 (December 31, 2021:- 1.16 percent) as compared to 0.11 percent as on March 31, 2021 and 0.01 percent as on March 31, 2020. The company has managed to

maintain gold loan GNPA (0.11 percent as on March 09, 2022) owing to digital adoptions and auction policy in place.

Though the collection efficiency is yet to reach the pre- pandemic levels, its on-time portfolio stood at 94.33 percent as on February 28, 2022 as compared to 90.58% as on December 31, 2021 and 98.39% as on March 31, 2021.

Acuite believes that the ability of the company to improve collections while maintaining asset quality will be key monitorable.

Improving profitability, albeit modest

Over the last few years, IML's portfolio has grown significantly owing to growth in gold loans. The company's Asset under Management (AUM) has increased to Rs. 609.46 Crore as on February 28, 2022 from Rs. 513.48 Crore as on March 31, 2021 and Rs. 336.29 Crore as on March 31, 2020. This was mainly due to increase in branches coupled with strong demand for gold loans. Consequently, there has been improvement in its earnings profile. The company saw an increase in its Net interest income to Rs. 49.62 Crore for FY2021 from Rs. 33.12 Crore for FY2020. NII for 9MFY2022 stood at Rs. 45.09 Cr. This translated into PAT of Rs. 9.50 Cr in FY2021 as compared to Rs. 2.32 Cr in the previous financial year, 9 months PAT for FY2022 stood at Rs. 6.98 Cr. Return on Average Assets (RoAA) as on March 31, 2021 improved to 2.22% from 0.72% as on March 31, 2020. Annualized RoAA stood at 1.60% as on December 31, 2021. On account of branch expansion, Operating Expense to Earning Assets stood at 9.03 percent in FY2021 as against 9.07 percent in FY2020, the same stood at 9.21 percent as on December 31, 2021 (annualized). The operating expense to earning assets is expected to remain at similar level as the company is in the expansion phase.

Acuite believes that going forward ability of the company to grow its loan portfolio while improving its profitability will be key monitorable.

Weakness

Modest Scale of Operations and Geographical Concentration

IML started its operations in the state of Kerala and gradually expanded to the states of Karnataka and Tamil Nadu and has recently expanded to other states like Telangana, Odisha, Andhra Pradesh, thereby reducing the concentration in the state of Kerala.

However, major concentration is in the state of Tamil Nadu with 39.84% as on February 28, 2022. The company plans to further expand its operations in states of Rajasthan, Maharashtra and Gujarat by FY2023.

The primary focus of the company is Gold Loan and its target is to increase the gold loan share to 90 percent going forward from 83.69 percent as on February 28, 2022. The company's Asset under Management (AUM) has increased to Rs. 609.46 Crore as on February 28, 2022 from Rs. 513.48 Crore as on March 31, 2021 and Rs. 336.29 Crore as on March 31, 2020. The Top 15 Districts contribute 54.72% of the total loan portfolio outstanding as February 28, 2022. However, the Top 3 districts contribute 22.26% of the total portfolio.

Thus, the company's performance is expected to be sensitive to highly competitive business of lending against gold and the occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. The company has plans to expand its operations in newer geographies and portfolio quality in these newer geographies is yet to be tested.

Acuite believes that geographical concentration coupled with improved earning profile will continue to weigh on the company's credit profile.

Assessment of Adequacy of Credit Enhancement

IML has moderate experience in the secured, unsecured and gold loans segment, and its moderate capital position has been bolstered by capital infusions. Thus, even after considering risks such as possible asset quality deterioration, Acuite believes that the credit enhancement will stand adequate in all scenarios and in the event of any requirement, Northern Arc will provide the necessary support.

Rating Sensitivity

- Movement in leverage & capitalization metrics
- Profitable scale up in operations

- Movement in asset quality
- Changes in Regulatory environment

Material Covenants

IML is subject to covenants stipulated by its lenders in respect of various parameters.

Liquidity Position: Adequate

IML's overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term as per ALM dated December 31, 2021. IML has liquidity policy of keeping around Rs. 30-40 Cr for meeting debt repayments over next 1.5 – 2 months. Further, the company has expected term loan sanctions of Rs. 110 Cr from public sector banks and it has Rs. 210.27 Cr of borrowings in pipeline constituting term loans and overdraft/CC facilities. The company has average monthly debt obligations of Rs. 33.45 Cr and operating expense of Rs. 5.94 Cr as on February 28, 2022. The company has average monthly collections of Rs. 92.11 Cr (including prepayments) for 6 months ended February 2022.

Outlook: Stable

Acuité believes that IML will benefit from its experienced promoters and management team and comfortable asset quality. The outlook may be revised to 'Positive' if there is significantly higher than expected growth in AUM while maintaining asset quality and improving profitability metrics. Conversely, the outlook may be revised to 'Negative' in case of continuing challenges in attaining optimal gearing levels and significant deterioration in asset quality or profitability parameters.

Other Factors affecting Rating

Not Applicable

Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	478.67	377.35
Total Income*	Rs. Cr.	49.62	33.12
PAT	Rs. Cr.	9.50	2.32
Networth	Rs. Cr.	87.87	78.38
Return on Average Assets (RoAA)	(%)	2.22	0.72
Return on Net Worth (RoNW)	(%)	11.43	3.00
Total Debt/Tangible Net Worth (Gearing)	Times	4.17	3.66
Gross NPA's	(%)	0.46%	0.36%
Net NPA's	(%)	0.11%	0.01%

* 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

Supplementary disclosures for Provisional Ratings

Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part

that has been issued) Acuité will withdraw the existing provisional rating and concurrently assign a fresh final rating in the same press release, basis the revised terms of the transaction.

Rating that would have been assigned in absence of the pending steps/documentation

The structure would have become null and void for the instrument. The rating of the instrument would have been equated to the standalone rating of the issuer (ACUITE BBB+/Stable).

Timeline for conversion to Final Rating for a debt instrument proposed to be issued

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

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>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.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
24 Mar 2022	Cash Credit	Long Term	15.00	ACUITE BBB+ Stable Upgraded
	Term Loan	Long Term	35.00	ACUITE BBB+ Stable Upgraded
	Cash Credit	Long Term	20.00	ACUITE BBB+ Stable Upgraded
	Cash Credit	Long Term	7.50	ACUITE BBB+ Stable Upgraded
	Proposed Long Term Bank Facility	Long Term	7.50	ACUITE BBB+ Stable Upgraded
	Proposed Commercial Paper Program	Short Term	15.00	ACUITE A2 Upgraded & Withdrawn
18 Mar 2021	Proposed Bank Facility	Long Term	7.50	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB Stable (Assigned)
	Proposed Commercial Paper Program	Short Term	15.00	ACUITE A3+ (Assigned)
	Term Loan	Long Term	35.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	7.50	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Dhanlaxmi Bank Ltd	Not Applicable	Cash Credit	07-01-2020	12.80	Not Applicable	20.00	ACUITE BBB+ Stable Reaffirmed
South Indian Bank	Not Applicable	Cash Credit	21-05-2020	11.85	Not Applicable	7.50	ACUITE BBB+ Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	14-08-2020	9.45	Not Applicable	15.00	ACUITE BBB+ Stable Reaffirmed
Indian Bank	Not Applicable	Cash Credit	30-12-2021	10.00	Not Applicable	7.50	ACUITE BBB+ Stable Reaffirmed
Indian Bank	Not Applicable	Cash Credit	30-12-2021	10.00	Not Applicable	2.50	ACUITE BBB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	Provisional ACUITE A CE Stable Assigned
State Bank of India	Not Applicable	Term Loan	14-08-2020	9.45	28-02-2026	35.00	ACUITE BBB+ Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	30-12-2021	10.00	31-12-2024	15.00	ACUITE BBB+ Stable Assigned
IDFC First Bank Limited	Not Applicable	Term Loan	26-02-2018	14.50	01-03-2028	30.00	ACUITE BBB+ Stable Assigned
Dhanlaxmi Bank Ltd	Not Applicable	Term Loan	27-09-2021	10.50	27-09-2026	20.00	ACUITE BBB+ Stable Assigned
State Bank of India	Not Applicable	Term Loan	15-11-2021	9.45	11-11-2026	25.00	ACUITE BBB+ Stable Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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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