



Press Release

WESTERN CAPITAL ADVISORS PRIVATE LIMITED

July 07, 2023

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	200.00	ACUITE A- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	200.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of 'ACUITE A-' (read as ACUITE A minus) on the Rs. 200.00 crore bank loan facilities of Western Capital Advisors Private Limited (WCAPL). The outlook remains 'Stable'.

Rationale for reaffirmation

The rating reaffirmation continues to factor in the company's experienced management along with the support from resourceful promoters of Kejriwal Group. The rating draws comfort from the significant improvement in the AUM led by increased disbursements towards supply chain finance and small ticket sized business loans. The AUM of the company recorded a Y-oY growth of 36.73 percent and stood at Rs. 765.77 crore as on March 31, 2023 as against Rs. 560.04 crore as on March 31, 2022. The disbursements also improved at Rs. 2,497.72 crore for FY23 as against Rs. 1,469.66 crore for FY22. Further, WCAPL has adequate capitalisation levels at 36.33 percent with a tangible networth of Rs. 254.27 crore as on March 31, 2023. WCAPL has demonstrated a sound asset quality as reflected by the low Gross Non-performing (GNPA) levels of 0.76 percent as on March 31, 2023 as against 1.11 percent as on March 31, 2022.

These strengths are partially offset by the deterioration in the profitability metrics as indicated by Return on Average Assets (ROAA) at 4.59 percent for FY23 as against 6.14 percent for FY22. Further ~40 percent of the disbursements for FY23 are through partnerships with whom the company has FLDG arrangements and has to bear partnership facilitation expenses leading to higher operating expenses. Acuite takes into consideration RBI's guidelines on FLDG arrangements and is awaiting its impact the company's disbursements and profitability which will remain a key rating monitorable.

About the company

The company based out of Mumbai was founded in 2019 with a vision to support the financial services ecosystem by providing growth capital to upcoming players. WCAPL started with funding NBFC/Fintech/MFI/SME customers for their growth capital. Later, WCAPL found the opportunity to support the new age companies through partnership model. This will help the partners to utilize their resources in a more effective way. The company offers solutions for SME/MSME funding, supply chain finance, unsecured loans, personal loans & two-wheeler loans among others.

Analytical Approach

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

Key Rating Drivers Strength

Support from Promoter group coupled with experienced management

WCAPL commenced its operations in 2019 and has received continuous support in the form of periodic capital infusion from the promoter group since its inception. WCAPL is promoted by the Kejriwal Group led by Kejriwal family. The Kejriwal group has infused funds amounting to Rs 173.75 crore since inception comprising equity and preference capital. Furthermore, Mr. Anil Kejriwal, founder of WCAPL is ably backed by senior management team of WCAPL consisting of experienced professionals who have been in the lending business and have been associated with WCAPL since inception.

Acuité believes that the company's growth prospects will be supported by the promoters experience in the industry along with their demonstrated track record of resource raising ability.

Healthy capital structure with low gearing levels

The company has comfortable capitalization levels to support the near to medium term growth prospects. The capitalization levels of WCAPL majorly comprises Tier I capital, where CRAR stood comfortable at 36.33 percent (Tier I: 35.13 percent) as on March 31, 2023. The same stood at 38.25 percent (Tier I: 37.27 percent) as on March 31, 2022. The company's capital structure is supported by a net worth of Rs. 254.27 crore as on March 31, 2023 and total debt of Rs. 491.42 resulting in a gearing of 1.93 times as on March 31, 2023 as against 1.53 times as on March 31, 2022 which provide headroom for near term growth. Going forward, the company intends to leverage itself at around 3 times in the near to medium term.

Acuité expects the capital structure to remain healthy with the healthy gearing levels considering the additional borrowings.

Significant growth in AUM led by shift in granular portfolio and sound asset quality WCAPL has diversified its product portfolio, which includes Supply chain financing, LAP, Two Wheeler loans, education loans, business loans and personal loans, after initially building the portfolio of SME and MSME loans. The company's outstanding loan portfolio stood at Rs. 765.77 crore as on March 31, 2023 as against Rs. 560.04 crore as on March 31, 2022 and largely comprises of supply chain financing and lending to financial institutions. The disbursements of the company improved from Rs. 1,469.66 crore for FY22 to Rs. 2,497.72 crore for FY23 resulting in a Y-o-Y growth of ~69%. Such growth in

disbursements are driven by increased concentration of supply chain financing with a lower ticket size at 47.33 percent of total disbursements. Additionally, the loan book of the company as on March 31, 2023 comprises of ~73 percent loans with ticket sizes less than Rs. 1 crore as against ~35 percent in the previous year. Further ~40 percent of the company's disbursements are through partnerships which are backed by FLDG arrangements. Acuité takes cognizance of the company's dependence on such partnership alliances for its disbursements and RBI's guidelines on restrictions on FLDG arrangements. WCAPL has demonstrated a sound asset quality as reflected by the low Gross Non-performing (GNPA) levels of 0.76 percent as on March 31, 2023 as against 1.11 percent as on March 31, 2022. The company's overall collection efficiency (including pre-payments) averages above 90.02 percent for FY23, resulting to an on-time portfolio of 91.77 percent as on March 31, 2023 as against 95.82 percent as on March 31, 2022.

Going forward the company's ability to scale up its disbursement while maintaining sound asset quality will remain a key rating sensitivity.

Weakness

Deteriorating profitability despite improving bottom line

The profitability of the company has deteriorated during FY23 reflected by Return on Average Assets (ROAA) at 4.59 percent for FY23 as against 6.14 percent for FY22. Such deterioration comes at the back of shift in disbursements towards supply chain financing with average rate of interest less than 15 percent. As on March 31, 2023, WCAPL's loan book is concentrated with over 60 percent loans bearing rate of interest lower than 17 percent. Further increased cost of borrowings and fixed hurdle rates on loan disbursed through partners restrict the profitability of the company. The operating expenses to earning assets has increased at 5.43 percent for FY23 as against 2.28 percent in FY22 majorly due to increase in partnership expenses. The profit after tax of the company stood at Rs. 33.11 crore for FY23 as against Rs. 27.08 crore for FY22. The Net interest margin improved by 51.15 bps at 10.24 percent for FY23 as against 9.73 percent for FY22.

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

Moderate scale of operations

The company commenced with SME/MSME lending and is diversifying into building a granular retail segment. Further, the company has started its operations in 2019 with maximum disbursements made during 9MFY22. Loans offered under SME lending have an average tenure ranging between 3 to 24 months. WCAPL offers loan with ticket size ranging between Rs 2 lakhs to Rs 10 Cr. As on March 31, 2023 around 70 percent of the outstanding portfolio has a ticket size less than Rs. 1 crore. Going forward WCAPL would be focusing on granularity of portfolio by diversifying into other retail asset classes. Given the limited track record of operations their continued growth in the coming years will be a key monitorable.

Acuité believes, the ability of the company to mobilize additional funding, profitable portfolio scale-up while maintaining asset quality will be crucial to the credit profile of the company. **Rating Sensitivity**

- Movement in asset quality and profitability metrics
 - Dilution in promoter shareholding & support
 - Movement in cost of borrowings and liquidity buffers
- Any adverse impact on disbursements and AUM led by regulatory changes on FLDG arrangements

Material Covenants

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

Liquidity Position

Adequate

WCAPL's overall liquidity profile remains adequate with no negative cumulative mismatches in near to medium term as per ALM dated March 31, 2023. The company had cash and cash equivalents of Rs 29.85 crore and fixed deposits (held as security against borrowings) of Rs. 23.88 crore as on March 31, 2023.

Outlook:

Acuité believes that WCAPL will maintain a 'Stable' outlook over the near to medium owing to established track record of promoters in lending and their resource raising ability along with demonstrated growth in loan portfolio while maintaining asset quality and profitability metrics. The outlook may be revised to 'Positive' in case of higher than envisaged growth in loan portfolio while maintaining profitability and asset quality metrics. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in asset quality or profitability metrics or in case of headwinds faced by promoters in raising resources in a timely and profitable manner or in case of any deterioration in capital structure or capitalization levels.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets	Rs. Cr.	834.38	609.63
Total Income*	Rs. Cr.	88.80	49.32
PAT	Rs. Cr.	33.11	27.08
Net Worth	Rs. Cr.	254.27	221.16

Return on Average Assets (RoAA)	(%)	4.59	6.14
Return on Average Net Worth (RoNW)	(%)	13.93	13.04
Debt/Equity	Times	1.93	1.53
Gross NPA	(%)	0.76	1.11
Net NPA	(%)	0.68	0.94

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-criteria53.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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' 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
02 May 2022	Proposed Bank Facility	Long Term	25.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	15.00	ACUITE A- Stable (Assigned)
	Proposed Long Term Loan	Long Term	96.67	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	10.83	ACUITE A- Stable (Assigned)

	Term Loan	Long Term	27.50	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	25.00	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	A S R
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	44.28	A S R
A U Small Finance Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.25	A S R
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	17.50	A S R
Maanaveeya Development & Finance Private Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	11.91	A S R
Utkarsh Small Finance Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.67	A S R
Nabsamruddhi Finance Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.62	A S R
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	22.92	A S R
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	9.16	A S R
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	7.69	A S R
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.80	A S R
Nabsamruddhi Finance Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.62	A S R
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	9.58	A S R

Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.00	A S R
Indian Overseas Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	15.00	A S R

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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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