

Press Release

Richline Finance Limited

January 13, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	ACUITE B+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	15.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.15.00 Cr. bank facilities of RICHLINE FINANCE LIMITED (RFL). The outlook is '**Stable**'.

Rationale for the rating

The rating factors in RFL's Comfortable capitalisations levels supported by equity infusion from promoters, Healthy asset quality metrics and improvement in AUM. The company reported a Capital Adequacy Ratio of 50.76 Percent as on September 30,2022. RFL's Capital Adequacy Ratio (CAR) has reduced from 82.90 percent as on March 31,2021 to 78.46 percent as on March 31,2022 due to increase in Risk Weighted Assets. The promoters have collectively infused around Rs. 0.40 Cr. during FY2021-22. The company's asset quality was marked by on-time portfolio of 100 percent with NIL GNPA's as on September 30, 2022, supported by average overall collection efficiency of 100 percent for six months ended September 30, 2022. The rating is, however, constrained on account of small scale of operations, geographical concentration, and risk inherent to microfinance sector.

Going Forward, the company's ability to profitability scale up its operations while maintaining its comfortable Capitalization levels along with healthy asset quality will be a key monitorable.

About the company

Richline finance Limited (RFL) was incorporated in 1991 under Indian Companies Act 1956 and registered with RBI as an NBFC. The company is promoted by Mr. Srinivasan (Managing Director), Mr Pon Bhuvaneshwari (Promoter-Director) and Mr Murugesh M (Promoter-Director). The present directors took over the company in 2014. Mr. Srinivasan (MD) has over two decades experience in the Exports of Garments and Textile. Mr Srinivasan (MD) is supported by Mrs Pon Bhuvaneshwari who actively manages the day to day operations of the company and branch. Mr Murugesh M is responsible for HR and Compliances. The Company is engaged in lending MSME loans in the range of Rs 50,000 to Rs. 1,00,000. The Company operates in Tamil Nadu with a network of 6 Branches as on September 30,2022.

Analytical Approach

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

Key Rating Drivers

Strength

Established Management:

RFL is engaged in extending loans to small business owners for income generation purpose in rural areas since 2014. The Company mainly operates in Tamil Nadu with a network of 6 branches as on September 30, 2022. The company is promoted by Mr. Srinivasan (Managing Director), Mr Pon Bhuvaneshwari (Promoter-Director) and Mr Murugesh M (Promoter-Director). Mr. Srinivasan (MD) who has over two decades experience in the Exports of Garments and Textile. Mrs Pon Bhuvaneshwari actively manages the day to day operations of the company and branch. Mr Murugesh M is responsible for HR and Compliances. RFL has comfortable capitalization levels to support the future growth prospects. The company's CAR stood at 50.76 percent as on September 30, 2022 (78.46 percent as on March 31, 2022 and 82.90 percent as on March 31, 2021). The company's CAR reduced due increase in risk weighted assets. The promoters have collectively infused around Rs. 0.40 Cr. during FY2021-22.

The company reported an AUM of Rs 8.48 Cr. as on September 30, 2022 (Rs 5.59 Cr. as on March 31, 2022 and Rs 4.39 Cr. as on March 31, 2021). The company takes off-book exposure through Business Correspondence. It is a business correspondence partner for Usha Financial Services limited. The company reported an off book portfolio of Rs 1.45 Cr. as on September 30, 2022 (Rs. 1.15 Cr. as on March 31, 2022 from Rs. 0.36 Cr. as on March 31, 2021). The company's asset quality was marked by ontime portfolio of 100 percent with NIL GNPA as on September 30, 2022, supported by average overall collection efficiency of 100 percent for six months ended September 30, 2022. The company reported GNPA of 1.08 percent as on March 31, 2022 and 1.14 percent as on March 31, 2021. The prudent underwriting policies adopted by the management has enabled the company to improve its asset quality.

Acuité believes that established presence of the promoters in the microfinance segment will be central to support the business risk profile of the company in the near to medium term

Improvement in financial performance:

The company reported an AUM of Rs 8.48 Cr. as on September 30, 2022 (Rs 5.59 Cr. as on March 31, 2022 and Rs 4.39 Cr. as on March 31, 2021). Improvement in earnings profile is due to increase in AUM. The company reported a PAT of Rs 0.23 Cr. during September-2022 (Provisional) (Rs 0.20 Cr. during FY2021-22 and Rs 0.16 Cr. during FY 2020-21). The company reported a NIM of 15.00 percent as on March 31, 2022 (13.55 percent as on March 31, 2021). RoAA of the company stood at 3.69 as on September 30, 2022 (4.20 as on March 31, 2022 and 4.00 as on March 31, 2021).

Acuité believes that RFL will be able to sustain its financial performance and any impact on profitability metrics due to higher provisioning requirements would remain key monitorable.

Weakness

Modest Scale of operations; Geographical concentration risk:

RFL commenced its operations in 2014 and currently operates through a network of 6 branches located in 3 districts across one state namely, Tamil Nadu. Its Assets Under Management (AUM) stood at Rs. 8.48 Cr. as on September 30, 2022 as against Rs. 5.59 Cr. as on March 31, 2022. Of the total AUM of Rs. 8.48 Cr., on book portfolio comprised Rs. 7.03 Cr. (~82.90 percent) with the balance Rs. 1.06 Cr. (~18.00 percent) being off book portfolio. This growth in AUM in recent period is driven by management's decision to increase its scale of operations. Against this backdrop, the company highly concentrated with Tamil Nadu alone contributing 100 percent of the overall AUM as on September 30, 2022. Resultantly, the company's performance is expected to remain exposed to competitive landscape in these areas and occurrence of events such as natural calamities may adversely impact the credit profile of the borrowers.

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

Susceptibility to risks inherent to microfinance segment:

RFL primarily extends unsecured loans to economically challenged borrowers who have limited ability to absorb income shocks. Since financial assistance to economic challenged borrowers is a sensitive issue, from government stand point the regulatory dispensation in respect of the policies becomes relevant. Any changes in the regulatory environment impeding the ability of entities like RFL to enforce collections, etc will have an impact on its operational performance. Besides the regulatory risks, the inherent nature of the business renders the portfolios vulnerable to event risks such as natural calamities in the area of operations. Acuité believes that containing slippages while maintaining the growth in the loan portfolio will be crucial.

Rating Sensitivity

- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability and
- Movement in capitalisation levels
- Changes in regulatory environment.

Material Covenants

None

Liquidity Position Adequate

RFL has well matched liquidity profile as on March 31, 2022, with no negative cumulative mismatches in any of the buckets. The company has a loan book having an average tenure of 7 to 12 Months. The company has repayment obligations of Rs 0.71 Cr. upto 1 year. RFL reported cash and cash equivalents of Rs. 0.37 Cr. as on March 31, 2022. Further, its collection efficiency (scheduled collections vs. scheduled demand) stood at an average of 100 percent for 6 months ended September 30, 2022.

Outlook: Stable

Acuité believes that RFL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to maintain asset quality. The outlook may be revised to 'Positive' in case of higher than expected growth in the loan portfolio on account of high disbursements 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 loan portfolio and asset quality, thereby impacting profitability metrics.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Units	FY22 (Actual)	FY21 (Actuals)
Total Assets	Rs Cr	5.07	4.33
Total Income*	Rs Cr	0.82	0.61
PAT	Rs Cr	0.20	0.16
Networth	Rs Cr	3.69	3.50
Return on Average Assets (ROAA)	(%)	4.20	4.00
Return on Net Worth (RONW)	(%)	5.49	5.35
Total Debt/Tangible Net Worth (Gearing)	Times	0.32	0.19
Gross NPA's	(%)	1.08%	1.14%
Net NPA's	(%)	0.00	0.00

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

Brickworks, vide its press release dated September 14, 2022 had downgraded the ratings to 'BWR C+'; ISSUER NOT COOPERATING'

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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, Acuite 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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	9.27	ACUITE B+ Stable Assigned
Rar Fincare Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.23	ACUITE B+ Stable Assigned
State Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	5.50	ACUITE B+ Stable Assigned

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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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