



Press Release

Vanchinad Finance Private Limited (VFPL)

April 28th, 2020

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Fund Based Facility – Cash Credit	19.50	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
2.	Short Term Fund Based Facility – Bank Overdraft	10.00	IVR A3 (IVR Single A Three)
3.	Long Term Proposed Bank Facility	5.50	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
	Total	35.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from steady improvement in business operations backed by experienced management, sound asset quality and moderate financial indicators and benefits from its position in the unique Kerala economy. However, the rating strengths are partially offset by geographical and portfolio concentration risk.

Key Rating Sensitivities:

- **Upward Factor**

- Substantial scaling up its operations and diversifying its loan portfolio geographically, while maintaining the asset quality indicators, adequate capital position and profitability.

- **Downward Factor**

- Significant deterioration in scale of operations, asset quality and/or capitalization levels.



Press Release

Key Rating Drivers with detailed description

Key Rating Strengths

- ***Steady improvement in business operations backed by experienced management:***

VFPL has an experienced management team having good understanding on the microfinance lending business and vast experience of conducting business operations in Kerala. Currently it operates through a network of 44 branches and is associated with 65,526 borrowers. VFPL's overall loan portfolio stood at Rs. 146.69 Crore as on December 31st, 2019 as compared to Rs. 102.44 Crore as on March 31, 2019. Also it has been observed, the company benefits from its non-aggressive and planned expansion strategy, which has resulted in steady growth in its loan portfolio.

Through SML Finance Limited, VFPL has an established presence in the microfinance sector. It has a board with reputed members who maintain strong oversight of the business. The board comprises of five members in total. Its Executive Director, Mr. K.I. Varghese is ex CGM of Federal Bank and carrying experience of around four decades in the banking industry. VFPL shall continue to benefit from the promoters' established presence in the microfinance lending.

- ***Sound asset quality and moderate financial indicators:***

The stringent credit assessment and monitoring processes in place have enabled the company to maintain healthy asset quality indicators, reflected in GNPA of 0.30% and NNPA of 0.27% for March 31st, 2019. Collection efficiency has over the last 12 months has remained strong at around 98%. The Net Interest Margin of about 14.70% in FY2019 supported the net profitability to 18.08% in FY2019. The overall Capital Adequacy Ratio (%) stood at 30.52% as on December 31, 2019 (March 31, 2019: 37.53%).

- ***Benefits from its position in the unique Kerala economy:***

Kerala has been reportedly able to flatten the COVID 19 infection curve within its borders. This bodes well for the state economy and more specifically for micro finance institutions which deal with individual borrowers. Further, the unique socio-economic structure of the Kerala economy with its importance on self-help groups (SHG) imparts comparative advantage to organisation like VFPL.



Press Release

Key Rating Weaknesses

- ***Geographical and portfolio concentration risk, given the marginal borrower profile:***

VFPL is into unsecured lending to marginal borrowers with limited ability to absorb income shocks. The business operations are geographically concentrated with Kerala contributing almost 88.24% of the total borrowers. In order to reduce the portfolio concentration risk, the company has been also strategically concentrating in Tamil Nadu also. It is spread across 44 branches in FY2019 as compared to 32 branches in FY2018. The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations and thus its financial position. The company's ability to on-board borrowers with good credit history, recruit and retain employees and further improve geographical diversity would be key monitorable.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Financial Institutions/NBFCs

Financial Ratios & Interpretation (Financial Sector)

Liquidity: Adequate

The company has a comfortable liquidity position for the medium term, due to well matched maturity of assets and liabilities. The tenure of loan ranges from 12-24 months, where their funding profile (debentures and sub-ordinate debt) is typically for 60-120 months.

About the Company

Vanchinad Finance Private Limited (VFPL) is a wholly owned subsidiary of SML Finance Limited and acts as a Non-Deposit taking NBFC, majorly into Micro-finance lending. It was acquired by SML Finance Limited in May 2016 with the aim to expand the latter's microfinance business. VFPL offers micro-finance loans to women borrowers (100%) under the Self-Help Group model.



Press Release

Financials:

For the year ended/ As On*	(Rs. Crore)	
	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	12.59	22.86
Interest	4.43	7.85
PAT	3.03	4.13
Total Debt	51.83	72.90
Total Net-worth	25.02	29.11
Total Loan Assets	77.74	102.44
Ratios (%)		
PAT Margin (%)	24.09	18.08
Overall Gearing Ratio (x)	2.07	2.50

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Acuite Ratings & Research Limited has moved the rating of Vanchinad Finance Private Limited into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure as per the Press Release dated March 12th, 2020.

Any other information: N.A

Rating History for last three years:

Sl. No	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund Based Facility – Cash Credit	Long Term	19.50	IVR BBB-/Stable	--	--	--
2.	Short Term Fund Based Facility – Bank Overdraft	Short Term	10.00	IVR A3	--	--	--
3.	Long Term Proposed Bank Facility	Long Term	5.50	IVR BBB-/Stable	--	--	--



Press Release

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Team:

Name: Parth Dattani

Tel: (022) 62396023

Email: pdattani@infomerics.com

Name: Amit Bhuwania

Tel: (022) 62396023

Email: abhuhania@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.



Press Release

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility – Cash Credit	NA	NA	NA	19.50	IVR BBB-/Stable
Short Term Fund Based Facility – Bank Overdraft	NA	NA	NA	10.00	IVR A3
Long Term Proposed Bank Facility	NA	NA	NA	5.50	IVR BBB-/Stable