



Press Release

Vanchinad Finance Private Limited (VFPL)

July 27, 2021

Sl. No.	Instrument/Facility	Amount (INR. Crore)	Ratings	Rating Action
1.	Long Term Fund Based Facility – Cash Credit	13.50 (Reduced from INR19.50 Crore)	IVR BB+/ Stable outlook (IVR Double B Plus with Stable outlook)	Revised
2.	Short Term Fund Based Facility – Bank Overdraft	10.00	IVR A4+ (IVR Single A Four Plus)	Revised
3.	Long Term Proposed Bank Facility	11.50 (Increased from INR5.50 Crore)	IVR BB+/ Stable outlook (IVR Double B Plus with Stable outlook)	Revised
Total		35.00		

Ratings

Details of Facilities are in Annexure I

Detailed Rationale

The revision in rating to the bank facilities of Vanchinad Finance Private Limited takes into account deterioration in its asset quality and overall decline in financial indicators during FY21 [Prov]. Further, the aforesaid rating continues to derive strength from its stable business operations backed by experienced management. However, the rating strengths are partially offset by moderate asset quality, geographical and portfolio concentration risk profile.

Key Rating Sensitivities

Upward Factors

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

Downward Factors

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



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Key Rating Drivers with detailed description

Key Rating Strengths

Experienced management team

VFPL has an experienced management team having good understanding on the microfinance lending business and vast experience of conducting business operations in Kerala. Through SML Finance Limited, VFPL has an established presence in the microfinance sector. It has a board with reputed members who maintain strong insight 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 supported by Dr Griger Cherry Williams (Whole Time Director), and other team members. VFPL shall continue to benefit from the promoters' established presence in the microfinance lending.

Stable business operations

As on March 31st 2021, it operates through a network of 60 branches (March 31st 2020 : 44 branches) and is associated with ~57000 borrowers. VFPL's overall loan portfolio stood stable at ~INR128 Crore as on March 31st, 2021 (P) (FY20: ~INR 127 Crore). Further, looking into the ongoing Covid-19 pandemic situation, maintenance of revenue generation & profitability per branch as well as per employee will also be a key monitorable

Key Weaknesses

Moderate asset quality

The stringent credit assessment, monitoring processes and favorable business environment enabled the company to maintain adequate asset quality till FY20. However, the overall asset quality got deteriorated in FY21 majorly as a result of ongoing pandemic which has impacted overall business environment, resulted in subdued collection in 1HFY21. Subsequently, the collection efficiency remains muted during second wave of Covid-19. Decline in the collection efficiency has led to increase in GNPA to 3.23% (FY20: Nil) & NNPA to 2.23% (FY20: Nil) in FY21



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Overall decline in the financial indicators

In FY20, the profitability of the company increased along with increase in operating income. However, in FY21 the same got decline with the write-off made by the company and corresponding provisioning made which in all led to decline in the net profit to INR1.87 Crore in FY21(INR4.76 Crore) (write-off amount = INR2.47 Crore and Provisioning amount = INR1.41 Crore). However, Gross profit of the company before considering the write-off and provisioning aspects stands stable at INR6.89 Crore in FY21(FY20: INR6.65 Crore). The ROTA also got declined in FY21 and stood at 1.31% (FY20: 3.92%).

Furthermore, the capitalization profile though decline albeit remain comfortable with CAR of ~23.04%, as of March 31, 2021 (~25.26%) and gearing ratio of ~3.58x in FY21(FY20: ~3.12x).

Geographical and portfolio concentration risk, given the marginal borrower profile

VFPL is into MFI lending to marginal borrowers with limited ability to absorb income shocks. The business operations are geographically concentrated in Kerala contributing almost ~83% in FY21(FY20: ~79%) balance in the state of Tamil Nadu. The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations and thus its financial position. However, the company is also diversifying into secured lending profile by way of making exposure in the gold loan.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Financial institutions/NBFCs

Financial Ratios & Interpretation (Financial Sector)

Liquidity – Adequate

The liquidity position of the company is reflected from its ALM where there are no mismatches in any of the time buckets. The tenure of loan ranges from 12-24 months, where their funding profile (debentures and sub-ordinate debt) is typically for 60-120 months. VFPL maintained cash and cash equivalents of INR2.27 Crore as on March 31, 2021(P). Considering the scale of operations and expected debt servicing commitments, the liquidity



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is expected to remain comfortable. However, any substantial increase in the delinquencies can impact the liquidity adversely.

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.

Financials: Standalone

For the year ended/ As On	31-03-2019	31-03-2020	(INR. Crore) 31-03-2021
	(Audited)	(Audited)	(Provisional)
Total Operating Income	22.86	34.46	34.40
Interest	7.85	13.53	13.62
PAT	4.13	4.76	1.87
Total Debt	72.90	105.16	111.32
Total Net-worth	29.11	33.69	31.12
Total Loan Assets	102.44	127.32	128.22
Ratios (%)			
PAT Margin (%)	18.08	13.82	5.43
Overall Gearing Ratio (x)	2.50	3.12	3.58

* Classification as per Infomerics' standards.

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (April 28, 2020)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1	Long Term Fund Based Facility – Cash Credit	Long Term	13.50	IVR BB+/Stable Outlook	IVR BBB- /Stable Outlook	--	--
2	Short Term Fund Based Facility –	Short Term	10.00	IVR A4+	IVR A3	--	--



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	Bank Overdraft						
3	Long Term Proposed Bank Facility	Long Term	11.50	IVR BB+/Stable Outlook	IVR BBB-/Stable Outlook	--	--

Status of non-cooperation with previous CRA: CARE and Acuite in their press Release dated June 29, 2020 and June 9, 2021 respectively has classified & continued the company under Issuer Not Cooperating category on account of non-submission of relevant information

Any other information: None

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.

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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.

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Annexure I: 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	--	--	Revolving	13.50	IVR BB+/Stable Outlook
Short Term Fund Based Facility – Bank Overdraft	--	--	--	10.00	IVR A4+
Long Term Proposed Bank Facility	--	--	--	11.50	IVR BB+/Stable Outlook

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Lenders-VFPL-27-07-21.pdf>