



Press Release

Vanchinad Finance Private Limited (VFPL)

December 4, 2023

Ratings

Instruments	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	35.00 (including proposed facility of Rs.7.20 crore)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed	Simple
Total	35.00 (Rupees Thirty-Five crore only)			

Details of instruments are in Annexure 1

Detailed Rationale

The ratings reaffirmation to the bank facilities of Vanchinad Finance Private Limited (VFPL) takes into account the experienced management team, improving business operations and stable financial indicators. The ratings are, however, constrained by its geographical and portfolio concentration risk, backed with the marginal borrower profile and regulatory and socio-political risks inherent in the industry.

Key Rating Sensitivities

Upward Factors

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

Downward Factors

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

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. VFPL has



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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 has 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.

Improving business operations

As on March 31st 2023, it operates through a network of 59 branches and is associated with ~75000 borrowers. VFPL's overall loan portfolio stood stable at ~RS.176 Crore as on March 31st, 2023 (FY22: ~Rs.169 Crore).

Stable financial indicators

In FY23, the profitability of the company increased along with increase in operating income as compared to FY22. PAT of the company improved to Rs.6.09 crore in FY23 backed with the increase in interest income along with revenue generated from the growth in portfolio. Furthermore, the capitalization profile remained comfortable with CAR of 21.43%, as of March 31, 2023 (Previous year 21.14%) and gearing ratio of 3.74x as on March 31, 2023 (Previous year 4.04x).

Key Rating Weaknesses-

Geographical and portfolio concentration risk backed with 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 ~87% in FY23 (FY22: ~86%) 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.

Regulatory and socio-political risks inherent in the industry

The industry is exposed to regulatory risks & socio-political risks mainly on account of its unique collateral free debt nature. Events such as demonetization and then the pandemic has affected the industry to a great extent where the collection efficiency of the MFI's got impacted albeit started improving post September 30, 2020. Further, unsecured lending to the marginal



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borrower profile and the political & operational risks associated with microfinance lending may result in volatility in the asset quality indicators.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Financial Institutions/NBFCs](#)
[Criteria for rating outlook](#)

Liquidity: Adequate

The liquidity of the company is expected to remain adequate from its ALM As on March 31, 2023, the company is well capitalized with a CAR (%) of 21.43%. Also, it has adequate cash & bank balances of Rs.0.49 Crore as on March 31, 2023. Collections were also stable in the 12 months ended September 2023 with average collection efficiency above 96%.

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 personal loan and 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

(Rs. Crore)

For the year ended/ As On*	31-3-2022 (Audited)	31-3-2023 (Audited)
Total Operating Income	39.11	52.70
Interest Expenses	13.55	16.98
PAT	4.13	6.09
Total Debt	135.78	140.88
Tangible Net-worth	33.61	37.63
Total Loan Assets	158.04	176.28
Ratios (%)		
PAT Margin (%)	10.56	11.55
Overall Gearing Ratio (x)	4.04	3.74
Total CAR (%)	21.14	21.43
Gross NPA (%)	0.00	0.27
Net NPA (%)	0.00	0.00

*Classification as per Infomerics' standards



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Status of non-cooperation with previous CRA:

- CARE Ratings, vide its Press release dated December 14, 2022, has revised the rating of VFPL to CARE B+/Stable "Issuer Not Cooperating" category on account of unavailability of information for monitoring the rating.
- ACUITE Ratings, vide its Press release dated November 21, 2023, has reaffirmed the rating of VFPL at ACUITE B+ "Issuer Not Cooperating" category on account of unavailability of information for monitoring the rating.

Any other information: None

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (October 26, 2022)	Date(s) & Rating(s) assigned in 2021-22 (July 27, 2021)	Date(s) & Rating(s) assigned in 2020-21 (April 28, 2020)
1.	Cash Credit	Long Term	14.00	IVR BBB- /Stable Outlook	IVR BBB- /Stable Outlook	IVR BB+/ Stable outlook	IVR BBB- /Stable Outlook
3.	Term Loan	Long Term	13.80	IVR BBB- /Stable Outlook	IVR BBB- /Stable Outlook	IVR BB+/ Stable outlook	IVR BBB- /Stable Outlook
4.	Long Term Proposed Bank Facility	Long Term	7.20	IVR BBB- /Stable Outlook	IVR BBB- /Stable Outlook	IVR BB+/ Stable outlook	IVR BBB- /Stable Outlook

Name and Contact Details of the Rating Team:

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics



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commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	--	--	March, 2025	6.75	IVR BBB-/Stable Outlook
Term Loan	--	--	February, 2029	5.00	IVR BBB-/Stable Outlook



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Term Loan	--	--	December, 2023	2.05	IVR BBB-/Stable Outlook
Cash Credit	--	--	--	14.00	IVR BBB-/Stable Outlook
Long Term Proposed Bank Facility	--	--	--	7.20	IVR BBB-/Stable Outlook

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-Vanchinad-dec23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.