



Press Release

Vanchinad Finance Private Limited (VFPL)

October 26, 2022

Ratings

Instruments	Amount (Rs. crore)	Current Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term Fund Based Facility – Cash Credit	13.50	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Revised	Simple
Short Term Fund Based Facility – Bank Overdraft	0.00 (Previously Rated 10.00 Crore)	--	Withdrawn	Simple
Long Term Fund Based Facility – Term Loan	10.27	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Long Term Proposed Bank Facility	11.23 (Reduced from INR11.50 Crore)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Revised	Simple
Total	35.00 (Thirty Five Crore Only)			

Details of instruments are in Annexure 1

Detailed Rationale

The rating revision to the bank facilities of Vanchinad Finance Private Limited (VFPL) factors in overall improvement in the business operation along with stable financial indicators backed with increasing operating income, profitability and asset quality. Further, the rating continues to derive comfort from experience of management team. The ratings are, however, constrained by geographical and portfolio concentration risk backed with the marginal borrower profile accompanied with 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.



Press Release

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 personal loan, gold loan and microfinancing lending business accompanied 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 personal loan and microfinance lending.

Improving business operations

As on March 31st 2022, it operates through a network of 59 branches (March 31st 2020 : 44 branches) and is associated with ~81000 borrowers. VFPL's overall loan portfolio stood stable at ~INR158 Crore as on March 31st, 2022 (FY21: ~INR 128 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.

Stable financial indicators

In FY22, 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 INR2.20 Crore in FY21(FY20: INR4.76 Crore) (write-off amount = INR3.85 Crore and Provisioning amount = INR0.54 Crore). However the overall PAT of the company got improved to INR4.13 Crore in FY22 backed with the increase in interest income along with revenue generated from the restructured portfolio. Furthermore, the capitalization profile though decline albeit remain



Press Release

comfortable with CAR of ~21.14%, as of March 31, 2022 (~22.73%) and gearing ratio of ~4.04x in FY22(FY21: ~3.54x).

Key Rating Weaknesses-

Geographical and portfolio concentration risk backed with the marginal borrower profile

VFPL is into personal loan MFI lending to marginal borrowers with limited ability to absorb income shocks. The business operations are geographically concentrated in Kerala contributing almost ~86% in FY22 (FY20: ~83%) 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 with the on-going pandemic has affected the industry to a great extent where the collection efficiency of the company has got impacted albeit started improving post September 30, 2020. Further, unsecured lending to the marginal borrower profile and the political & operational risks associated with unsecured 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 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 ~INR2.03 Crore as on March 31, 2022. Considering the scale of operations and expected debt servicing commitments, the liquidity is expected to remain



Press Release

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 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*	31-3-2021 (Audited)	31-3-2022 (Audited)
Total Operating Income	35.01	39.11
Interest Expenses	13.57	13.55
PAT	2.20	4.13
Total Debt	111.32	135.78
Tangible Net-worth	31.46	33.61
Total Loan Assets	126.83	158.04
Ratios (%)		
PAT Margin (%)	6.28	10.56
Overall Gearing Ratio (x)	3.54	4.04
Total CAR (%)	23.04	21.14
Gross NPA (%)	3.23	0.00
Net NPA (%)	2.23	0.00

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

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 2021-22 (July 27, 2021)	Date(s) & Rating(s) assigned in 2021-22 (April 28, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20



Press Release

1.	Long Term Fund Based Facility – Cash Credit	Long Term	13.50	IVR BBB- /Stable Outlook	IVR BB+ /Stable outlook	IVR BBB- /Stable Outlook	--	--
2.	Short Term Fund Based Facility – Bank Overdraft	Short Term	0.00	--	IVR A4+	IVR A3	--	--
3.	Long Term Fund Based Facility – Term Loan	Long Term	10.27	IVR BBB- /Stable Outlook	--	--	--	--
4.	Long Term Proposed Bank Facility	Long Term	11.23	IVR BBB- /Stable Outlook	IVR BB+ /Stable outlook	IVR BBB- /Stable Outlook	--	--

Name and Contact Details of the Rating Team:

Name: Jayshree Purohit

Tel: (022) 62396023

Email: jpurohit@infomerics.com

Name: Amit Bhuwania

Tel: (022) 62396023

Email: abhuwania@infomerics.com

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com.

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



Press Release

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.

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	--	--	--	13.50	IVR BBB-/Stable Outlook
Long Term Fund Based Facility – Term Loan	--	--	Up to August 2023	10.27	IVR BBB-/Stable Outlook
Long Term Proposed Bank Facility	--	--	--	11.23	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-Finance-oct22.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.