December 31, 2020

Shalibhadra Finance Limited: Rating reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based/Cash Credit	30	30	[ICRA]BBB-(Stable); Reaffirmed
Total	**30**	**30**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has reaffirmed the rating of [ICRA]BBB- (pronounced ICRA BBB minus) for the Rs. 30-crore long-term bank lines of Shalibhadra Finance Limited (SFL). The outlook on the long-term rating is Stable.

The rating factors in SFL's operational track record in two-wheeler (2W) financing, local knowledge of the management, and the established dealer and sub-dealer network built over the years. The rating also takes into account the company's comfortable capitalisation levels [(regulatory capital adequacy ratio or CAR of 37.63% as on September 30, 2020 against 15% prescribed by the Reserve Bank of India (RBI)]. ICRA does note that SFL has historically maintained steady profitability though the same declined in H1 FY2021 due to the business constraints caused by the Covid-19 pandemic.

The rating is constrained by the modest scale of operations (managed portfolio of Rs. 114 crore as on September 30, 2020), the monoline nature of the business including the inherent risks associated with 2W financing, and the relatively moderate credit profile of the borrowers. The rating is further constrained by the geographical concentration of SFL's operations, with Gujarat alone accounting for around 62% of the portfolio, and the company's limited financial flexibility.

ICRA also takes note of the deterioration in SFL's asset quality indicators due to the impact of the Covid-19 lockdowns in H1 FY2021. SFL's gross non-performing assets (GNPAs) and net NPAs (NNPAs) stood at 3.67% and 3.21%, respectively, as on September 30, 2020, compared to 3.41% and 2.87%, respectively, as on March 31, 2020. The monthly collection efficiency had improved to 98.32% in November 2020 (from 17.42% in April 2020) and is near the pre-Covid levels.

Key rating drivers and their description

Credit strengths

Long track record in 2W financing and established relationships with dealers – SFL started its operations in 1995 and was promoted by Mr. Minesh Doshi, the Managing Director. The company has a long track record and experience in the 2W financing business. Over the years, SFL has developed tie-ups with local dealers and sub-dealers for business sourcing and facilitating the repossession and sale of vehicles. It also has tie-ups with scheduled district co-operative banks for collections, which improve its operating efficiency as well as reduce the risk of cash handling at its branches. The loan book increased at a 3-year CAGR of 18.51% in FY2020. However, the growth was impacted in FY2020 by erratic monsoons and in H1 FY2021 by government-imposed lockdowns.

Comfortable capitalisation – The company's capitalisation profile remains comfortable with CAR of 37.63% and a gearing of 1.68 times as of September 30, 2020. While there has been no incremental capital infusion by the promoters/investors over the past 5 years, the internal accruals have been healthy resulting in a net worth of Rs. 43.98 crore as on September 30, 2020. ICRA expects the capitalisation to remain adequate despite a moderation in the profitability. ICRA does note that SFL has a contingent liability of Rs. 7.79 crore in relation to tax payable on account of the demonetisation period. However, the company is positive about the quick resolution of this issue without a large payout. ICRA expects SFL to maintain the gearing below 3 times in the long term.

Moderate profitability indicators – SFL has a track record of reporting good profitability indicators over the past few years, which continued in FY2020. However, the company's profit after tax (PAT) declined to Rs. 5.98 crore in FY2020 from Rs. 6.4 crore in FY2019. The decline was due to increased operating expenses, including employee costs, and higher credit costs. SFL wrote off bad debts of Rs. 1.09 crore in FY2020 against Rs. 0.64 crore in FY2019. The yields continued to decrease in H1 FY2021 to 18.51% from 21.40% in FY2020. The cost of funds also declined to 11.36% in H1 FY2021 from 12.34% in FY2020. However, on a net basis, the net interest margins (NIMs) declined to 10.13% in H1 FY2021 from 12.32% in FY2020. Despite the decrease in operating expenses in H1 FY2021, the profitability deteriorated due to higher credit costs of 1.88% (1.46% in FY2020) on account of Covid-19, including write-offs of ~Rs. 85 lakhs. The return on assets (RoA) and return on equity (RoE) declined to 3.61% and 10.48%, respectively, in H1 FY2021 from 4.98% and 15.26%, respectively, in FY2020. ICRA expects the profitability to moderate further in the near term due to the rising credit costs because of the Covid-19 impact. In the medium-to-long-term, the company's ability to maintain good operating efficiency levels and control the credit costs would be critical for incremental profitability.

Credit challenges

Monoline nature of business – SFL's nature of business is monoline with the entire portfolio comprising 2W financing and refinancing as of September 2020. While SFL has expanded its portfolio over the years to finance used four-wheelers (4Ws), used three-wheelers (3Ws) and used tractors, their share in the overall portfolio remained low at around 1% up to March 31, 2019 and became nil as of September 30, 2020. However, the company's long track record of operations in the segment and its ability to keep the asset quality under control provide some comfort. ICRA expects 2W loans and refinance loans to remain a key focus in future.

Small scale of operations with geographical concentration – SFL's overall scale of operations remains modest with a total portfolio of Rs. 114 crore and a net worth of Rs. 43.98 crore as on September 30, 2020. SFL's operations remain focused in Gujarat. As on September 30, 2020, 62% of the loan book was concentrated in Gujarat, though this was lower compared to 70% as on March 31, 2018. ICRA has taken note of the steps taken by the management to improve the geographical diversity by expanding to Madhya Pradesh and Rajasthan. However, the change in the portfolio mix would only be visible over the medium term. Going forward, the portfolio growth is expected to be supported by improving rural income levels due to good monsoons in FY2021.

Moderate customer profile keeps portfolio vulnerability relatively high and could keep asset quality volatile – SFL primarily provides funding for the 2W segment. Its portfolio vulnerability remains relatively high on account of the inherent risks associated with 2W financing and the relatively moderate credit profile of the borrowers. Also, SFL's customers are highly dependent (directly and indirectly) on agriculture-based income, which makes them more susceptible to income shocks and seasonality. However, the company was able to control the asset quality post government-imposed lockdowns due to its exposure to the rural and agricultural sector. The GNPAs increased to 3.67% as on September 30, 2020 from 3.41% as on March 31, 2020 (2.81% as of March 31, 2020). The provision coverage was lower in H1 FY2021 at 7.89% compared to 16.97% in FY2020. The company also wrote off ~Rs. 1.09 crore in FY2020 and ~Rs. 85 lakhs in H1 FY2021 (~Rs. 64 lakhs in FY2019). The moratorium was extended to the customers on an opt-in basis.

The collections remained subdued till June 2020, post which the collection efficiency increased to more than 90% (including overdue collections), steadily moving towards the pre-Covid-19 levels.

Limited financial flexibility – SFL funds its portfolio mainly through its net worth and borrowings raised from banks, non-banking financial companies (NBFCs) and promoters/directors and their relatives. As on September 30, 2020, the company's total borrowings of Rs. 73.72 crore comprised cash credit facilities from banks and financial institutions (FIs; 27% of total borrowings), term loans from banks and FIs (39%) and borrowings from bodies corporate, directors & relatives (the balance). SFL's funding cost was around 12.34% in FY2020, which declined to 11.36% in H1 FY2021. It had term loans of Rs. 25.14 crore from bodies corporate, directors & relatives as on September 30, 2020. The company's ability to diversify its funding sources and raise funds at a competitive cost would be critical for the envisaged portfolio expansion.

Liquidity position

SFL's liquidity profile remains adequate with positive cumulative mismatches across buckets due to the favourable asset maturity profile. As of November 30, 2020, SFL had cash and cash equivalents worth Rs. 4.77 crore and unutilised and drawable bank lines of Rs. 8 crore, which are sufficient to cover its debt obligation of Rs. 10.19 crore due for repayment by April 2021. The company should maintain a minimum collection efficiency of 75% to meet its debt obligation of Rs. 11.82 crore and estimated disbursements of Rs. 37.50 crore by May 2021.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating if the company scales up its loan book significantly while keeping the GNPAs plus write-offs (12-month write-offs) at less than 3.5% on a sustained basis and maintaining its track record of a comfortable capitalisation and earnings profile.

Negative triggers – Pressure on the company's rating could arise if there is a deterioration in the asset quality, which would result in an increase in the GNPAs plus write-offs (12-month write-offs) by more than 6.5% on a consistent basis, or if the gearing exceeds 3 times with a stretch in the liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Shalibhadra Finance Limited (SFL), registered with the RBI as an NBFC, was incorporated in 1992 and started its operations in 1995. The company was listed on the Bombay Stock Exchange (BSE) in 1995. SFL was promoted by Mr. Minesh Doshi, who is currently the Managing Director. SFL was initially engaged in 4W financing and was operational in the urban/semi-urban areas of Gujarat. However, on account of increasing competition from banks and other NBFCs in 4W financing, the company shifted its focus to 2W financing in rural areas.

At present, SFL is engaged in 2W financing in the rural, semi-rural and other under-banked areas of Gujarat, Maharashtra and Madhya Pradesh. Its head office is in Mumbai. As on September 30, 2020, the company had a portfolio of Rs. 114 crore, spread across 40 branches in 33 districts in Gujarat, Maharashtra and Madhya Pradesh.

In FY2020, the company reported a PAT of Rs. 5.98 crore on a total income base of Rs. 24.16 crore compared to PAT of Rs. 6.40 crore on a total income base of Rs. 22.22 crore in FY2019. In H1 FY2021, the PAT was recorded at Rs. 2.25 crore on a total income base of Rs. 10.56 crore.

Key financial indicators (audited)

	FY2019	FY2020	H1 FY2021
Net interest income	14.30	14.80	6.30
Total income	22.22	24.16	10.56
Profit after tax	6.40	5.98	2.25
AUM	108.43	113.99	114.00
Net worth	36.65	41.73	43.98
% Tier I	34.60%	36.90%	37.63%
% CRAR	34.60%	36.90%	37.63%
Gearing	1.95	1.82	1.68
% Net Profit/Average Total Assets	5.35%	4.98%	3.61%
% Return on Net Worth	18.97%	15.26%	10.48%
% Gross NPAs	2.81%	3.41%	3.67%
% GNPAs + Write-offs	3.40%	4.37%	4.45%
% Net NPAs	2.54%	2.87%	3.21%
% Net NPA/Net Worth	7.54%	7.74%	8.23%

Amount in Rs. crore; All ratios are as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021) Type	Amount Rated	12-31-2020	Rating History for the Past 3 Years FY2020 10-15-2019	FY2019 07-09-2018	FY2018 05-18-2017	05-15-2017
1	Fund based/cash credit	Long term	30.00	[ICRA]BBB-(Stable): reaffirmed	[ICRA]BBB -(Stable)	[ICRA]BBB -(Stable)	[ICRA]BBB -(Stable)	[ICRA]BBB-(Stable)

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Fund based/cash credit	NA	NA	NA	30.00	[ICRA]BBB- (stable)

Source: Coampany

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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