Shalibhadra Finance Limited (REVISED)

Instrument	Amount (in Rs crore)	Rating Action
Long Term Bank Lines	12.50	[ICRA]BBB-(stable) Reaffirmed

The rating of [ICRA]BBB- (pronounced ICRA triple B minus) has been reaffirmed to the Rs.12.50 crore Long Term Bank Lines of Shalibhadra Finance Ltd. (SFL)[*]. The outlook on the rating is stable.

The rating factors in SFL's operational vintage of more than a decade in the two-wheeler financing business, sound local knowledge of the management, a strong dealer/sub-dealer network built over its long track record of operation, robust profitability indicators supported by low operating costs (Return on Assets of 8.28% & cost to income ratio of 29.64% for FY2015) and comfortable capitalization levels (37.88% as on Mar-15, as against 15.00% prescribed by the RBI). The rating also derives comfort from the capital support extended by the promoters in the form of equity as well as debt (Rs 16.81 crore of promoters' loans as on March 2015). Nevertheless, the rating is constrained by SFL's modest scale of operations (managed portfolio size of Rs. 47.11 crore as on September 2015), geographically concentrated operations, albeit declining with about 76% of the portfolio in the state of Gujarat (82% of the portfolio in Gujarat as on March 2014) along with the risks associated with the riskier two-wheeler financing business and the risky nature of the borrower segment which remains largely from agricultural background (around 60% of the borrower were agriculturist as on September 2015). The rating also takes into consideration, the stress noted in the asset quality indicators during H1FY2016 (90+ delinquency stands at 5.25% as on Sep-15 vis-a-vis 4.40% as on Mar-15). In ICRA's view, going forward, SFL's ability to scale up business operations profitably while maintaining the asset quality metrics, will be a key rating sensitivity.

The company's portfolio consists of almost entirely Two Wheeler loans (including scooter, motor bikes and used two wheelers); while the company has diversified into white goods segment (includes consumer durables like television, refrigerator etc.), the share of the same in the portfolio remains very small i.e. less than 1%. The company has expanded its branch network from 18 branches as on March 2015 to 25 branches as on December 2015 with majority of the branches being opened in Maharashtra. Going ahead, the company intends to diversify geographically by entering the neighbouring state of Madhya Pradesh (MP). SFL has modest expansion plans going ahead, with company intending to grow its portfolio by 15-20% in the near future. The company is primarily focused on new vehicle financing with 80% portfolio being towards new two-wheeler loans and 20% towards financing used vehicles. Over years, the company has developed strong tie-ups with local dealers/sub-dealers for business sourcing. The company also has tie-ups with the scheduled district co-operative banks for collections at all locations where they operate, which improves the operating efficiency as well as reduces the risk of cash handling at the branch.

The total income of the company grew by 17% to Rs 12.50 crore in FY2015 compared to Rs 10.70 crore in FY2014. The company was able to earn higher yields on advances (28.10% for FY2015) while operating in relatively riskier, middle and low income segment and operating expenses remained low (6.12% for FY2015) owing to centralised management and sourcing at dealer locations, and reasonable credit costs. Consequently the return on net worth of the company was healthy at 22.08% for FY2015. The net profit of the company stood at Rs. 3.79 crore in FY2015 (PAT / ATA of 8.28% in FY2015) vis-a-vis Rs 2.95 crore in FY2014 (PAT/ATA of 7.49% in FY2014)

The company has capped tenures for new and used two-wheeler loans at 24 months and 12 months respectively, and maximum allowable LTV of 75%. As a policy, the company insists on house ownership in case of all loans. The Gross NPA% stood at a comfortable level at 1.45% as on March 2015 (1.89% as on March 2014) while it wrote off Rs 0.66 crore of loans from its books during Q4FY2015. However, SFL's asset quality had come under stress during H1FY2016 (90+ delinquencies increased from 4.40% as on March 2015 to 5.25% as on September 2015) owing to adverse monsoon, given that most of the borrowers of the company are dependent on agriculture and

[*] For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

allied activities. Going ahead, the ability of the company to manage its asset quality with increase in scale of operations will remain a key rating monitorable.

The reported capital adequacy of the company remains comfortable at 37.88% as on March 2015, with low gearing of 1.37 times. While there has been no incremental equity infusion by promoters or other investors over past 5 years, the internal accruals have been healthy resulting in networth of Rs. 18.60 crore as on March 2015. The promoters have extended loans to the company amounting to Rs. 16.81 crore as on March 2015, with interest on the loans being ploughed back in the business.

Company Profile

Shalibhadra Finance Limited (SFL), registered with the RBI as “Asset Financing NBFC”, was incorporated in the year 1992 and started its operations in 1995. The company was listed on Bombay Stock Exchange (BSE) in 1995. The head office of the company is based at Mumbai. SFL was promoted by Mr. Minesh Doshi, who is presently the Managing Director (MD) of the company. At present, SFL is engaged in Two-Wheeler financing in rural and under-banked areas with about 80% portfolio towards new two-wheeler financing and balance 20% towards used two-wheeler financing. The company operates from 25 branches across the states of Gujarat and Maharashtra with total portfolio of Rs. 47.11 crore as on September 2015. Of the total portfolio, about 76% is in the state of Gujarat and balance 24% in the state of Maharashtra.

Latest Results

The company reported net profit of Rs. 2.24 crore on a total income of Rs 6.28 crore in H1FY2016. The CRAR for the company stands at 37.88% as on March 2015 as compared to 38.59% as on March 2014.

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