September 30, 2022

Venus India Asset-Finance Pvt. Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loan	30.25	35.00	[ICRA]BB+ (Stable); reaffirmed
Long-term fund-based cash credit	-	75.00	[ICRA]BB+ (Stable); reaffirmed
Long-term bank facilities – Proposed/ Unallocated	94.75	15.00	[ICRA]BB+ (Stable); reaffirmed
Total	**125.00**	**125.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in Venus India Asset-Finance Pvt. Ltd.'s (VIAFPL) experienced promoters and management with a long track record in financial services. It also considers the adequate capitalisation profile for the current scale of operations, supported by a net worth of Rs. 207.1 crore as on June 30, 2022 (Rs. 205.3 as on March 31, 2022) and a low gearing of 0.9 times as on June 30, 2022.

ICRA also favourably notes the improvement in VIAFPL's asset quality indicators with the gross non-performing assets (GNPAs) declining to 7.9% (Rs. 33.9 crore) of the gross loan book, as on March 31, 2022, from 15.2% (Rs. 70.0 crore) as on March 31, 2021. This was due to the high recoveries from delinquent accounts and lower slippages despite the degrowth in the gross loan book in FY2022. However, the asset quality indicators look optically elevated as on June 30, 2022, with GNPAs of 8.4% (Rs. 32.9 crore), because of the lower denominator for the ratio. With the reduction in the GNPAs, the company's solvency profile has improved with net NPA (NNPA)/net worth of 4.5% as on June 30, 2022 (5.0% as on March 31, 2022, and 16.4% as on March 31, 2021).

Notwithstanding the improvement in the asset quality indicators, the increase in the cost of funds and the reduction in the gearing led to a moderation in the net interest margin (NIM). This, along with the rise in credit costs and deferred tax adjustments, weakened the profitability indicators with a return on managed assets (RoMA) and return on equity (RoE) of 0.4% and 0.9%, respectively, in FY2022 compared to 2.4% and 5.0%, respectively, in FY2021. Although the profitability indicators improved in Q1 FY2023 (RoMA and RoE of 1.6% and 3.5%, respectively) due to negligible credit costs, they remain moderate.

The rating is also constrained by VIAFPL's relatively modest scale of operations with a gross portfolio of Rs. 391.2 crore as on June 30, 2022 (Rs. 426.2 crore as on March 31, 2022) and its limited financial flexibility as it is largely dependent on a few lenders for its funding needs. Further, the company's portfolio vulnerability is augmented by the heightened concentration risk, given the wholesale nature of the exposures. However, the secured nature of the exposures could keep the ultimate losses limited. ICRA does not expect any further significant slippages for the company. Going forward, VIAFPL's ability to improve its scale of operations while maintaining strict control over the underwriting process and achieving recoveries from the current delinquent loan assets would be critical for improving its credit profile.

Key rating drivers and their description

Credit strengths

Adequate capitalisation profile – VIAFPL's capitalisation profile is adequate for the current scale of operations with a capital-to-risk weighted assets ratio (CRAR) of 72.5% (Tier I – 72.5%), supported by a low gearing level of 0.9 times as on June 30, 2022 (CRAR and gearing of 66.7% and 0.9 times, respectively, as on March 31, 2022, and 54.3% and 1.3 times, respectively, as on March 31, 2021). The growth in the business volumes over the near-to-medium term would depend on VIAFPL's ability to raise funds in the form of borrowings and it would be critical for the company to sustain the improvement in the asset quality indicators, which would give confidence to lenders.

ICRA believes that prudent capitalisation is one of the key mitigants against the risk arising out of the wholesale nature of VIAFPL's business. Overall, ICRA expects VIAFPL to maintain prudent capitalisation levels, going forward, and expects support from the promoters, as and when required.

Credit challenges

Asset quality indicators improve but remain elevated; portfolio vulnerability remains high – VIAFPL's asset quality indicators improved in FY2022 with GNPAs and NNPAs of 7.9% and 2.5% of the gross loan book, respectively, as on March 31, 2022, compared to 15.2% and 7.9%, respectively, as on March 31, 2021. This was because of the high recoveries of Rs. 29.8 crore from five delinquent accounts (Rs. 21 crore recovered from one large NPA) and lower slippages (Rs. 3.3 crore in FY2022 compared to Rs. 16.8 crore in FY2021). Further, the company wrote off Rs. 9.6 crore of NPAs from its books (including Rs. 7 crore for one large NPA) in FY2022. Additionally, the restructured assets reduced to 5.0% of the gross loan book as on March 31, 2022, from 17.3% as on March 31, 2021, due to improved collections and prepayments from the restructured book.

Notwithstanding the improvement in the asset quality indicators, the overall portfolio vulnerability (GNPAs + restructured assets) for the company remained high at 13.0% of the gross loan book as on March 31, 2022 (down from 32.5% as on March 31, 2021). Also, the portfolio vulnerability is augmented due to the wholesale nature of the business, which exposes it to concentration risk, both in terms of high-ticket sizes and sectors such as real estate. However, the secured nature of the exposures could keep the ultimate losses limited. Also, the asset quality indicators look optically elevated as on June 30, 2022, with GNPAs and NNPAs of 8.4% and 2.5%, respectively, because of the degrowth in the business volumes. ICRA notes that though VIAFPL is in the process of resolving some large-ticket exposures, the timely resolution of the same would be critical for an improvement in its credit profile. ICRA also notes that such large-ticket exposures were opportunistic in nature and are not expected to be repeated in the usual course of business. Overall, VIAFPL's ability to reduce these large-ticket exposures and recover from the existing stressed book would be a key rating sensitivity.

Modest scale of operations – VIAFPL's scale of operations remains modest with a gross portfolio of Rs. 391.2 crore as on June 30, 2022 (Rs. 426.2 crore as on March 31, 2022, and Rs. 459.6 crore as on March 31, 2021). The portfolio has been degrowing due to lower disbursement volumes (Rs. 208 crore in FY2022 and Rs. 319 crore in FY2021) and portfolio amortisation. Disbursements were optically lower by 35% in FY2022 because of a large-ticket exposure (outside the main line of business) taken by the company in FY2021. Adjusted for this exposure, disbursements grew by ~40% in FY2022. Further, VIAFPL disbursed Rs. 39 crore in Q1 FY2023 (compared to Rs. 12 crore in Q1 FY2022). However, the incremental disbursements, going forward, and hence the company's ability to improve the scale of operations would depend on its ability to raise fresh funds at competitive costs.

Limited financial flexibility – VIAFPL remains largely dependent on a few lenders for meeting its funding needs and its average cost of funds has remained high due to the repayment of old borrowings, repricing of existing facilities at higher rates with the increase in systemic interest rates, and the inter-corporate deposit (ICD) cost related to a large-ticket size exposure. Going forward, the company's ability to raise funds to support the portfolio growth and diversify the funding mix will be a key determinant of its credit profile.

Moderate profitability indicators – VIAFPL's cost of funds increased in FY2022 due to the repricing of existing facilities and the interest cost related to the ICD funding on a large-ticket size exposure. This led to a moderation in the NIM to 3.5% in FY2022 from 6.5% in FY2021. Further, the write-off of a large-ticket NPA led to an increase in the credit costs to 2.5% in FY2022 from 0.9% in FY2021. Overall, the deterioration in the NIM and the higher credit costs along with the deferred tax adjustments weakened the profitability indicators with RoMA and RoE of 0.4% and 0.9%, respectively, in FY2022 compared to 2.4% and 5.0%, respectively, in FY2021. Notwithstanding the weakening in the profitability in FY2022, the profitability indicators improved in Q1 FY2023 due to negligible credit costs. The company reported RoMA and RoE of 1.6% and 3.5%, respectively, in Q1 FY2023. Nevertheless, the profitability indicators remained moderate. Further, the improvement in the company's profitability indicators would be contingent on its ability to grow its business and recover from the existing stressed assets pool. Till that time, the return indicators would remain subdued.

Liquidity position: Adequate

VIAFPL's liquidity position is adequate with positive cumulative mismatches over the near-term maturity buckets as per the asset-liability maturity (ALM) profile as on June 30, 2022. For the 12-month period ending June 30, 2023, the company has debt maturities of Rs. 174 crore against which its scheduled inflows from performing advances are Rs. 297 crore. Further, the liquidity is supported by unencumbered cash and bank balances and liquid investments of Rs. 6.3 crore (3.4% of borrowings) as on June 30, 2022. Additionally, VIAFPL has unutilised sanctioned bank lines of about Rs. 36 crore, which provides support to the liquidity.

Rating sensitivities

Positive factors – An improvement in the asset quality and profitability indicators along with an increase in the scale in operations on a sustained basis may lead to a credit rating upgrade.

Negative factors – A significant deterioration in the asset quality profile, resulting in pressure on the profitability indicators on a sustained basis, may lead to a credit rating downgrade. Also, a deterioration in the liquidity profile would be a credit negative.

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

VIAFPL was registered with the Reserve Bank of India (RBI) as a non-deposit accepting non-banking financial company (NBFC; loan company) in October 2000. It commenced operations in 2013 as a wholesale credit institution that offered debt products to small and growing businesses in India. As of June 30, 2022, the company had assets under management (AUM) of Rs. 391.2 crore, comprising loan against property (48%), loan against shares (8%), loan against receivables (14%), loan against a mix of property and shares (15%), loan against a mix of property and receivables (9%), and loan against non-convertible debentures (NCDs)/promissory note/personal guarantee (6%).

Venus Capital Management, through its fund, Venus India Structured Finance (Offshore) Fund (VISFF), took over VIAFPL in 2013 with the objective of lending to small-and-medium-sized companies in India. As on June 30, 2022, VISFF had a 78.7% stake in VIAFPL while 17.3% was held by an Indian partner, Mr. Gaurav Goel (Director of Dhampur Sugar Mills). The balance (3.94%) is held by two domestic investors.

In Q1 FY2023 (based on provisional financials), VIAFPL reported a profit after tax (PAT) of Rs. 1.8 crore on a gross asset base of Rs. 420.9 crore compared to Rs. 1.9 crore and Rs. 473.0 crore, respectively, in FY2022 (provisional financials; Rs. 9.8 crore and Rs. 500.0 crore, respectively, in FY2021). As on June 30, 2022, the company's capital adequacy stood at 72.5% with a net worth of Rs. 207.1 crore compared to 66.7% and Rs. 205.3 crore, respectively, as on March 31, 2022 (54.3% and Rs. 203.0 crore, respectively, as on March 31, 2021). The company reported GNPAs and NNPAs of 8.4% and 2.5%, respectively, as on June 30, 2022 compared to 7.9% and 2.5%, respectively, as on March 31, 2022 (15.2% and 7.9%, respectively, as on March 31, 2022).

Key financial indicators

	FY2020	FY2021	FY2022	Q1 FY2023
Total income	45.6	59.0	94.6	8.8
Profit after tax	8.5	9.8	1.9	1.8
Net worth	193.0	203.0	205.3	207.1
Gross loan book	294.6	459.6	426.2	391.2
Total assets	331.9	500.0	473.0	420.9
Return on assets	2.4%	2.4%	0.4%	1.6%
Return on net worth	4.5%	5.0%	0.9%	3.5%
Net worth/AUM	65.3%	44.2%	48.2%	52.9%
CRAR	65.3%	54.3%	66.7%	72.5%
Gearing (times)	0.6	1.3	0.9	0.9
Gross NPAs	19.7%	15.2%	7.9%	8.4%
Net NPAs	15.4%	7.9%	2.5%	2.5%
Net NPA/Net worth	22.3%	16.4%	5.0%	4.5%

Source: VIAFPL, ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating in FY2023	FY2022	FY2021	FY2020
					Sep 30, 2022	Oct 05, 2021	Feb 24, 2021	Aug 30, 2019
1	Long-term fund-based term loan	Long term	35.00	16.12	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Stable)
2	Long-term fund-based cash credit	Long term	75.00	39.04	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Stable)
3	Long-term bank facilities – Proposed/Unallocated	Long term	15.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Stable)

Source: ICRA Research
**As on June 30, 2022*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based term loan	Simple
Long-term fund-based cash credit	Simple
Long-term bank facilities – Proposed/Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details (as on June 30, 2022)

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan 1**	Dec-04-2018	12.25%	Nov-30-2022	2.84	[ICRA]BB+ (Stable)
NA	**Term loan 2**	Aug-05-2020	12.25%	Jun-30-2025	13.28	[ICRA]BB+ (Stable)
NA	**Cash credit 1**	Aug-17-2016	12.25%	NA	39.04	[ICRA]BB+ (Stable)
NA	**LT fund-based term loan – Proposed/Unallocated**	NA	NA	NA	18.88	[ICRA]BB+ (Stable)
NA	**LT fund-based cash credit – Proposed/Unallocated**	NA	NA	NA	35.96	[ICRA]BB+ (Stable)
NA	**LT bank facilities – Proposed/Unallocated**	NA	NA	NA	15.00	[ICRA]BB+ (Stable)

Source: ICRA Research
Note: LT – Long term; Maturity date not available for cash credit facility

Please click here to view details of lender-wise facilities rated by ICRA

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

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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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