November 10, 2023

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^	35.00	-	[ICRA]BB+ (Stable); reaffirmed
Long-term fund-based cash credit^	75.00	-	[ICRA]BB+ (Stable); reaffirmed
Long-term bank facilities – Unallocated^	15.00	-	[ICRA]BB+ (Stable); reaffirmed
Long-term fund-based bank facilities^	-	125.00	[ICRA]BB+ (Stable); reaffirmed
Total	**125.00**	**125.00**	

**Instrument details are provided in Annexure-I; ^ Change in limits*

Rationale

The rating reaffirmation factors in Venus India Asset-Finance Pvt. Ltd.'s (Venus) long track record in the wholesale lending operations and its adequate capitalisation profile. The company's operations were supported by a net worth of Rs. 203 crore as on June 30, 2023 (Rs. 198 crore as on March 31, 2023) and a low gearing of 0.4 times as on June 30, 2023 (provisional).

ICRA also takes note of the improvement in Venus' asset quality indicators, driven by write-offs and recoveries, with the gross non-performing assets (GNPAs) declining to 6.9% of the gross loan book, as on March 31, 2023 (6.3% as of June 2023), from 7.9% as on March 31, 2022. However, the reported GNPA percentage remains high on account of decline in its scale. Moreover, the vulnerability of the portfolio remains high, given the wholesale nature of operations with high borrower concentration. ICRA also notes that apart from the reported GNPA, Venus has also been able to make part recovery of Rs. 121 crore till October 2023, out of its monitorable exposure of Rs. 184 crore in March 2022 and Rs. 63 crore (including accrued interest; ~23% of its loan book as on March 31, 2023) is outstanding at present, which is expected to be recovered in the near term. Any material delay in recovery from the said exposure or material slippages to NPA accounts could have an adverse impact on its credit profile.

The rating also factors in the entity's moderate profitability metrics. While its net interest margin (NIM) improved in FY2023, which along with reversal of provision (due to recoveries) helped it improve its profitability, the same was negated by its non-operating expense (fair value changes). Venus reported a profit after tax (PAT) of Rs. 5.1 crore in FY2023, translating into return on average managed assets (ROMA) of 1.3% and return on average net worth of 2.5% against Rs. 2.5 crore, 0.5% and 1.2%, respectively, in FY2022.

The rating is also constrained by Venus's modest scale of operations with a gross portfolio of Rs. 273 crore as on March 31, 2023 (Rs. 288 crore as on June 30, 2023) against Rs. 426 crore as on March 31, 2022. Further, it has limited financial flexibility as reflected in its borrowing profile comprising two lenders for its funding needs, as on June 30, 2023. ICRA also takes note of the change in the senior management and its board composition with only two directors on board as on September 30, 2023. Going forward, Venus's ability to improve its scale of operations while keeping its asset quality under control would be critical for improving its credit profile.

The Stable outlook on [ICRA]BB+ rating reflects ICRA's opinion that the company will be able to maintain a steady credit profile, while expanding its scale of operations and further improving its asset quality and profitability metrics.

Key rating drivers and their description

Credit strengths

Adequate capitalisation profile – Venus' capitalisation profile is adequate for the current scale of operations with a capital-to-risk weighted assets ratio (CRAR) of 60.1% as on March 31, 2023 (58.7% as on June 30, 2023), supported by a low gearing level of 0.3 times (0.4 as on June 30, 2023). In terms of solvency, Net NPA/Net worth stood at 2.2% in March 2023 (1.4% in June 2023) against 5.0% in March 2022. The decline in Venus' loan book in FY2022 and FY2023 has kept its gearing low and hence, incremental capital raise requirement will arise once the business volumes gain healthy traction. ICRA believes that adequate capitalisation profile is one of the key mitigants against the risk arising out of the wholesale nature of Venus's business.

Credit challenges

Modest scale of operations – Venus' scale of operations remains modest with a gross portfolio of Rs. 287 crore (provisional) as on June 30, 2023 (Rs. 273 crore as on March 31, 2023) against Rs. 426 crore as on March 31, 2022. The portfolio has been declining due to lower disbursement volumes (Rs. 212 crore in FY2023, Rs. 208 crore in FY2022 and Rs. 319 crore in FY2021) and higher portfolio run-down. Further, recoveries and write-offs from GNPA accounts have impacted growth in FY2023. ICRA notes that Venus has disbursed Rs. 75 crore in FY2024 so far (till October 2023) and the loan book growth is expected to remain moderate for FY2024.

Limited financial flexibility – Venus's funding dependency is concentrated with active relationships with two lenders as on September 30, 2023. Further, its average cost of funds has remained high with repricing of existing facilities at higher rates with the increase in systemic interest rates. 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.

High portfolio vulnerability – Venus' asset quality indicators improved in FY2023 with GNPAs and NNPAs of 6.9% and 1.7% of the gross loan book, respectively, as on March 31, 2023, compared to 7.9% and 2.5%, respectively, as on March 31, 2022. This was on account of recoveries and write-offs from GNPA accounts. Further, Venus has been able to make part recovery of Rs. 121 crore till October 2023, out of its monitorable exposure of Rs. 184 crore as on March 2022 and Rs. 63 crore (including accrued interest; ~23% of its loan book as on March 31, 2023) is outstanding at present, which is expected to be recovered in the near term. Notwithstanding the improvement in the asset quality indicators, the overall portfolio vulnerability (GNPAs + stressed exposure) for the company remained high at 31.2% of the gross loan book as on March 31, 2023, against 51.1% as on March 31, 2022.

Further, 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. Overall, Venus's ability to reduce these large-ticket exposures and recover from the existing stressed book would be a key rating sensitivity.

Moderate profitability indicators – Venus reported a profit after tax (PAT) of Rs. 5.1 crore in FY2023 (provisional PAT of Rs. 3.0 crore in Q1 FY2024), which translates into a return on average managed assets (ROMA) of 1.3% and return on average net worth (RONW) of 2.5% (ROMA of 3.9%, RONW of 5.9% in Q1 FY2024), against Rs. 2.5 crore, 0.5% and 1.2%, respectively, in FY2022. The improvement in profitability was on account of better NIM and negative credit cost on the back of recoveries made from stressed exposures. However, given its cost of funding remains elevated, its NIM is expected to moderate once the entity starts scaling up and its gearing increases, hence, impacting its overall profitability. ICRA notes the management has also taken steps to curtail its operating expenses and impact of the same is expected to be visible in the near-to-medium term. Its ability to improve its margin and keep credit cost low, will be key for its profitability profile.

Liquidity position: Adequate

Venus' 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, 2023. For the 12-month period ending as on June 30, 2024, the company has debt maturities of Rs. 79 crore against which its scheduled inflows from performing advances are Rs. 235 crore. Further, the liquidity is supported by unencumbered cash and bank balances and liquid investments of Rs. 6 crore as on June 30, 2023. Additionally, Venus has unutilised sanctioned bank lines of about Rs. 26 crore, which provides support to the liquidity.

Rating sensitivities

Positive factors – The company's ability to scale-up its operations, while further improving its asset quality and profitability could lead to rating upgrade.

Negative factors – A significant decline in scale of operations, deterioration in and profitability and/or company's inability to recover from its monitorable accounts could lead to rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Venus 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 on June 30, 2023, the company had assets under management (AUM) of Rs. 287 crore.

Venus Capital Management, through its fund, Venus India Structured Finance (Offshore) Fund (VISFF), took over Venus in 2013 with the objective of lending to small-and-medium-sized companies in India. As on June 30, 2023, VISFF had a 77.8% stake in Venus while 18.2% was held by an Indian partner, Mr. Gaurav Goel (Director of Dhampur Sugar Mills). The balance (4.0%) is held by two domestic investors. Venus did buyback of some shares of VISFF in FY2023, due to which stake of VISFF declined to 77.8% in March 2023 from 78.7% in March 2022.

Key financial indicators (audited)

Satya MicroCapital Ltd.	FY2021	FY2022	FY2023	Q1 FY2024*
Account as per	**IndAS**	**IndAS**	**IndAS**	**IndAS**
Net interest income	26.8	16.3	35.0	6.0
Profit after tax	10.3	2.5	5.1	3.0
Net worth	203.3	205.3	197.6	200.6
Gross AUM (IGAAP valuation)	459.6	426.2	272.0	287.7
Total managed assets (including provision)	500.0	487.9	297.7	311.5
Return on average managed assets	2.5%	0.5%	1.3%	3.9%
Return on average net worth	5.2%	1.2%	2.5%	5.9%
On-book gearing	1.3	0.9	0.3	0.4

Satya MicroCapital Ltd.	FY2021	FY2022	FY2023	Q1 FY2024*
Account as per	IndAS	IndAS	IndAS	IndAS
Managed gearing	1.3	0.9	0.3	0.4
Gross NPA	15.2%	7.9%	6.9%	6.3%
Net NPA	7.9%	2.5%	1.7%	1.1%
Solvency (Net stage 3/Net worth)	16.4%	5.0%	2.2%	1.4%
CRAR	54.6%	66.7%	60.1%	58.7%

*Source: Company, ICRA Research; * As per provisional financials; All ratios as per ICRA's calculations; 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 (FY2024)			Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	FY2023	FY2022	FY2021
					Nov 10, 2023	Sep 30, 2022	Oct 05, 2021	Feb 24, 2021
1	Long-term fund-based term loan	Long term	-	-	-*	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)
2	Long-term fund-based cash credit	Long term	-	-	-*	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)
3	Long-term bank facilities – Proposed/Unallocated	Long term	-	-	-*	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)
4	Long-term Fund-based bank facilities	Long Term	125.0	75.0^	[ICRA]BB+ (Stable)*	-	-	-

*Source: ICRA Research; ^ Sanction amount, *Change in limits*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based bank facilities	Simple

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Bank Facilities Programme**	Aug-17-2016	12.35%	Annual renewal	75.00	[ICRA]BB+ (Stable)
NA	**Bank Facilities Programme**	NA	NA	NA	50.00	[ICRA]BB+ (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis: No 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.

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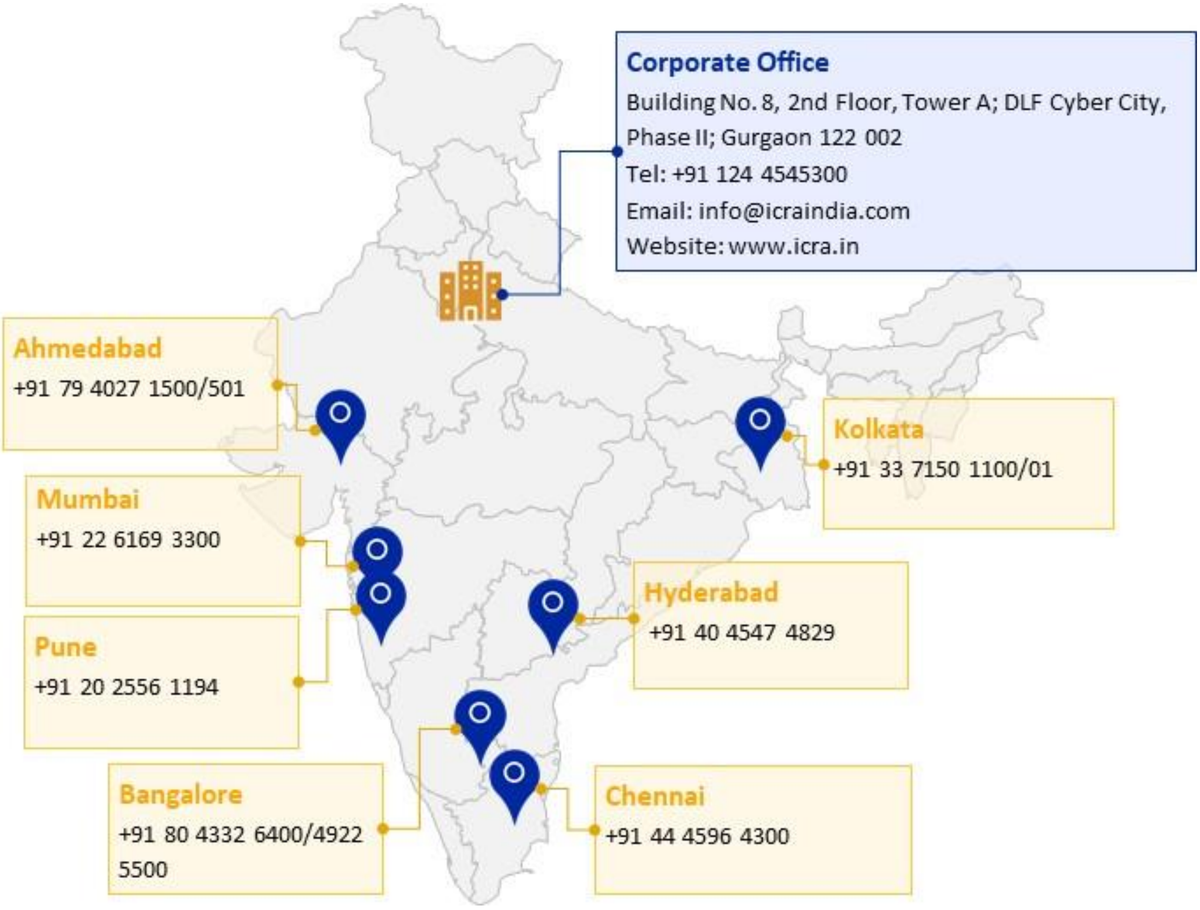

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