December 26, 2024

Lok Suvidha Finance Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	-	[ICRA]BBB- (Stable); reaffirmed
Long-term fund-based bank lines – Others	15.00	15.00	[ICRA]BBB- (Stable); reaffirmed
Non-convertible debentures	25.00	25.00	[ICRA]BBB- (Stable); reaffirmed
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in Lok Suvidha Finance Limited's (LSFL) established relationships with automobile dealers, which have helped it scale up its two-wheeler (2W) financing portfolio over the years and are likely to aid future growth. The company started operations in 2008 as a business correspondent (BC) and has established relationships with more than 1,000 dealers. It gradually increased its on-balance sheet lending since FY2019 and its assets under management (AUM) stood at Rs. 415 crore as on September 30, 2024 (2W financing comprised ~58% of the portfolio, followed by e-rickshaw financing at ~39%). While the scale of operations remains moderate, LSFL has an in-house digital workflow, which is likely to be beneficial for future growth.

The rating remains constrained by the moderate capitalisation profile with a managed gearing[1] of 6.9 times as on September 30, 2024. Further, the asset quality remains exposed to the inherent risk in LSFL's primary business (2W/e-rickshaw financing) and its modest borrower segment. While the company has been expanding its dealership presence, the portfolio is geographically concentrated in Madhya Pradesh (57% as on September 30, 2024) and Maharashtra (28%). Given the moderate scale of operations, the company's profitability remains subdued. Going forward, an improvement in the profitability is contingent on LSFL's ability to raise capital raise to support growth and enhance its operating efficiency while controlling the credit costs.

The Stable outlook on the rating factors in the steady growth in the AUM, asset quality and profitability, while the planned capital raise by the company in the near term shall keep the managed gearing below the negative rating trigger.

Key rating drivers and their description

Credit strengths

Established relationships with dealers – LSFL, which started operations in 2008, has established relationships with more than 1,000 dealers for sourcing business over the years. It has relationships with the leading original equipment manufacturers (OEMs) of 2Ws and e-rickshaws. Around 85-88% of the business was sourced through two OEMs, i.e. Hero and Honda, in H1 FY2025. LSFL has been able to grow its AUM at a healthy pace over the years on the back of its relationship with the dealer/sub-dealer network. The AUM grew to Rs. 415 crore as on September 30, 2024 from Rs. 298 crore as on March 31, 2023. The company has developed an in-house digital workflow for loan underwriting and monitoring, which has helped in scaling up the portfolio.

[1] *Managed gearing is defined as {(total borrowings including off-balance sheet borrowings) / (net worth + compulsorily convertible debentures (CCDs)}*

Credit challenges

Capital raise critical for growth – The company's capitalisation remains moderate with a net worth of Rs. 56 crore (including compulsorily convertible debentures (CCDs) of Rs. 15 crore), translating into a managed gearing of 6.9 times as on September 30, 2024 (7.5 times as on March 31, 2023). The AUM growth has been supported by BC partnerships and co-lending, which accounted for 31% and 12%, respectively, of the AUM as on September 30, 2024. LSFL bears the losses from the delinquent portfolio under its BC arrangements with the lenders. Further, it has entered into co-lending arrangements with a first loss default guarantee (FLDG) of 5%. The sizeable AUM and modest net worth resulted in a high managed gearing while the on-balance sheet gearing stood at 3.7 times as on September 30, 2024. The promoters infused Rs. 3-crore equity in FY2024 and Rs. 3-crore equity in H1 FY2025. There has been a delay in the raising of equity, which was earlier expected to be completed by September 2024. As a result, growth is expected to slow down. The management has guided towards an equity raise in FY2026, which is critical for growth and for keeping the leverage within the negative rating trigger. ICRA expects support from the promoter till the time equity is raised.

Relatively weak borrower profile – LSFL's portfolio vulnerability remains relatively high on account of the inherent risks associated with 2W and e-rickshaw financing and the comparatively weaker credit profile of the borrowers with the company largely catering to the self-employed segment in Tier III/Tier II cities. The 90+ days past due (dpd) stood at 4.1%[2] of the AUM (5.0% as on March 31, 2024). The ability to maintain the asset quality and contain credit costs would be a key driver of the profitability and capitalisation.

Moderate scale and high geographical concentration in Maharashtra and Madhya Pradesh– While the AUM has been increasing, it continues to be moderate and the operations remain focused in Maharashtra and Madhya Pradesh, leading to geographical concentration. As on September 30, 2024, Madhya Pradesh and Maharashtra accounted for 57% and 28% of the AUM, respectively. The company has expanded its operations to Chhattisgarh and Uttar Pradesh, which accounted for just 5% and 8%, respectively, of the total portfolio as on September 30, 2024. LSFL's business is focussed on financing 2W and e-rickshaws, which accounted for 58% and 39%, respectively, of the AUM as on September 30, 2024. The share of 2W financing in the overall AUM is expected to decline while the share of e-rickshaw finance is expected to increase to ~50% in the near term; the overall customer profile is expected to remain weak.

Given its moderate scale of operations, the company's profitability remained subdued with profit after tax (PAT)/average managed assets (AMA) of 1.3% in H1 FY2025 (1.4% in FY2024 and 0.5% in FY2023). An improvement in the profitability is dependent on LSFL's ability to raise capital and scale up the portfolio, leading to an improvement in the operating efficiency, while controlling its credit costs.

Limited financial flexibility – LSFL's financial flexibility remains limited with the resource profile largely comprising higher-cost funding from non-banking financial companies (NBFCs). While the company has increased its BC and co-lending partnerships, however, currently the portfolio is with two key lending partners, which have helped meet its funding requirements. LSFL's ability to maintain its relationships with its key lending partners and diversify its funding profile to raise resources at better prices would be critical for scaling up its loan book and profitability.

Liquidity position: Adequate

The liquidity position is adequate with no negative cumulative mismatches in the Statement of Structural Liquidity as on September 30, 2024, given the largely similar tenor of the loan book and borrowings. The company's unencumbered cash and bank balance stood at Rs. 10.1 crore as on September 30, 2024. Also, the expected inflow from on-balance sheet advances till February 2024 is ~Rs. 65 crore compared to on-balance sheet debt repayments of ~Rs. 69 crore during this period.

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[2] *Including YTD write-offs; 90+ dpd, excluding write-offs, stood at 2.3% as on September 30, 2024 (1.9% as on March 31, 2024)*

Rating sensitivities

Positive factors – Increase in the scale of operations while maintaining the asset quality and improving its capitalisation and earnings profile remain positive factors.

Negative factors – ICRA could downgrade the rating if there is a material deterioration in the asset quality on a sustained basis, impacting the profitability. Also, a sustained increase in the managed gearing above 7 times could exert pressure on the rating.

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

Lok Suvidha Finance Limited (LSFL), incorporated in FY2008, is a Nagpur-based public, unlisted, non-deposit taking NBFC registered with the Reserve Bank of India (RBI). The company is promoted by Mr. Nimish Laddhad, who is currently its Managing Director. It primarily finances 2Ws and also provides e-rickshaw loans. As on September 30, 2024, the company's AUM was Rs. 415 crore. LSFL reported a PAT of Rs. 2.9 crore on total managed assets of Rs. 451 crore in H1 FY2025 (provisional) vis-à-vis Rs. 5.1 crore and Rs. 420 crore, respectively, in FY2024.

Key financial indicators (audited)

Lok Suvidha Finance Limited	FY2023	FY2024	H1 FY2025
Total income	49.6	66.6	41.5
Profit after tax	1.6	5.1	2.9
Total managed assets	325.6	419.5	451.2
Return on managed assets	0.5%	1.4%	1.3%
Reported gearing (times)	1.9	2.9	3.7
Managed gearing (times)	7.5	7.2	6.9
90+dpd	5.3%	5.0%	4.1%
Gross NPA*	-	-	-
CRAR	37.0%	25.0%	21.7%

*Amount in Rs. crore; H1 FY2025 financials are provisional; *LSFL recognises non-performing advances (NPAs) at 180+dpd and write-offs at 180+, resulting in nil gross and net NPAs*

Status of non-cooperation with previous CRA: Not applicable

Any other information:

LSFL faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial, operating and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or they do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Dec 26, 2024	Date	Rating	Date	Rating	Date	Rating
Issuer rating	Long Term	-	[ICRA]BBB-(Stable)	08-Dec-23	[ICRA]BBB-(Stable)	31-Mar-23	[ICRA]BBB-(Stable)	-	-
				-	-	21-Apr-22	[ICRA]BBB-(Stable)	-	-
Long-term fund-based bank lines – Others	Long Term	15.00	[ICRA]BBB-(Stable)	08-Dec-23	[ICRA]BBB-(Stable)	31-Mar-23	[ICRA]BBB-(Stable)	-	-
Non-convertible debentures	Long Term	25.00	[ICRA]BBB-(Stable)	08-Dec-23	[ICRA]BBB-(Stable)	31-Mar-23	[ICRA]BBB-(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not Applicable
Long-term fund-based bank lines – Others	Very Simple
Non-convertible debentures	Very 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	**Issuer rating**	-	NA	NA	-	[ICRA]BBB- (Stable)
NA	**Long-term fund-based bank lines – Others^**	NA	NA	NA	15.00	[ICRA]BBB- (Stable)
INE0H9607053	**Non-convertible debentures**	Nov 16, 2023	14.25%	Dec 07, 2025	7.50	[ICRA]BBB- (Stable)
INE0H9607061	**Non-convertible debentures**	Dec 08, 2023	14.25%	Jan 07, 2026	5.00	[ICRA]BBB- (Stable)
Not yet placed	**Non-convertible debentures**	NA	NA	NA	12.50	[ICRA]BBB- (Stable)

Source: Company; ^Proposed

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

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@icraindia.com

Harsh Mange
+91 22 6114 3429
harsh.mange@icraindia.com

Nisha Desai
+91 22 6114 3427
nisha.desai@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches