

April 02, 2024

Agro Indus Credits Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated	Current Rated	Rating Action
	Amount (Rs. crore)	Amount (Rs. crore)	
Long-term fund based – Cash credit	10.00	10.00	[ICRA]B+ (Stable); reaffirmed
Long-term fund based – Working capital term loan	9.00	9.00	[ICRA]B+ (Stable); reaffirmed
Short-term fund based – Overdraft	5.00	5.00	[ICRA]A4; reaffirmed
Total	24.00	24.00	

*Instrument details are provided in Annexure I

Rationale

The ratings factor in Agro Indus Credits Limited's (AICL) track record in the gold loan and other retail finance businesses and its low leverage, with a gearing of 0.4x as on September 30, 2023. The ratings continue to consider AICL's modest scale, weak asset quality and the risks associated with its geographically concentrated operations. The company has limited external borrowings and it is crucial for it to diversify its funding profile as the business expands.

AICL's asset quality {overall 90+ days past due (dpd)}, although weak, improved slightly on a year-on-year (YoY) basis to 32.4% as on September 30, 2023 (29.1% as on March 31, 2023) from 36.5% as on September 30, 2022 due to the increasing share of gold loans in the portfolio. The 90+ dpd for the gold loan portfolio was 12.9% as on September 30, 2023 and 6.6% as on March 31, 2023 (15.4% as on September 30, 2022), while the entire non-gold book was in the 180+ dpd bucket. Achieving timely recoveries from overdue accounts is a key monitorable as the sustained weak asset quality would impact the earnings and capital profile. In view of the above, maintaining adequate liquidity would be important from a rating perspective.

Key rating drivers and their description

Credit strengths

Track record in gold loan and other retail businesses – AICL has a track record of more than 25 years in retail lending businesses, including gold, vehicle and mortgage loans. Its senior management consists of personnel with average experience of more than a decade in the banking sector. The company's Chief Executive Officer, Mr. Joseph P Abraham, has over 23 years of experience in non-banking financial services and capital markets. Mr. Muraleedharan Kesavan, the Chairman and Managing Director of the Abu Dhabi-based SFC Group of Companies, is AICL's major promoter, holding a 78.6% stake along with his spouse. The promoters have been infusing equity over the last few years (Rs. 5 crore infused during FY2022-23) and have also subscribed to the majority of the non-convertible debentures (NCDs) issued by the company.

Moderate capitalisation; recoveries from non-gold segment key monitorable – AICL had a gearing of 0.4 times and a net worth of Rs. 60.9 crore as on September 30, 2023. While it has maintained a relatively low leverage in the past, its solvency has remained moderate, with net non-performing advances (NNPA)/net worth of 20.9% as on September 30, 2023 (23.1% as on March 31, 2023 and 27.2% as on September 30, 2022). ICRA notes that compulsorily convertible debentures (CCDs) of Rs. 2 crore and Rs. 3 crore were converted into equity in FY2022 and FY2023, respectively, shoring up the net worth to an extent. Going forward, further recoveries from the non-gold segments would remain monitorable from a solvency perspective.

Credit challenges

Modest scale and regionally concentrated operations – AICL's loan portfolio grew slightly by 3% (annualised) to Rs. 86.8 crore as on September 30, 2023 from Rs. 85.6 crore as on March 31, 2023 (Rs. 77.2 crore as on March 31, 2022), supported by the gold loan segment. As on September 30, 2023, the company's portfolio consisted of gold loans (78%), mortgage loans (19%) and vehicle loans (3%). Disbursements have been stopped for vehicle and mortgage financing and the portfolio in these segments is being run down. However, recoveries have remained moderate in the non-gold segments. Overall, the portfolio grew at a compound annual growth rate (CAGR) of 2% during FY2020-23, constrained by the stiff competition in the gold loan segment and the rundown of the mortgage loan portfolio.

Given its modest scale, AICL's portfolio remains concentrated in two states with 26 branches in Kerala and 32 branches in Tamil Nadu. Going forward, the share of gold loans in the overall portfolio is expected to increase as the non-gold loan portfolio runs down.

Weak asset quality indicators; improvement due to increasing share of gold loans – The asset quality has improved with the overall 90+ dpd at 32.4% as on September 30, 2023 (29.1% as on March 31, 2023) vis-à-vis 36.5% as on September 30, 2022 due to the increasing share of gold loans in the portfolio. The 90+ dpd for the gold loan portfolio was 12.9% as on September 30, 2023 and 6.6% as on March 31, 2023 (15.4% as on September 30, 2022), while the entire non-gold book was in the 180+ dpd bucket. The company's gross NPA (180+ dpd basis) stood at 22.4% as on September 30, 2023 and 23.5% as on March 31, 2023 (24.9% as on September 30, 2022) due to limited collections in the mortgage and vehicle loan segments. The ability to achieve recoveries in the mortgage and vehicle loan segments and keep the asset quality under control would be crucial, going forward.

Subdued profitability – The company's return on assets improved to 0.8% (provisional) in H1 FY2024 from 0.1% in FY2023 (net loss of 1.8% in FY2022). This was due to the improvement in the net interest margin to 12.6% in H1 FY2024 from 12.1% in FY2023 (9.4% in FY2022). However, the margin remains below the pre-Covid-19 pandemic level mainly because of the stiff competition in the gold loan segment and interest reversal on NPA accounts. Although the provision cover for NPAs (180+ dpd basis) improved to 34.4% as on September 30, 2023 and 30.7% as on March 31, 2023 from 20.9% as on September 30, 2022, it remains low. Credit costs could increase, considering the high overdues, if the same is not recovered. The operating cost ratio was high at 10.7% in H1 FY2024 and 11.0% in FY2023 (10.4% in H1 FY2023) but below the pre-pandemic level of 13.1% in FY2020. The asset quality performance would be critical for incremental profitability, considering the high overdues.

Liquidity position: Adequate

AICL had cash and undrawn bank lines of Rs. 8.4 crore as on February 29, 2024 while repayments of Rs. 0.8 crore (including interest) is due over the next three months. It currently has working capital limits of Rs. 15 crore with three banks. AICL's funding is largely from banks (68% of the total borrowings as on September 30, 2023) and NCDs (32%).

ICRA notes that around 70% of the gold loans is rolled over on the respective due dates, post the receipt of interest accrued, thereby limiting the inflows from this segment. Also, collections from the non-gold loan segment are expected to remain limited as all the loans are in the 180+ dpd bucket. Going forward, the company's ability to maintain adequate liquidity and secure incremental funding from diverse sources would be critical from a rating perspective.

Rating sensitivities

Positive factors – Profitable business growth and improvement in the asset quality while maintaining a prudent capital structure would positively impact the ratings.

Negative factors – AICL's ratings could be negatively impacted by a significant weakening in the liquidity profile or further deterioration in the asset quality.

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	The ratings are based on the standalone financial statements of the company

About the company

Agro Indus Credits Limited (AICL) is a non-deposit taking non-banking financial company (NBFC) incorporated in January 1997. It was acquired by the current promoters, Mr. Muraleedharan, Mrs. Beena Muraleedharan and others, in 2010. At present, AICL offers gold loans while mortgage loans and vehicle loans were sanctioned earlier. It operates in Tamil Nadu and Kerala through its branches, with its head office in Kochi (Kerala). The company has 58 branches, including 32 in Tamil Nadu. Its total portfolio outstanding was Rs. 86.8 crore and Rs. 85.6 crore as on September 30, 2023 and March 31, 2023, respectively.

AICL reported a net profit of Rs. 0.4 crore (provisional) on a total asset base of Rs. 93.4 crore in H1 FY2024, while it reported a net profit of Rs. 0.1 crore on a total asset base of Rs. 91.5 crore in FY2023.

Key financial indicators

Standalone	FY2022	FY2023	H1 FY2024
Total income	11.6	13.5	7.1
Profit after tax	(1.7)	0.1	0.4
Total managed assets	90.0	91.5	93.4
Return on managed assets	(1.8%)	0.1%	0.8%
Gearing (times)	0.5	0.4	0.4
Gross stage 3	28.3%	23.5%	22.4%
CRAR	65.1%	72.7%	72.2%

Source: Company, ICRA Research; 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	Type	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Apr 02, 2024	-	Jan 27, 2023	Jan 27, 2022
1 Long-term fund based – Cash credit	Long term	10.00	10.00	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)
2 Long-term fund based – WCTL	Long term	9.00	4.67	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)
3 Short-term fund based – Overdraft	Short term	5.00	5.00	[ICRA]A4	-	[ICRA]A4	[ICRA]A4

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund based – Cash credit	Simple
Long-term fund based – Working capital term loan	Simple
Short-term fund based – Overdraft	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 Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	NA	-	10.00	[ICRA]B+ (Stable)
NA	WCTL	-	NA	-	9.00	[ICRA]B+ (Stable)
NA	Overdraft-1	-	NA	-	2.50	[ICRA]A4
NA	Overdraft-2	-	NA	-	2.50	[ICRA]A4

Source: Company; NA – Not available

[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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Branches



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