

September 02, 2024

## Shalibhadra Finance Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based/Others	40.00	40.00	[ICRA]BBB- (Stable); reaffirmed

\*Instrument details are provided in Annexure I

### Rationale

Shalibhadra Finance Limited's (Shalibhadra) rating factors in its operational track record in two-wheeler (2W) financing and its established dealer and sub-dealer network, which is likely to aid its loan book and earnings growth. The rating also takes into consideration the company's strong capitalisation levels (gearing of 0.55x and regulatory capital adequacy ratio (CAR) of 73.8% as on June 30, 2024) and comfortable profitability with a return on assets (RoA) of 8.0% in FY2024.

The rating is, however, constrained by the modest scale of operations (loan book of Rs. 137 crore as on June 30, 2024) and the monoline nature of the business. Shalibhadra's asset quality remains moderate with 90+ days past due (dpd) of 4.7% as on June 30, 2024. The asset quality remains exposed to the inherent risk in the company's primary business (2W financing) and the relatively weaker credit profile of the borrowers. Further, its operations are geographically concentrated in Gujarat (accounted for around 49% of the portfolio as of March 31, 2024, though lower than 70% as on March 31, 2018).

The Stable outlook on the long-term rating factors in the strong capitalisation, which is likely to support the growth in the medium term, and the comfortable profitability.

### Key rating drivers and their description

#### Credit strengths

**Long track record in 2W financing and established relationships with dealers** – Shalibhadra, which started operations in 1995, has a long track record and experience in the 2W financing business. It has entered into tie-ups with local dealers and sub-dealers over the years for sourcing business and facilitating the repossession and sale of vehicles. The company's loan book grew by 7% year-on-year (YoY) in FY2024 to Rs. 138 crore as on March 31, 2024 (Rs. 137 crore as on June 30, 2024).

**Strong capitalisation and improved profitability** – The company's capitalisation profile remains strong for the current scale of operations with a net worth of Rs. 100 crore as June 30, 2024 (CAR of 73.8% and gearing of 0.55x). Shalibhadra had issued convertible warrants in March 2022, aggregating Rs. 26.47 crore, which were entirely converted into equity. This was utilised to repay the borrowings from the relatives/promoters, which declined to Rs. 5 crore as on June 30, 2024 (Rs. 26 crore as of March 31, 2021). Furthermore, the company has received board approval for an equity infusion of ~Rs. 48 crore from the promoters and high-net-worth individual (HNI) investors in the near term. ICRA expects the capitalisation to remain strong with a gearing of less than 1x in the medium term.

Shalibhadra has a track record of reporting good profitability indicators. ICRA notes that the company has not posted a net loss in any quarter in the last 10 years. The RoA increased to 8.0% in FY2024 from 6.5% in FY2023, supported by the improvement in the net interest margin (NIM) and credit costs while operating expenses remained stable. Shalibhadra's NIM remains strong, given the low gearing. The company reported an annualised RoA of 8.4% in Q1 FY2025. In the medium term, Shalibhadra's ability to maintain good operating efficiency and control its credit costs would be critical for profitability. ICRA

takes cognisance of the contingent liability of Rs. 7.79 crore (7.8% of the net worth, as on June 30, 2024, against which it has deposited Rs. 40 lakh with the Income Tax Department) in relation to tax payable pertaining to cash deposits during the demonetisation period. This matter is currently pending before the Commissioner of Income Tax (CIT), Appeals. The crystallisation of the same would impact capitalisation to an extent.

### Credit challenges

**Moderate scale and high geographical concentration; monoline nature of business** – Shalibhadra's scale of operations remains moderate with a loan book of Rs. 137 crore as on June 30, 2024 (Rs. 129 crore as on March 31, 2023). Also, its operations remain focused in Gujarat, leading to geographical concentration. As on March 31, 2024, Gujarat accounted for 49% of the loan book though the same declined from 70% as on March 31, 2018 (51% as of March 31, 2023). The company has been looking to improve its geographical diversity by expanding to Madhya Pradesh and Maharashtra, which accounted for 51% of the total portfolio as on March 31, 2024. Shalibhadra aims to diversify its geographical presence further with an increase in its scale of operations in the long term. Its nature of business is monoline with the entire loan book concentrated towards 2W financing (new and used). Moreover, the company does not plan to diversify. However, Shalibhadra's long track record of operations in this segment provides some comfort.

**Relatively weaker customer profile** – Shalibhadra's portfolio vulnerability remains relatively high on account of the inherent risks associated with 2W financing and the comparatively moderate credit profile of the borrowers. Also, its customers are highly dependent (directly and indirectly) on agriculture-based income, which makes them susceptible to climatic risks and seasonality. Shalibhadra has started recognising non-performing advances (NPAs) at 150+dpd w.e.f. March 31, 2024 and reported gross NPAs of 3.1% as on March 31, 2024 as well as on June 30, 2024 (180+dpd of 3.2% as on March 31, 2023). Including write-offs in FY2024 and repossessed vehicles, gross NPAs stood at 4.7% as on March 31, 2024 (5.5% as on March 31, 2023). With improved provisioning, the net NPAs have been reducing and stood at 0.8% as on June 30, 2024 and 1.1% as on March 31, 2024. The company's ability to contain credit costs, with the growth in the portfolio, would be a key monitorable.

### Environmental and social risks

**Environmental considerations:** Given the service-oriented business of Shalibhadra, its direct exposure to environmental risks/material physical climate risks is not significant. Lending institutions can be exposed to environmental risks indirectly through their portfolio of assets; almost the whole of Shalibhadra's portfolio is towards vehicle financing. The residual value of the security in the vehicle finance business could decline in case of policy changes, such as an incremental ruling on the reduction in the operating life of vehicles, thereby impacting the profitability. Further, there is increasing interest from policymakers towards identifying the exposure of financing companies to carbon emissions through their financing activities. However, this process is in an early stage and ICRA expects any adverse implications to manifest only over a longer time horizon, giving financing companies adequate time to adapt and minimise the credit implications.

**Social considerations:** With regard to social risks, data security and customer privacy are among the key sources of vulnerability for lending institutions as material lapses could be detrimental to their reputation and invite regulatory censure. Shalibhadra has not faced any significant lapses on this front. It serves the financing needs of a relatively underserved category of borrowers, supporting social inclusion and economic development.

### Liquidity position: Adequate

The liquidity position is adequate with no negative cumulative mismatches in the Statement of Structural Liquidity as on March 31, 2024, given the largely similar tenor of the loan book and the borrowings and the low leverage. Shalibhadra had unencumbered cash and cash equivalents of Rs. 26.7 crore and unutilised bank lines of Rs. 2.5 crore as on June 30, 2024. This is adequate to meet the scheduled debt repayments of Rs. 17.2 crore due till December 2024.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if the company is able to significantly increase its scale of operations while maintaining its asset quality and profitability with diversification in the funding profile.

**Negative factors** – ICRA could downgrade the rating if there is a material deterioration in the asset quality on a sustained basis, impacting the profitability.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Non-banking Finance Companies (NBFCs)</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

Shalibhadra Finance Limited (Shalibhadra), registered with the Reserve Bank of India (RBI) as a non-banking financial company (NBFC), was incorporated in 1992 and commenced operations in 1995. The company was listed on the Bombay Stock Exchange (BSE) in 1995. Shalibhadra was promoted by Mr. Minesh Doshi, who is currently the Managing Director. It was initially engaged in four-wheeler (4W) financing and was operational in the urban/semi-urban areas of Gujarat. However, on account of increasing competition from banks and other NBFCs in 4W financing, the company shifted its focus towards two-wheeler (2W) financing in rural areas.

At present, Shalibhadra is engaged in 2W financing in rural, semi-rural, and other underbanked areas in Gujarat, Maharashtra and Madhya Pradesh. Its head office is in Mumbai. As on March 31, 2024, the company had a portfolio of Rs. 138 crore. The portfolio is spread across 47 branches.

The company reported a profit after tax (PAT) of Rs. 12 crore in FY2024 on total income of Rs. 33 crore compared to Rs. 8 crore and Rs. 28 crore, respectively, in FY2023. The PAT was recorded at Rs. 3 crore in Q1 FY2025 on total income of Rs. 9 crore.

## Key financial indicators

Shalibhadra Finance Limited	FY2023	FY2024	Q1 FY2025*
Total income	28	33	9
Profit after tax	8	12	3
Total assets	137	158	159
Return on assets	6.5%	8.0%	8.4%
Gearing (times)	0.70	0.60	0.55
Gross NPA	3.2%	3.1%	3.1%
CRAR	60.6%	70.2%	73.8%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; \* Provisional numbers

## 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)	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
			Sep 02, 2024	Oct 04, 2023	Apr 28, 2023	-	Feb 22, 2022
1 Long term – Fund based/Others	Long term	40.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)
2 Long term – Fund based/Cash credit	Long term	-	-		[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)
3 Long term – Fund based/Cash credit	Long term	-	-		[ICRA]BBB-(Stable); withdrawn	-	[ICRA]BBB-(Stable)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based/Others	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	Long term – Fund based/Others	NA	NA	NA	40.00	[ICRA]BBB- (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

Company Name	Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

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