

## Varun Finance

Instrument Rated	Amount (In Rs crore)	Rating Action
Long term bank facilities	50.00	[ICRA]BBB-(Stable); reaffirmed

ICRA has reaffirmed the **[ICRA]BBB-(pronounced ICRA triple B minus)**<sup>1</sup> rating with a **stable** outlook to the Rs. 50.0 crore<sup>2</sup> long term bank facilities of Varun Finance.

For arriving at the rating, ICRA has the consolidated performance of Varun Finance, Varun Leasing and Lakshmi Finance, as these entities come under the same management and operates in similar business segments. The combined entity henceforth is referred as VLV/the group.

The rating reaffirmation continues to factors in the operational and management support from Varun group's established auto dealership businesses, stable profitability (provisional ROE at 16.2% in FY2016 vis a vis 16.3% in FY2015), good asset quality indicators (90+dpd at 0.17% in December 2015) and comfortable capital structure (provisional combined gearing at 1.2 times as in March 2016). The rating is however constrained by VLV's moderate scale of operations (provisional asset base at Rs.190.76 crore as on March 2016), geographically concentrated presence in Andhra Pradesh and Telangana, limited financial flexibility with portfolio being mainly funded through bank loans and internal generation and, exposure to relatively higher risk Two/Three Wheelers business segments. During FY2016, the consolidated portfolio witnessed modest growth of 3% as compared to 17% during FY2015, indicating high competitive pressure from the larger players. The rating also takes note of the inter-corporate loans extended to other group entities (Varun Motors- rated [ICRA]BBB(Stable)/[ICRA]A2 and Varun Motors Private Limited- rated [ICRA]BBB(Stable)/[ICRA]A2); the proportion of the same stood at 11% of the total assets in March 2016 and in March 2015. ICRA notes that there is scope for improvement in the credit appraisal, internal controls and risk management systems, although the overall asset quality indicators have remained comfortable over the recent past. Furthermore, the rating also takes into consideration the lack of regulatory oversight given that the entities operates as a proprietorship/partnership firms and, therefore does not come under the purview of RBI regulations. Going forward, ability of the entities to grow its portfolio under high competitive operating environment by keeping the asset quality under control and maintaining good profitability indicators would be key rating sensitivities.

### Entity Profile

Varun Finance (VF), Lakshmi Finance (LF) and Varun Leasing (VL) are part of the Vijayawada based 'Varun Group', which has diversified interests in the areas of auto dealership, financing and real estate. The three financing entities within the group operate under the same management and in the same business segment. The combined entity is engaged in financing of Bajaj Two Wheelers /Three Wheelers, Maruti Cars and Mahindra Commercial Vehicles sold through the auto dealerships of the Varun Group.

As on March 31, 2016, total vehicle loan portfolio of the combined entity stood largely stable at Rs. 165.3 crore (provisional) compared to Rs. 160.3 crore as on March 31, 2015. For the financial year ended March 31, 2016 the combined entity reported a Profit Before Tax (PBT) of Rs. 13.2 crore (provisional) on an asset base of Rs. 190.8 crore. As on March 31, 2016, total net worth (provisional) of the combined entities in relation to total assets was 43%.

VF was setup in 1988 as proprietorship concern under the name of Ms. Lakshmi Kishore, and is engaged in financing of Bajaj Two Wheelers /Three Wheelers, Maruti Cars and Mahindra Commercial Vehicles sold through the auto dealerships of the Varun Group. As on March 31, 2016, VF had a total vehicle loan portfolio of Rs. 72.6 crore. In FY2016, VF reported a provisional profit before tax (PBT) of Rs. 6.1 crore on an asset base of Rs. 81.1 crore. As on March 31, 2016, total net worth in relation to total assets was about 47%.

**May 2016**

<sup>1</sup> For Complete rating scale and definitions please refer to ICRA's Website [www.icra.in](http://www.icra.in) or ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million



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