

August 04, 2017

Aphelion Finance Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based Bank Lines	30.00	[ICRA]BB (Stable); Assigned
Total	30.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]BB (pronounced ICRA double B) to the Rs. 30.00 crore¹ fund based facilities of Aphelion Finance Private Limited (Aphelion)². The outlook on the long-term rating is 'stable'.

Rationale

The rating factors in the management's extensive experience in the personal loan business, the company's adequate capitalisation with moderate gearing levels, stable asset quality indicators and the improvement in profitability during FY2017. The ratings, however, are constrained by the company's relatively low scale of operations and the high risk associated with unsecured personal lending; the company's personal loan book witnessed a rapid growth in FY2017 and formed 55% of its portfolio as on March 31 2017. This coupled with concentration of portfolio in Mumbai exposes Aphelion to geographical risk. ICRA however notes that the company has partnered with financial technology start-ups to improve its product and geographic diversity. The company has also recently started extending mortgage loans which are secured in nature. However, the scale of operations of the new businesses remains low and personal loan segment is likely to form a major portion of Aphelion's portfolio in the near term. The rating is also constrained by the intense competition from NBFCs and banks in the personal loan segment, which may affect margins in the future.

Key rating drivers

Credit strengths

- **Extensive experience of the management in the personal loan business** - Incorporated in 1996 as an NBFC for providing two-wheeler financing, Aphelion ventured into the small ticket personal loan segment in 2004. The company introduced its secured gold loans in 2014, and subsequently introduced loans against insurance policies, loans against properties and loans against hypothecation of assets during 2015-17. The company also started new products in alliance with financial technology start-ups, such as payments for e-commerce products, micro ticket size loans for students and mobile equipment financing for cab drivers. These are small ticket size loans with tenures less than 12 months and are less risky than personal loans as origination; underwriting and repayments are managed by the partner companies.
- **Adequate capitalisation with moderate gearing levels** – The Company's capital adequacy ratio stood at 34.12% as on March 31, 2017 (33.03% as on March 31, 2016) which is well above the RBI stipulated minimum of 15%. The promoters have regularly infused capital into the company to support its growth plans. While the company's gearing increased to 2.31 times as on March 31, 2017 from 1.49 times as on March 31, 2016, it remains comfortable.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

- **Stable asset quality indicators** - Aphelion strengthened its credit approval process during FY2017 which resulted in limited credit losses in the year. The company's gross NPAs (reported at 180+ dpd) improved to 1.28% as on March 31, 2017 from 1.60% as on March 31, 2016.
- **Improvement in profitability during FY2017** - Aphelion reported net profits of Rs 1.84 crore in FY2017 vis-a-vis Rs 0.90 crore in FY2016. The improvement in profitability was supported by a marginal decline in operating expenses and cost of funds in FY2017. The company's PAT/ATA also improved to 4.36% as on March 31, 2017 from 2.86% as on March 31, 2016.

Credit weaknesses

- **Small scale of operations** – Aphelion's scale of operations remain small with portfolio size of Rs. 42.75 crore as on March 31, 2017 vis-a-vis Rs. 29.69 crore as on March 31, 2016.
- **High concentration of unsecured personal loan portfolio** – Unsecured personal loans formed 55% of Aphelion's total portfolio as on March 31, 2017 (56% as on March 31, 2016). ICRA takes comfort from the vast experience of the management and some key credit policies of the company like having a guarantor with permanent residency in Mumbai and a signed cheque from the guarantor which may be encashed in case the borrower defaults. The company is also diversifying its portfolio by introducing new secured products like gold loans, loans against LIC insurance policy, and partly secured loans against gold and LIC insurance policies, loans against hypothecation and loans against property.
- **High geographical concentration** –Aphelion operates from a single branch in Mumbai. It has partnered with start-ups to expand its portfolio outside Mumbai through these start-ups.
- **Financial flexibility remains constrained with limited tie-ups with financial institutions:**
The company is primarily dependent on a few banks for its financing needs in addition to drawing unsecured loans from directors and raising inter-corporate deposits. Aphelion does not have any significant mismatches in its asset liability profile. It also has unutilised bank lines to meet short term liquidity needs.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

About the company:

Aphelion Finance Private Limited was incorporated in 1996 and is registered with the Reserve Bank of India as a non-deposit accepting non-banking finance company. It commenced operations in February 1999. Aphelion is promoted by Mr. Kishor Parekh who is currently the Chairman of the company. Managing Director is Ms. Vaishali Shah and associated with the company since inception. While Aphelion was engaged in two-wheeler financing initially, its focus since 2004 has been on the personal loan segment which accounted for 55% of the portfolio as on March 31, 2017.

At present, Aphelion is engaged in personal loan financing, gold loans, loans against property, loans against insurance policies and loans against hypothecation of assets. During FY2017, the company reported a PAT of Rs. 1.84 crore on a total income base of Rs. 11 crore as compared with a PAT of Rs. 0.90 crore on a total income base of Rs. 8.16 crore in FY2016.

Key Financial Indicators

	FY2016	FY2017
Net interest income	2.16	3.16
Profit before tax	1.35	2.75
Profit after tax	0.90	1.84
Net advances	29.69	42.75
Total assets	32.65	51.50
% Tier 1	33.03%	34.12%
% CAR	33.03%	34.12%
Gearing	1.49	2.31
% Net profit/Average total assets	2.86%	4.36%
% Return on net worth	7.25%	13.06%
% Gross NPAs	1.60%	1.28%
% Net NPAs	0.97%	0.78%
Net NPA/Net worth	2.23%	2.19%

Source Aphelion & ICRA research; Amounts in Rs. crore
 NPA: Non Performing Assets; CAR: Capital Adequacy Ratio

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Aug 2017	FY20 17	FY20 16	FY20 15
						-	-	-
1	Demand Loan	Long Term	7.00	5.94	[ICRA]BB (stable)	-	-	-
2	Term Loan	Long Term	3.00	2.66	[ICRA]BB (stable)	-	-	-
3	Cash Credit	Long Term	20.00	19.87	[ICRA]BB (stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Demand Loan	April 2016	-	March 2019	7.00	[ICRA]BB (Stable)
NA	Term Loan	June, 2015	-	September 2019	3.00	[ICRA]BB (Stable)
NA	Cash Credit	2016	-	-	20.00	[ICRA]BB (Stable)

Source: Aphelion

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About ICRA Limited:

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