

November 06, 2017

Ahalia Money Exchange and Financial Services Private Limited

Summary of rated instrument

Instruments*	Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities	10.00	[ICRA]BB (Stable); reaffirmed

*Instruments details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced ICRA double B) for the Rs. 10.00 crore¹ bank facilities of Ahalia Money Exchange and Financial Services Limited (AMEFSL). The outlook on the long-term rating is stable².

Rationale

The rating continues to factor in AMEFSL's modest scale (portfolio size of Rs. 42.8 crore as on June 30, 2017), geographically concentrated operations (55 branches located in Kerala), exposure to borrowers with marginal credit profiles, and its limited financial flexibility. Over the past 12 months, the company's asset quality deteriorated in both the gold loan and loan against property (LAP) segments, with the 90+dpd in gold loan segment and LAP segment increasing to 8.5% and 60.0% respectively as on June 30, 2017 from 0.7% and 15.8% respectively as on March 31, 2016 (5.0% and 50.9% in March 31, 2017). ICRA nevertheless takes note of the company's comfortable capitalisation profile with a net worth of Rs. 32.1 crore and a gearing of 0.7 time as on March 31, 2017 (Rs. 32.1 crore and 0.6 time respectively as on in June 30, 2017). The company is a part of the Ahalia group, which has a reasonable franchise in the state of Kerala. ICRA notes that the company's profitability indicators are moderate with a return on average assets at 1.0% (annualised, provisional) for Q1FY2018 (2.3% in FY2017 and 1.4% in FY2016). The weak asset quality and high competitive pressures are likely to have an impact on the company's near term profitability indicators. AMEFSL's ability to undertake effective recoveries and contain incremental slippages would be crucial from a rating perspective.

Key rating drivers

Credit strengths

- **Part of the Ahalia Group, which has a reasonable regional franchise and branch network in Kerala** – AMEFSL is part of the Ahalia Group of companies, based in Palakkad, Kerala. The promoter, Dr. V. S. Gopalan, is a medical practitioner who ventured into various businesses including educational institutions, real estate, foreign exchange and multi-speciality hospitals in India and UAE. The promoters of the Ahalia Group are also the directors of AMEFSL, which provides visibility on operational, managerial and financial support from the group. The Group's promoters are actively engaged in the operations and key decision making in AMEFSL.
- **Comfortable capitalisation profile** – AMEFSL's current capitalisation is comfortable with a gearing of 0.6 time as on June 30, 2017 supported by Rs. 21.0 crore of capital infusion by the promoters in FY2016. ICRA expects the capital structure to remain comfortable given the company's portfolio growth target of 20% per annum for the period FY2018-FY2019

¹Rs. 1 crore = Rs. 10 million = Rs. 100 lakh

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

Credit weaknesses

- **Modest scale and geographically concentrated operations** – AMEFSL has a modest scale of operations with a total portfolio of Rs. 42.8 crore as on June 30, 2017. Gold loans constituted about 90% of the portfolio with LAP accounting for about 10% as on June 30, 2017. The company also has a small exposure towards vehicle loans and personal loans. The company does money exchange transactions and money transfer transactions. The company has all its 55 branches in the state of Kerala; the operations are further concentrated with 50% of the branches in the Trissur and Palakkad districts.
- **Deterioration in asset quality** – The 90+ dpd in the gold loan and LAP loan segments was high at 8.5% and 60.0% respectively as on June 30, 2017 (5.0% and 50.9% respectively as on March 31, 2017). The deterioration in asset quality of the gold loan segment was on account of the residual impact of demonetisation and subdued business environment for small business customers, while the decline in the LAP asset quality was because of the company's weak credit assessment processes, which were further accentuated by the subdued operating environment. The company's reported NPAs as on March 31, 2017, considering the RBI forbearance post demonetisation, stood at 0.98%. The company is in the process of strengthening its gold loan collection mechanism and also proposes to introduce interest rate rebate for monthly repayments, which could improve asset quality in this segment going forward. ICRA notes that close to 68% of the gold loan portfolio is with a tenure of 3 months and 17% with a tenure of 6 months; this provides visibility on recoverability of these loans, when they turn overdue. ICRA also takes comfort from the security cover, with average LTV of 50% in the LAP segment. The company's ability to recover from the non-performing LAP loans and contain incremental slippages in both gold and LAP segments would be crucial from a rating perspective.
- **Limited financial flexibility** – AMEFSL's funding profile is limited to borrowings from one bank and NCDs from the promoters' network. Though the current funding profile is adequate for the current scale of operations, it is critical for the company to diversify its funding sources over the medium term to meet its business growth targets while maintaining adequate liquidity.
- **Profitability indicators to remain moderate** – AMEFSL's net profitability (PAT/ATA³) improved from 1.4% in FY2016 to 2.3% in FY2017 aided by an expansion in net interest margin and a reduction in operating expenses with improvement in operational leverage. The company's credit costs increased from 0.2% in FY2016 to 0.6% in FY2017. ICRA also takes note of the reduction in gold loan lending rates because of competitive pressures, which would impact its net interest margin going forward. In Q1FY2018, the company's net profitability was low at 1.0%. ICRA expects the company's profitability for FY2018 to remain moderate because of its weak asset quality profile and the resultant higher credit costs.

Analytical approach: For arriving at the rating, 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 entity:

Ahalia Money Exchange and Financial Services Private Limited (AMEFSL), was incorporated in 2001 and commenced operations as a money exchanger to support the remittances of the Al Ahalia Money Exchange Bureau in the UAE. It obtained the Full Fledged Money Changer (FFMC) licence in 2003. In 2010, the company obtained an NBFC licence from the Reserve Bank of India (RBI) and commenced lending operations in 2011.

³ PAT/ATA- Profit After Tax/Average Total Assets

The company currently has a network of 55 branches in Kerala. The company offers gold loans, loans against property, vehicle loans and personal loans. Its total portfolio as on June 30, 2017 stood at Rs.42.8 crore, of which gold loans were about Rs. 38.3 crore. The money exchange division offers a range of services including remittances, foreign currency buy and sell, PAN card services, visa and passport services, and travel card services. As on June 30, 2017, AMEFSL's total net worth stood at Rs. 32.1 crore and gearing at 0.63 time.

During Q1FY2018, AMEFSL reported a provisional a net profit of Rs .0.1 crore on a total asset base of Rs. 53.18 crore.

During FY2017, AMEFSL reported a net profit of Rs. 1.1 crore on a total asset base of Rs. 46.3 crore as compared with a net profit of Rs. 0.6 crore during FY2016 on a total asset base of Rs. 34.6 crore.

Key Financial Indicators (Audited)

	FY2016	FY2017
Total Income	7.8	10.1
PAT	0.6	1.1
Net worth	30.8	31.9
Total Managed Portfolio	34.6	46.3
Total Managed Assets	43.2	55.1
Return on Managed Assets %	1.4%	2.3
Return on Net worth %	2.7%	3.6%
Gearing (times)	0.4	0.7
Gross NPA%	3.2%	2.9%
Net NPA%	1.3%	1%
Net NPA / Net worth %	3.0	1.8
CRAR%	83.2%	70.5%

Source: AMEFSPL and ICRA research; Amounts in Rs. crore

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			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	FY2018	FY2017	FY2016	
				November 2017	November 2016	October 2015	
1	Fund based - Bank Facilities	Long term	10.00	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[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
-	Cash Credit	-	-	-	10.00	[ICRA]BB (stable)

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About ICRA Limited:

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