

June 28, 2019

Sri Padma Priya Finance Corporation: Rating reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---------------------------|--------------------------------------|-------------------------------------|-------------------------------|
| Long-term bank facilities | 18.00 | 18.00 | [ICRA]B+ (Stable); reaffirmed |
| Total | 18.00 | 18.00 | |

* Instrument details are provided in Annexure-1

Rationale

For arriving at the rating, ICRA has taken a consolidated view of Sri Padma Priya Finance Corporation (PP) and Sri Vishnu Priya Finance (VP) as these entities are under the same management and operate in the same business segment. The combined entity is henceforth referred to as PPVP/the entities.

The rating reaffirmation factors in PPVP's small scale with a combined portfolio of Rs. 82.2¹ crore as on March 31, 2019, high geographical concentration with a presence in a single state and weak profitability indicators. While the management is taking initiatives to expand the business by commencing operations in new districts, ICRA notes that PPVP's concentration in Andhra Pradesh is likely to remain high over the medium term. The rating continues to factor in the operational and managerial support from the SB Group. The Group's promoters have diverse business interests including auto dealership, real estate and tour & travel operations. The rating also factors in PPVP's good asset quality indicators with the 90+ delinquencies at 1.5% and the comfortable capital structure with a gearing of 2.9 times as on March 31, 2019.

ICRA notes that there is scope for improvement in PPVP's credit appraisal, internal control and risk management systems, which is crucial for business expansion. The rating also takes into consideration the lack of regulatory oversight as the entities operate as partnership firms. PPVP's ability to improve its funding diversity, maintain the asset quality and scale up its operations, going forward, would be crucial from a rating perspective.

Outlook: Stable

The Stable outlook factors in the good asset quality indicators and comfortable capitalisation profile. The outlook may be revised to Positive as PPVP scales up with an improvement in its profitability while maintaining a comfortable capitalisation profile. The outlook may be revised to Negative in case of a significant deterioration in the asset quality or other financial indicators.

¹ Includes unmaturred hire purchase charges

Key rating drivers

Credit strengths

Comfortable capitalisation profile – PPVP’s capitalisation is comfortable with a gearing of 2.9 times (as on March 31, 2019), supported by regular capital infusion by promoters/managing partners. ICRA expects the capital structure to remain comfortable over the medium term and to adequately support the envisaged business expansion.

Good asset quality – The asset quality remains healthy with a 90+ dpd of 1.5% as on March 31, 2019 (1.5% as on March 31, 2018). ICRA notes that the soft bucket delinquencies remain high as the 0+ dpd stood at 30% as on March 31, 2019. However, the forward flows are restricted by repossession and recovery efforts. As on March 31, 2019, about 82% of PPVP’s total loans were towards used two-wheelers and the remaining towards new two-wheelers. The credit profile of the borrowers in these segments is modest, making PPVP vulnerable to adverse economic cycles.

Support from Group entities and promoters – The SB Group has business interests in various fields including auto dealership, auto financing, real estate and tour & travel operations. PPVP derives operational and managerial support from the SB Group and leverages the Group’s established auto dealerships namely, SB Wheels Zone and SB Motor Corporation, for business growth. PPVP also derives financial support from the Group companies in the form of unsecured loans to bridge its funding requirement. These loans accounted for 32% of the total borrowings as on March 31, 2019 (34.2% as on March 31, 2016).

Credit challenges

Small scale and geographically concentrated operations – PPVP has a small scale of operations (portfolio of Rs. 82.2 crore as on March 31, 2019) limited to Andhra Pradesh. ICRA also takes note of the initiatives taken by PPVP to reduce its reliance on Group entities for business. ICRA expects the operations to remain concentrated in Andhra Pradesh over the medium term.

Subdued profitability indicators – PPVP’s profitability (Profit after tax/Average total assets) was modest at 0.7% in FY2019 owing to higher operating expenses (Operating expense/Average total assets of 33.7%). Going forward, it would be crucial for PPVP to improve its operating efficiency. The cost income ratio was 96.2% in FY2019 (96.7% in FY2018).

Scope for improvement in credit appraisal; lack of regulatory oversight – PPVP’s appraisal process does not include borrower income analysis or credit bureau checks. It relies largely on reference checks for feedback while making credit decisions, which accentuates the credit risk considering the modest target customer profile. The management information system is not integrated with the accounting system. Given the absence of regulatory oversight and constitution (partnership firms), PPVP does not provide for non-performing assets.

Modest funding diversity – The funding profile largely consists of unsecured loans from Group entities and partners in addition to a cash credit facility from a bank. The entities ability to diversify funding sources and secure long-term borrowings at competitive rates would be critical for portfolio expansion.

Liquidity position:

PPVP’s liquidity profile is stretched as its combined bank facilities (cash credit) of Rs.36 crore were almost fully utilised as on May 31, 2019. However, the absence of any major term loan repayment obligations and the presence of sizeable unsecured loans from Group companies provide liquidity cushion to some extent. Further, its comfortable capitalisation profile with headroom for borrowings is expected to provide support. Going forward, ICRA notes that PPVP’s ability to improve its funding diversity would be crucial for long-term liquidity.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | ICRA's Credit Rating Methodology for Non-Banking Finance Companies |
| Parent/Group Support | NA |
| Consolidation / Standalone | The rating is based on the consolidated financials of Sri Padma Priya Finance Corporation and Sri Vishnu Priya Finance. |

About the company

PP was set up in 1995 as a partnership firm in Rajahmundry (Andhra Pradesh). It finances two-wheelers in the east Godavari region of Andhra Pradesh. As on March 31, 2019, PP's total vehicle loan portfolio grew by 22.8% YoY to Rs. 49.5 crore (provisional; including unmatured hire charges). In FY2019, PP reported a net profit of Rs. 0.3 crore on an asset base of Rs. 36.7 crore. As on March 31, 2019, its total net worth, in relation to the total managed portfolio, was about 30.1%.

Group Profile

PPVP is a part of the SB Group, based in Rajahmundry. The key entities in the SB Group include SB Motor Corporation, SB Wheels Zone, Sri Padma Priya Finance Corporation and Sri Vishnu Priya Finance. With an established track record of over three decades, the SB Group is primarily engaged in two- and four-wheeler dealerships and financing. Mr. Rangaprasad, Mr. Ramkumar, Ms. Parimala, and Mr. Suresh Kumar are the partners in all the entities of the Group with varying shares in each firm.

The Group's financing activities are undertaken by PP and VP. Both are partnership firms and provide finance for two-wheelers, mostly used vehicles, with a focus on the rural market.

As on March 31, 2019, PPVP's total vehicle loan portfolio stood at Rs. 82.2 crore (Provisional; including unmatured hire purchase charges; Rs.58.4 crore excluding unmatured hire purchase charges), registering YoY growth of about 17.6%. For FY2019 (Prov), the combined entity reported a net profit of Rs. 0.5 crore on an asset base of Rs. 71.1 crore. As on March 31, 2019, PPVP's total net worth in relation to total assets was 25.4% (provisional).

Key financial indicators (Combined Entity – PPVP)

| | FY2018 | FY2019 (Prov) |
|--|--------|---------------|
| Total Income | 31.1 | 33.3 |
| Profit after Tax | 0.3 | 0.5 |
| Net Worth | 16.2 | 18.1 |
| Total Managed Portfolio (excluding unmatured hire purchase charges) | 49.0 | 58.4 |
| Total Managed Assets | 59.7 | 71.1 |
| Return on Managed Assets | 0.6% | 0.7% |
| Return on Net Worth | 2.2% | 2.7% |
| Gearing (times) | 2.7 | 2.9 |
| Gross NPA% | NA | NA |
| Net NPA% | NA | NA |
| Net NPA/Net Worth | NA | NA |
| CRAR% | NA | NA |

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

| Instrument | Type | Current Rating (FY2020) | | Chronology of Rating History for the Past 3 Years | | | |
|------------------------|-----------|--------------------------|--------------------------------|---|-------------------------|-------------------------|-------------------------|
| | | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2020 | Date & Rating in FY2018 | Date & Rating in FY2017 | Date & Rating in FY2016 |
| | | | | Jun-19 | Mar 2018 | Sep 2016 | Jul-15 |
| 1 Bank line facilities | Long Term | 18.00 | 18.00 | [ICRA]B+ (Stable) | [ICRA]B+ (Stable) | [ICRA]B+ (Stable) | [ICRA]B+ |

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 Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|-----------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| - | Cash Credit | - | - | - | 18.00 | [ICRA]B+ (Stable) |

Source: Sri Padma Priya Finance Corporation

Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|--------------------------------------|-----------|------------------------|
| Sri Padma Priya Finance Corporation | 100% @ | Full Consolidation |
| Sri Vishnu Priya Finance Corporation | 100% @ | Full Consolidation |

@ Partners with 100% share in profits are common for both entities

ANALYST CONTACTS

Karthik Srinivasan
+91-124-4545 847
karthiks@icraindia.com

A M Karthik
+91-44-4596 4308
a.karthik@icraindia.com

Shaik Abdul Saleem
+91-44-4596 4325
shaik.saleem@icraindia.com

Swathi Hebbar
+91-80-4332 64014
Swathi.hebbar@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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