

December 20, 2019

Ahalia Money Exchange & Financial Services Pvt. Ltd.: Rating reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Facilities – Cash Credit	10.00	10.00	[ICRA]BB (Negative); reaffirmed, Outlook revised to Negative from Stable
Total	10.00	10.00	

* Instrument details are provided in Annexure-1

Rationale

The revision in the outlook considers the weakening in Ahalia Money Exchange & Financial Services Pvt Ltd.'s (AMEFSL) asset quality, which adversely impacted its earnings profile in FY2019 and H1 FY2020. AMEFSL's asset quality weakened, with the gross NPA (GNPA; 180+ dpd¹) increasing to 12.6% as on December 31, 2018 from 4.5% as on March 31, 2018. The GNPA's moderated to 5.8% as on March 31, 2019, on account of write-offs in Q4 FY2019. The overdues spiked in the gold loan segment (11.13% in December 2018 from 0.0% in March 2018) due to lapses in internal controls, resulting in the pledging of spurious gold jewellery by some borrowers while the overdues in the loan against property (LAP) segment remained high. Consequently, AMEFSL reported a net loss on average total assets of 14.3% and 3.8% in FY2019 and H1 FY2020, respectively, vis-à-vis a net profit on average total assets of 0.9% in FY2018 as it faced high credit losses and high operating costs. ICRA expects the company's profitability to remain subdued in the near term because of any residual credit loss, which may be incurred in the current fiscal, and also because of elevated operating costs as it augmented its internal controls and monitoring process.

ICRA factors in the benefits derived from being a part of the Ahalia Group, which has a reasonable regional franchise and branch network in Kerala. ICRA has also considered AMEFSL's adequate capitalisation profile, characterised by a gearing of 2.3x as of September 2019 vis-à-vis 1.5x as of March 2019 (0.84x as of March 2018). The rating, however, continues to factor in the company's moderate scale (Rs. 65.1 crore as on September 30, 2019), geographically concentrated operations and stretched liquidity profile.

Key rating drivers and their description

Credit strengths

Part of Ahalia Group, which has a reasonable regional franchise and branch network in Kerala – AMEFSL is a part of the Ahalia Group of companies, based in Palakkad, Kerala. The promoter, Dr. V. S. Gopalan, is a medical practitioner who has interests in various businesses including educational institutions, real estate, foreign exchange and multi-speciality

¹ Days past due

hospitals in India and the UAE. The promoters of the Ahalia Group are also the directors of AMEFSL, which provides visibility on the operational, managerial and financial support from the Group, if required. The Group's promoters are actively engaged in AMEFSL's operations and key decision-making process.

Comfortable capitalisation profile – AMEFSL's current capitalisation is comfortable with a gearing of 2.3x as on September 30, 2019 vis-à-vis 1.5x as on March 31, 2019 (0.84x as on March 31, 2018). The higher leverage was due to the losses reported in FY2019 and H1 FY2020 and the increase in the portfolio in H1 FY2020. AMEFSL envisages equity infusion of Rs. 25-30 crore from a private investor in Q4 FY2020. ICRA expects the capital structure to remain comfortable at 3-4x, given the company's CAGR of 95% for FY2019-2021 and in view of the above-mentioned capital infusion, while internal generation would remain strained.

Credit challenges

Weak asset quality – AMEFSL's asset quality is characterised by GNPA (180+ dpd) of 5.8% as on March 31, 2019 vis-à-vis 4.5% as on March 31, 2018. The GNPA's had increased to 12.6% as on December 31, 2018 before moderating on account of write-offs in Q4 FY2019. The overdues increased in the gold loan segment (11.1% in December 2018 from 0.0% in March 2018) as lapses in internal controls resulted in the pledging of spurious gold jewellery by some borrowers while overdues in the LAP segment remained high. Hence, AMEFSL faced high credit costs of 15.4% in FY2019 and 1.95% in H1 FY2020 as it wrote off the bad loans and derecognised the accrued interest. The overall GNPA stood at 3.73% in September 2019, with GNPA's in the gold loan and LAP segments at 0.0% and 33.50%, respectively.

The 90+ dpd in the gold loan segment was high at 11.28% as on March 31, 2019 vis-à-vis 4.75% as on March 31, 2018. It, however, moderated to 1.26% as on September 30, 2019 with bad loans being written off and recoveries being made from borrowers or via auctions. Consequently, the overall 90+dpd improved to 5.07% as on September 30, 2019 from 15.71% as on March 31, 2019 (9.87% as on March 31, 2018).

In view of the operational lapses identified in FY2019 and H1 FY2020, AMEFSL has mandated background verification of the borrower for a loan amount exceeding Rs. 10 lakh and has reduced the single account exposure to Rs. 10 lakh (from Rs. 25 lakh) at the branch level. The audit team has been enhanced and it has augmented the scope and frequency of audits at the branch. The mandatory verification of gold packets for the 90+ dpd accounts is included in the scope of internal audit. AMEFSL has moved to monthly interest collections from October 2019 vis-à-vis the quarterly interest collection at maturity made earlier. The company's ability to recover from the non-performing LAP loans (average loan-to-value (LTV) of 50%) and contain incremental slippages in the gold and LAP segments would be crucial from a rating perspective.

Weak profitability indicators – AMEFSL reported a net loss on average total assets of 3.75% and 14.3% in H1 FY2020 and FY2019, respectively, vis-à-vis a net profit of 0.9% in FY2018. The profitability indicators were impacted by the high credit cost, increased leverage and high operating expense ratio. The credit cost stood high at 1.95% in H1 FY2020 and 15.39% in FY2019 due to the loss incurred in the gold loan segment. The operating expenses were high at 13.1% in H1 FY2020 (12.6% in FY2019). The net interest margin declined sharply to 7.67% in H1 FY2020 vis-à-vis 10.1% in FY2019 due to lower yields because of low performing assets during the year and higher gearing. The non-interest income on average assets stood at 3.4-3.6% during FY2018 to H1 FY2020, which was largely from the forex business. ICRA expects the company's profitability to remain subdued in FY2020 because of high operating expenses and credit costs.

Moderate scale and geographically concentrated operations – AMEFSL has a modest scale of operations with a total portfolio of Rs. 65.1 crore as on September 30, 2019. Gold loans constituted about 87% of the portfolio with LAP accounting for about 11% vis-à-vis 94% and 6%, respectively, as on March 31, 2019. The company also has a small

exposure towards vehicle loans, personal loans, business loans and loan against securities, which together accounted for 2% of the overall portfolio. AMEFSL does currency exchange and money transfer transactions, which contribute fee income. It achieved fee income of Rs. 2.2 crore in FY2019 vis-à-vis Rs. 2.08 crore in FY2018. All 46 of the company's branches were in Kerala as on September 30, 2019 vis-à-vis 56 branches as on March 31, 2019. While it merged 13 branches during this period, it also opened three new branches in the districts of Thrissur, Malappuram and Tirur. The operations are concentrated with 50% of the branches in the Trissur and Palakkad districts.

Liquidity position: Stretched

AMEFSL has a stretched liquidity profile, reflected in the high working capital utilisation and limited funding diversity. It currently has working capital facilities from two banks with a total limit of Rs. 24 crore and the average utilisation during the six months ended September 2019 was about 98%. The asset liability maturity profile exhibited a cumulative negative mismatch of about 5% of the total assets in the less than one-year bucket as of September 2019, assuming 60% of the gold loans are rolled over, post interest servicing. ICRA, nevertheless, takes comfort from the low gearing, liquid nature of the gold collateral and the shorter-tenor of the loans (about 95% of the loans have a tenor of less than six months). The company issued non-convertible debentures (NCDs), which were largely subscribed by the staff, friends and families of the promoter group, with the outstanding amount of Rs. 23.8 crore as on September 30, 2019. About 45% of the NCDs are repayable in the next 12 months. The company intends to raise about Rs. 15-20 crore via the issuance of unsecured bonds in H2 FY2020. Its ability to secure funding in a timely manner and at competitive rates from diversified sources would be critical for its growth and from a liquidity standpoint as well.

Rating sensitivities

Positive triggers – Given the Negative outlook, a rating upgrade is less likely in the near term. The outlook could be revised to Stable if AMEFSL demonstrates good quality growth and improvement in its earnings profile, while maintaining a prudent capital structure.

Negative triggers – ICRA could downgrade AMEFSL's rating if the asset quality or operating efficiency continues to weaken further, thereby adversely impacting the profitability and capital position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financials of AMEFSL

About the company

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 based out of 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.

AMEFSL currently has a network of 46 branches in Kerala. It offers gold loans, loans against property, vehicle loans and personal loans. Its total portfolio as on September 30, 2019 stood at Rs. 65.1 crore, of which gold loans were about Rs. 56.8 crore. The money exchange division offers a range of services including remittances, foreign currency purchase and

sale. The company also offers PAN card related services, visa and passport services and travel card services. As on September 30, 2019, AMEFSL's total net worth stood at Rs. 28.1 crore and gearing at 1.8x (adjusted net worth stood at Rs. 21.5 crore and adjusted gearing at 2.3x).

Key financial indicators – AMEFSL

	FY2018	FY2019
Total Income	10.4	11.9
Net Profit	0.6	(9.2)
Net Worth [^]	32.5	23.2
Total Managed Portfolio	52.4	51.7
Total Managed Assets	61.4	68.0
Return on Managed Assets	0.9%	(14.3) %
Return on Net Worth	1.7%	(29.8) %
Gearing (times)	0.8	1.5
Gross NPA (180+ dpd) %	4.5%	5.8%
Net NPA (180+dpd) %	3.5%	4.1%
Net NPA/Net Worth	5.6%	7.2%
CRAR %	55.4%	35.7%

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

[^]Adjusted for revaluation reserve of Rs. 6.32 crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument		Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating 20-Dec-19	FY2019 19-Dec-18	FY2018 06-Nov-17	FY2017 11-Nov-16
1	Long-term Bank Facilities – Cash Credit	Long Term	10.00	10.00	[ICRA]BB (Negative)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long-term bank facilities – Cash credit	NA	NA	NA	10.00	[ICRA]BB (Negative)

Source: AMEFSL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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