

June 29, 2020

## Aryadhan Financial Solutions Private Limited: Rating reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based/non-fund based bank lines	50.00	100.00	[ICRA]BB+(Stable); reaffirmed
<b>Total</b>	<b>50.00</b>	<b>100.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

To arrive at Aryadhan Financial Solutions Private Limited's (AFSPL) rating, ICRA has taken a consolidated view of the credit profiles of AFSPL and its parent company, Arya Collateral Warehousing Services Private Limited (ACWSPL) owing to their close business linkages, common management and shared infrastructure.

The rating factors in AFSPL's adequate capitalisation profile for the current scale of operations with a net worth of Rs. 51.90 crore and a gearing of 0.91 times as on March 31, 2020, supported by the recent equity infusion of Rs. 42 crore by private equity investors. The rating factors in the comfortable asset quality indicators (GNPA of 0.31% on a 180+ dpd basis as on March 31, 2020) with the improved seasoning on the loan book and the good liquidity of the underlying collateral in the form of agricultural commodities stored at the parent's leased warehouses. The rating also factors in the synergies derived by the company from its operational linkages with its parent, ACWSPL, in terms of the sourcing of new business and the quality maintenance of the commodities at the warehouses. Given these benefits, ICRA expects the losses in case of defaults to be minimal for the company.

The rating is however constrained by AFSPL's short track record and relatively small scale of operations (portfolio of Rs. 64.19 crore as on March 31, 2020) and the high portfolio vulnerability due to the moderate target borrower profile and volatility in commodity prices. The rating is also constrained by the subdued profitability indicators (return on net worth of -7.50% in FY2020) on account of high operating expenses and the low diversification of the borrowing mix with concentration towards a few lending partners. However, the credit risk is mitigated to an extent by the adequate security cover on the loans (loan-to-value (LTV) of 65-70%) and adequate risk management systems. Going forward, the profitability indicators are expected to improve with an increase in the scale. The company's ability to scale up further by raising capital (both debt and equity) in a competitive operating environment, while maintaining the asset quality and improving its profitability indicators, would be a key rating sensitivity.

### Key rating drivers and their description

#### Credit strengths

**Operational synergies with parent** – ACWSPL acts as a warehouse service provider and a collateral manager for large agri-corporates, SMEs and smallholder farmers to store agricultural commodities. AFSPL shares the same sourcing and collection team and provides short-term financing to farmers and traders against the commodities managed at the parent's warehouses so that they can sell their produce at favourable prices when the commodity supply is not very high at the mandis. ACWSPL operates on an asset-light model whereby it leases warehouses from third parties on a fixed rent basis and offers these warehouses to traders and food processors for storage. It also conducts frequent audits to check

for spoilage, theft, etc, at the warehouses. This provides support to AFSPL in case of default as the commodities can be sold without much time lag, thereby helping the company keep the losses in case of defaults low.

**Comfortable asset quality indicators** – AFSPL’s asset quality indicators remained comfortable with a GNPA (180+ dpd basis) of 0.31% as on March 31, 2020 compared to 0.54% as on March 31, 2019, supported by the liquidity of the underlying collateral in the form of agricultural commodities stored at the parent’s leased warehouses. The company actively tracks the commodity prices and the risk is mitigated to some extent by the adequate security cover on the lending book with LTV ratios in the range of 65-70%. In case of a significant price decline, AFSPL issues a margin call to the borrower to either increase the margin on the loan or to repay the loan. Following this, the commodity can also be liquidated by the company based on the willingness and ability of the borrower to repay the loan. The loan book seasoning has also improved with the completion of 4-5 loan cycles due to the short tenure of the loans (6-9 months) over the last 2.5 years of operations, in line with the two major harvesting seasons during the year. Overall, AFSPL’s ability to maintain its asset quality while improving its scale of operations would be a key rating sensitivity.

**Adequate capitalisation profile** – AFSPL’s capitalisation profile remains adequate at the current scale of operations (assets under management (AUM) of Rs. 64.19 crore as on March 31, 2020) with a gearing of 0.91 times (0.72 times on a consolidated basis) and a net worth of Rs. 51.90 crore (Rs. 78.84 crore on a consolidated basis) as on March 31, 2020. This was supported by an equity infusion of Rs. 42 crore in FY2020 by the existing private equity investor and a new venture capital firm. The gearing levels would increase from the current levels as the company leverages the capital to grow. However, the peak gearing is expected to be below 2 times over the medium term. Going forward, given the growth plans and the management’s intention of maintaining prudent capitalisation levels, AFSPL would need sizeable fresh capital as the internal capital generation is expected to remain muted over the medium term.

## Credit challenges

**Short track record and modest scale of operations** – AFSPL started operations in the latter half of 2017 and has a limited track record of operations though it has completed 4-5 loan cycles due to the short tenure of the loans (6-9 months). The company’s AUM recorded a high growth of ~140% in FY2020 to Rs. 64.19 crore as on March 31, 2020 from Rs. 27.01 crore as on March 31, 2019. However, its scale of operations remains relatively low. The geographical concentration of the portfolio has improved with the loan book spread across 10 states with the top 4 states accounting for ~75% of the loan book as on March 31, 2020 compared to ~84% as on March 31, 2019. ICRA takes note of the recent equity infusion of Rs. 42 crore by private equity investors and expects that the company would be able to leverage the same to grow as per plans.

**High portfolio vulnerability** – AFSPL’s target segment mostly consists of small-and-medium-scale farmers along with farmer producer organisations with the loans largely being based on the quality of the collateral rather than the income profile of the borrowers. The key credit risks for the company include its ability to manage the commodity storage at the warehouses, the volatility in commodity prices which may lead to a reduction in the value of the collateral, and the build-up of any stress in the agrarian economy reflected by the impact of climatic conditions on the two major crop harvesting seasons in India. However, these risks are mitigated to some extent by the adequate risk management systems and the use of technology for quality assessment and to monitor the movement of the commodities at the warehouses. The adequate security cover on the loan book with LTVs of 65-70% provides some comfort. As the commodities are stored at the parent’s warehouses, it is easier to liquidate them in the event of a default by the borrower.

**Subdued profitability indicators** – With an average yield of ~13.5%, AFSPL generated a spread in the range of 1.5-2% over its borrowing costs in FY2020. It continues to invest in implementing an automated loan appraisal platform and on the use of artificial intelligence for the quality assessment of commodities. This led to high operating expenses in relation to the average total assets (8.36%), which, in turn, resulted in a loss with a return on net worth of -7.50% in FY2020.

However, with most of the investment in technology already accounted for and with the increase in scale going forward, the profitability indicators are expected to improve due to better operating efficiencies.

**Ability to diversify borrowing mix** – Given the low vintage of business operations along with the small scale of operations, AFSPL's borrowing mix remains concentrated towards other larger non-banking financial companies (NBFCs; ~70% of the total borrowings as on March 31, 2020) and a few banking relationships. ICRA notes that the company is gradually expanding its banking relationships and the share of funding from the banking channel is expected to increase in the coming years. The current liquidity position remains adequate, supported by a low gearing, though the company would need to raise sizeable debt to achieve the envisaged business growth. Going forward, AFSPL's ability to diversify its funding sources would improve its overall credit profile.

### Liquidity position: Adequate

AFSPL's liquidity position is adequate with positive cumulative mismatches across all maturity buckets of the asset-liability maturity (ALM) profile. This is driven by the relatively shorter tenure of the company's loans and advances compared to its borrowings as well as the low gearing supported by the fresh equity infusion of Rs. 42 crore in FY2020. The on-balance sheet liquidity, in the form of unencumbered cash and bank balances of ~Rs. 9 crore and liquid investments of Rs. 14 crore as on March 31, 2020, further augment the liquidity position.

### Rating sensitivities

**Positive triggers** – A significant increase in the Group's scale of operations supported by timely equity raise, along with an improvement in the profitability indicators while maintaining the asset quality, could lead to a rating upgrade.

**Negative triggers** – A deterioration in the asset quality indicators resulting in pressure on the profitability indicators or reduced synergies with the Group could lead to a rating downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies Consolidation and Rating Approach</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated view of the credit profiles of AFSPL and ACWSPL (parent company) owing to their close business linkages, common management and shared infrastructure

### About the company

AFSPL began its operations in late 2017 as a wholly-owned non-banking financial company (NBFC) subsidiary of ACWSPL. The company provides post-harvest commodity financing in association with its parent, which was incorporated in 1982 and manages ~1,300 warehouses across the country. AFSPL provides loans to farmers against the commodities kept and managed at the parent's warehouses.

In FY2020, AFSPL reported a loss of Rs. 2.41 crore on a total asset base of Rs. 100.20 crore as on March 31, 2020 against a loss of Rs. 0.75 crore on a total asset base of Rs. 31.88 crore as on March 31, 2019. The company's net worth stood at Rs. 51.90 crore as on March 31, 2020 against Rs. 12.31 crore as on March 31, 2019. The gearing stood at 0.91 times as on March 31, 2020.

### Key financial indicators - AFSPL (standalone)

	<b>FY2019</b>	<b>FY2020</b>
	<b>Audited</b>	<b>Provisional</b>
Profit after Tax	-0.75	-2.41
Net Worth	12.31	51.90
AUM	27.01	64.19
Total Assets	31.88	100.20
Return on Average Assets	-2.77%	-3.65%
Return on Net Worth	-5.88%	-7.50%
Gearing (times)	1.51	0.91
Gross NPA %*	0.54%	0.31%
Net NPA %	0.49%	0.28%
% Net NPA/Net Worth	1.07%	0.35%

Source: AFSPL, ICRA research; Amount in Rs. crore; \*180+ dpd

### Arya Collateral Warehousing Services Private Limited

Incorporated in 1982, ACWSPL provides post-harvest agriculture value chain services including warehousing, collateral management, audit and consultancy services. The company was set up by the J.M. Baxi Group and it entered collateral management services in 2002, primarily for ICICI Bank. Over the years, ACWSPL expanded its scope of services by offering warehousing services for agriculture commodities, consultancy and audit services. The warehousing segment has been the key growth driver for the company and contributed 65-66% to its turnover in FY2020 followed by trading (19%), collateral management (12%) and others. Its key customers include banks & financial institutions, corporates, farmers and farmer produce organisations (FPOs).

On a standalone basis, in FY2020, the company reported a profit after tax (PAT) of Rs. 5.02 crore on a total asset base of Rs. 105.85 crore as on March 31, 2020 against PAT of Rs. 4.74 crore in FY2019 on a total asset base of Rs. 41.78 crore as on March 31, 2019. On a consolidated basis, the company reported PAT of Rs. 2.62 crore in FY2020 on a total asset base of Rs. 150.10 crore as on March 31, 2020 against PAT of Rs. 3.99 crore in FY2019 on a total asset base of Rs. 67.01 crore as on March 31, 2019.

### Key financial indicators – ACWSPL (consolidated)

	<b>FY2019</b>	<b>FY2020</b>
	<b>Audited</b>	<b>Provisional</b>
Profit after Tax	3.99	2.62
Operating Income	88.09	130.10
Net Worth	32.83	78.84
Total Assets	67.01	150.10
OPBDITA/OI (%)	8.61%	6.70%
RoCE (%)	15.15%	8.46%
Total Debt/TNW (times)	0.72	0.72
Total Debt/OPBDITA (times)	3.25	6.47
Interest Coverage (times)	4.32	2.33

Source: ACWSPL, ICRA research; Amount in Rs. crore

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years**

Instrument		Current Rating (FY2021)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					29-Jun-20	30-Aug-19	18-May-18	-
1	Bank Lines	Long Term	100.00	42.05*	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Positive)	NA

Source: ICRA research; Amount in Rs. crore; \*As on May 31, 2020

**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](http://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
NA	Overdraft	29-May-19	11.34%	NA	7.50	[ICRA]BB+ (Stable)
NA	Term Loan 1	07-Mar-19	11.50%	06-May-22	3.00	[ICRA]BB+ (Stable)
NA	Term Loan 2	07-Mar-19	11.50%	13-Mar-22	2.00	[ICRA]BB+ (Stable)
NA	Term Loan 3	27-May-20	11.50%	27-May-23	5.00	[ICRA]BB+ (Stable)
NA	Term Loan 4	31-May-19	12.50%	03-Jun-20	2.50	[ICRA]BB+ (Stable)
NA	Term Loan 5	31-May-19	12.50%	03-Jun-20	2.50	[ICRA]BB+ (Stable)
NA	Term Loan 6	25-Nov-19	12.10%	30-Nov-20	3.75	[ICRA]BB+ (Stable)
NA	Term Loan 7	25-Nov-19	12.10%	05-Dec-20	3.75	[ICRA]BB+ (Stable)
NA	Term Loan 8	23-Dec-19	12.10%	31-Dec-20	2.50	[ICRA]BB+ (Stable)
NA	Term Loan 9	23-Dec-19	12.10%	31-Dec-20	2.50	[ICRA]BB+ (Stable)
NA	Term Loan 10	24-Feb-20	12.10%	25-Feb-21	5.00	[ICRA]BB+ (Stable)
NA	Term Loan 11	24-Feb-20	12.10%	25-Feb-21	5.00	[ICRA]BB+ (Stable)
NA	Term Loan 12	24-Feb-20	12.10%	18-Mar-21	5.00	[ICRA]BB+ (Stable)
NA	Term Loan 13	31-Mar-20	10.95%	31-Mar-22	5.00	[ICRA]BB+ (Stable)
NA	Proposed/ Unallocated Bank Lines	NA	NA	NA	45.00	[ICRA]BB+ (Stable)

Source: AFSPL, ICRA research

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