

February 22, 2022

Shalibhadra Finance Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based/Cash Credit	30	30	[ICRA]BBB- (Stable); Reaffirmed
Total	30	30	

*Instrument details are provided in Annexure-1

Rationale

ICRA has reaffirmed the rating of [ICRA]BBB- for the Rs. 30-crore long-term bank lines of Shalibhadra Finance Limited (SFL). The outlook on the long-term rating is Stable. The rating factors in SFL's operational track record in two-wheeler (2W) financing, local knowledge of the management, and the established dealer and sub-dealer network built over the years. The rating also considers the company's comfortable capitalisation levels [(regulatory capital adequacy ratio or CAR of 42.5% as on September 30, 2021 against 15% prescribed by the Reserve Bank of India (RBI)]. ICRA notes that SFL has historically maintained steady profitability though the same declined in FY2021 due to the business constraints caused by the Covid-19 pandemic.

The rating is constrained by the modest scale of operations (managed portfolio of Rs. 104 crore as on September 30, 2021), the monoline nature of the business including the inherent risks associated with 2W financing, and the relatively moderate credit profile of the borrowers. The rating is further constrained by the geographical concentration of SFL's operations, with Gujarat alone accounting for around 59% of the portfolio, and the company's limited financial flexibility.

ICRA also takes note of the deterioration in SFL's asset quality indicators due to the impact of the pandemic-related lockdowns in Q1 FY2022. However, the collections improved in Q2 FY2022 to 98% from 83% in Q1 FY2022. As a result, SFL's gross non-performing assets (GNPAs + write-offs) and net NPAs (NNPAs) improved to 4.43% and 2.59%, respectively, as on September 30, 2021, from 5.50% and 2.78%, respectively, as on March 31, 2021.

The Stable outlook on the long-term rating reflects ICRA's opinion that SFL will continue to benefit from its established market presence in Gujarat and Maharashtra, comfortable capitalisation and stable earnings profile.

Key rating drivers and their description

Credit strengths

Long track record in 2W financing and established relationships with dealers – SFL started operations in 1995 and was promoted by Mr. Minesh Doshi, the company's Managing Director. The company has a long track record and experience in the 2W finance business. Over the years, SFL has developed tie-ups with local dealers and sub-dealers for business sourcing and facilitating the repossession and sale of vehicles. The company also has tie-ups with scheduled district co-operative banks for collections, which improve its operating efficiency as well as reduce the risk of cash handling at its branches.

The loan book increased at a 3-year compound annual growth rate (CAGR) of 18.51% till FY2020. However, the growth was impacted since FY2020 due to erratic monsoons and the government-imposed lockdowns because of Covid-19 till H1 FY2022.

However, a revival in growth was observed in Q3 FY2022 due to better monsoons and pent-up demand during the Diwali season of FY2022, with QoQ growth of 7% (~Rs. 111 crore as of December 31, 2021).

Comfortable capitalisation – The company's capitalisation profile remains comfortable with a CAR of 42.5% and gearing of 1.20 times as of September 30, 2021. Gearing, excluding loans from promoters, was recorded at 0.95 times as of September 30, 2021, down from 1.07 times as of March 31, 2021. While there has been no incremental capital infusion by the promoters/investors over the past five years, internal accruals have been healthy resulting in a net worth of Rs. 47.76 crore as on September 30, 2021. ICRA expects the capitalisation to remain adequate despite the moderation in the profitability. ICRA notes that SFL has a contingent liability of Rs. 7.79 crore in relation to tax payable on account of the demonetisation period. However, the company is positive about the quick resolution of this issue without a large payout.

SFL is coming up with a preferential issue of ~19,96,900 convertible warrants at ~Rs. 132.54 per share (face value of Rs. 10 each and premium of Rs. 122.54), aggregating Rs. 26.47 crore. The promoters will infuse Rs. 21.59 crore without any dilution in their shareholding and the rest will be infused by four strategic external investors. The preferential issue is subject to shareholders' and other regulatory approvals. Following the regulatory requirement, 25% of the issue price of Rs. 132.54 per share (face value Rs. 10 each and premium of Rs. 122.54) is to be paid upfront, i.e. on issue of convertible warrants, while the balance is to be paid on conversion within 18 months. ICRA expects SFL to maintain the gearing below 3 times in the long term.

Moderation in profitability indicators – SFL has a track record of reporting good profitability indicators. ICRA notes that the company has not posted a net loss in any quarters in the last 10 years. However, its profit after tax (PAT) declined to Rs. 3.51 crore in FY2021 from Rs. 5.81 crore in FY2020. The profits had reduced due to higher credit costs. SFL wrote off accounts of Rs. 2.12 crore in FY2021 against Rs. 1.09 crore in FY2020. The net interest margin (NIM) declined to 10.59% in FY2021 from 12.34% in FY2020 as the yields decreased faster (18.9% in FY2021 from 21.40% in FY2020) than the cost of funds (12% in FY2021 from 12.34% in FY2020). The return on assets (RoA) and return on equity (RoE) declined to 3.0% and 8.08%, respectively, in FY2021 from 4.88% and 14.81%, respectively, in FY2020. In H1 FY2022, the profitability improved marginally due to higher yields (19.7%) and lower cost of funds (11.45%). The credit costs, however, continued to be more than 2% of assets due to increased stress on the asset quality during the second wave of Covid-19. The written-off accounts stood at Rs. 0.90 crore.

ICRA expects the profitability to moderate further in the near-term due to the rising credit costs. In the medium-to-long-term, SFL's ability to maintain good operating efficiency levels and control the credit costs would be critical for incremental profitability.

Credit challenges

Monoline nature of business – SFL's nature of business is monoline with the entire portfolio comprising 2W financing and refinancing as of September 30, 2021. While it has expanded its portfolio over the years, it remained focused on 2W financing. However, the company's long track record of operations in the segment and ability to keep the asset quality under control provide some comfort. ICRA expects 2W loans and refinance loans to remain a key focus in future.

Small scale of operations with geographical concentration – SFL's overall scale of operations remains modest with a total portfolio of Rs. 104 crore and a net worth of Rs. 47.76 crore as on September 30, 2021. The company's operations remain focused in Gujarat. As on September 30, 2021, 59% of the loan book was concentrated in Gujarat, though this was lower compared to 70% as on March 31, 2018. ICRA has taken note of the steps taken by the management to improve the geographical diversity by expanding to Madhya Pradesh and Rajasthan. However, the change in the portfolio mix would only be visible over the medium term. Going forward, the portfolio growth is expected to be supported by improving rural income levels due to good monsoons and pent-up demand during the Diwali season of FY2022.

Moderate customer profile keeps portfolio vulnerability relatively high and could keep asset quality volatile – SFL is primarily engaged in providing funding for the 2W segment. Its portfolio vulnerability remains comparatively high on account of the inherent risks associated with 2W financing and the relatively moderate credit profile of the borrowers. Also, SFL's customers are highly dependent (directly and indirectly) on agriculture-based income, which makes them more susceptible to income shocks and seasonality. However, the company was able to control the asset quality post the government-imposed lockdowns due to its exposure to the rural and agricultural sector.

The GNPA¹s had reduced to Rs. 3.91 crore (3.56%) in FY2021 from Rs. 4.18 crore (3.67%) in H1 FY2021 with improved collection efficiency and increased write-offs. The provision coverage ratio (PCR) for FY2021 increased to 25% from 17% in FY2020. The write-offs had increased to Rs. 2.12 crore from Rs. 1.09 crore in FY2020. The collection efficiency improved to 103% in March 2021 from 95% in September 2020 though it had reduced to 83% in Q1 FY2022 due to the lockdowns related to the second wave.

Post the second wave, there was an improvement in collections which helped reduce the GNPA to Rs. 3.72 crore (3.57%) as of September 30, 2021. The collection efficiency started improving in Q2 FY2022 and was at 98% as of September 30, 2021, in line with the pre-Covid collection efficiency level.

Limited financial flexibility – SFL funds its portfolio mainly through its net worth and borrowings raised from banks, non-banking financial companies (NBFCs) and promoters/directors and their relatives. As on December 31, 2021, its total borrowings stood at Rs. 64.15 crore, comprising cash credit facilities from banks and financial institutions (FIs; 30% of total borrowings), term loans from banks and FIs (29%) and borrowings from bodies corporates, directors & relatives (the balance). The company's average funding cost was around 12% in FY2021, which declined to 11.45% in H1 FY2022. It had term loans of Rs. 11.95 crore from bodies corporates, directors & relatives as on December 31, 2021. SFL's ability to diversify its funding sources and raise funds at competitive costs would be critical for the envisaged portfolio expansion.

Liquidity position: Adequate

SFL's liquidity profile remains adequate with positive cumulative mismatches across buckets due to the favourable asset-maturity profile. It has cash and cash equivalents of Rs. 6.23 crore as of December 31, 2021, which is sufficient to cover the debt obligation of Rs. 5.57 crore due for repayment by April 2022. Collections from loans along with the liquidity available will be sufficient to cover the debt repayments of Rs. 7.90 crore due by June 2022. The company should maintain a minimum collection efficiency of 81% to meet its debt obligations and estimated disbursements of Rs. 34 crore by June 2022.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company scales up its loan book significantly while maintaining 180+ days past due (DPD) plus write-offs of less than 3.5% on a sustained basis and the track record of comfortable capitalisation and earnings profile.

Negative factors – Pressure on the company's rating could arise if there is a deterioration in the asset quality, which would result in a material deterioration in the 180+ DPD on a consistent basis or if the gearing exceeds 3 times with a stretch in liquidity.

¹ GNPA's are on 180+ DPD basis

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	Standalone

About the company

Shalibhadra Finance Limited (SFL), registered with the RBI as an NBFC, was incorporated in 1992 and started its operations in 1995. The company was listed on the Bombay Stock Exchange (BSE) in 1995. SFL was promoted by Mr. Minesh Doshi, who is currently its Managing Director. SFL was initially engaged in four-wheeler financing and was operational in the urban/semi-urban areas of Gujarat. However, on account of increasing competition from banks and other NBFCs in four-wheeler financing, the company shifted its focus towards 2W financing in rural areas.

At present, SFL is engaged in 2W financing in rural, semi-rural, and other under-banked areas in Gujarat, Maharashtra and Madhya Pradesh. Its head office is in Mumbai. As on September 30, 2021, the company had a portfolio of Rs. 104 crore. The portfolio is spread across 40 branches in 33 districts in Gujarat, Maharashtra and Madhya Pradesh.

In FY2021, the company reported a PAT of Rs. 3.51 crore on a total income base of Rs. 21.17 crore compared to a PAT of Rs. 5.81 crore on a total income base of Rs. 23.99 crore in FY2020. In H1 FY2022, the PAT was recorded at Rs. 2.51 crore on a total income base of Rs. 10.36 crore.

Key financial indicators (audited)

Shalibhadra Finance Limited	FY2020	FY2021	H1 FY2022
Total income (Rs. crore)	24	21	10
Profit after tax (Rs. crore)	6	4	3
Net worth (Rs. crore)	42	45	48
Loan book (Rs. crore)	114	110	104
Total assets (Rs. crore)	123	112	109
Return on assets (%)	4.9%	3.0%	4.5%
Return on net worth (%)	14.8%	8.1%	10.8%
Gross gearing (times)	1.82	1.38	1.2
Gross NPA (%)	3.5%	3.6%	3.6%
Net NPA (%)	2.9%	2.8%	2.6%
Solvency (Net NPA/Net worth)	7.7%	6.5%	5.4%
CRAR (%)	36.9%	40.3%	42.5%

Source: Company, ICRA Research; * Provisional numbers

All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2022 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Feb 22, 2022	Dec 31, 2020	Oct 15, 2019	Jul 09, 2018	
1	Long Term – Fund Based/Cash Credit	Long term	30.00	16.03	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB- (Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based/Cash Credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Fund based/cash credit	NA	NA	NA	30.00	[ICRA]BBB- (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

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Branches



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