

April 28, 2023

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	12.50	12.50	[ICRA]BBB- (Stable); reaffirmed
Long term – Fund based/Cash credit	17.50	-	[ICRA]BBB- (Stable); reaffirmed and withdrawn
Total	30.00	12.50	

*Instrument details are provided in Annexure I

Rationale

Shalibhadra Finance Limited's (Shalibhadra) rating factors in its operational track record in two-wheeler (2W) financing and its established dealer and sub-dealer network, which is likely to aid future growth in its loan book and earnings. The rating also takes into consideration the company's adequate capitalisation levels (gearing of 0.86x and regulatory capital adequacy ratio (CAR) of 41.2% as on December 31, 2022) and comfortable profitability with an annualised return on assets (RoA) of 6.2% in 9M FY2023.

The rating is, however, constrained by the moderate scale of operations (loan book of Rs. 128 crore as on December 31, 2022) and the monoline nature of the business. Shalibhadra's asset quality remains moderate with 90+ days past due (dpd) of 5.5% as on December 31, 2022. The asset quality remains exposed to the inherent risk in the company's primary business (2W financing) and the relatively weaker credit profile of the borrowers. Further, its operations are geographically concentrated in the state of Gujarat (accounting for around 52% of the portfolio though lower than 70% as on March 31, 2018).

The Stable outlook on the long-term rating factors in the adequate capitalisation, which is likely to support the growth in the medium term, and the comfortable profitability.

ICRA has withdrawn the rating assigned to the Rs. 17.5-crore long-term fund-based/cash credit at the company's request and in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Long track record in 2W financing and established relationships with dealers – Shalibhadra started operations in 1995 and has a long track record and experience in the 2W finance business. It has developed tie-ups with local dealers and sub-dealers over the years for sourcing business and facilitating the repossession and sale of vehicles. The company's loan book grew by 11% on a year-to-date (YTD) basis in 9M FY2023 to Rs. 128 crore as on December 31, 2022. While the growth had been impacted in the past due to the impact of the Covid-19 pandemic-related lockdowns, the loan book is expected to grow by ~20-25% in the medium term.

Adequate capitalisation – The company's capitalisation profile remains adequate for the current scale of operations with a net worth of Rs. 70 crore as December 31, 2022 (CAR of 41.2% and gearing of 0.86 times). In March 2022, Shalibhadra issued convertible warrants to relatives/promoters aggregating Rs. 26.47 crore (against which the application money of 25% of the total amount, i.e. Rs. 6.6 crore, was received in March 2022). By February 2023, some of these warrants were converted to

equity, resulting in a further capital raise of Rs. 12.6 crore in FY2023. The balance warrants (resulting in further capital infusion of Rs. 7.25 crore) are expected to be converted in Q1 FY2024. The equity was utilised to repay the borrowings from the relatives/promoters, which reduced to ~Rs. 5 crore as on February 28, 2023 (Rs. 26 crore as of March 31, 2021). While the company's borrowings are expected to increase with the growth plans, ICRA expects the capitalisation to remain adequate with a gearing of less than 2 times in the medium term.

ICRA takes cognizance of the contingent liability Rs. 7.79 crore (11% of the net worth as on December 31, 2022, against which the company has deposited Rs. 60 lakh with the Income Tax Department) in relation to tax payable pertaining to cash deposits during the demonetisation period. This matter is currently pending before the Commissioner of Income Tax (CIT), Appeals. The crystallisation of this would impact the capitalisation to an extent.

Improved profitability indicators – Shalibhadra has a track record of reporting good profitability indicators. ICRA notes that the company has not posted a net loss in any quarter in the last 10 years. While the profitability was impacted by the pandemic in FY2021 and the consequent higher credit costs and interest reversals, it improved in FY2022 and 9M FY2023 (RoA of 6.2% (annualised) and 5.2% in 9M FY2023 and FY2022, respectively, compared to 3.0% in FY2021). In the medium term, Shalibhadra's ability to maintain good operating efficiency and control the credit costs would be critical for incremental profitability.

Credit challenges

Moderate scale and high geographical concentration; monoline nature of business – Shalibhadra's scale of operations remains moderate with a loan book of Rs. 128 crore as on December 31, 2022. Also, its operations remain focused in Gujarat, leading to geographical concentration. As on December 31, 2022, Gujarat accounted for 52% of the loan book though the same declined from 70% as on March 31, 2018 (58% as of March 31, 2022). The company has been looking to improve geographical diversity by expanding to Madhya Pradesh and Maharashtra, which accounted for 48% of the total portfolio as on December 31, 2022. Shalibhadra aims to further diversify its geographical presence with an increase in its scale of operations in the long term. Its nature of business is monoline with 2W financing (new and used) accounting for 99% of the portfolio as of December 31, 2022. Moreover, the company does not plan to diversify. However, Shalibhadra's long track record of operations in this segment provides some comfort.

Relatively weaker customer profile – Shalibhadra's portfolio vulnerability remains relatively high on account of the inherent risks associated with 2W financing and the comparatively moderate credit profile of the borrowers. Also, its customers are highly dependent (direct and indirect) on agriculture-based income, which makes them susceptible to climatic risks and seasonality. The company's asset quality deteriorated in FY2021 due to the impact of the pandemic. The 90+dpd peaked at 6.1% as on June 30, 2021. While the asset quality has improved thereafter, the 90+dpd remained high at 5.5% as on December 31, 2022. Shalibhadra recognises non-performing advances (NPAs) at 180+ dpd and reported gross NPAs of 3.3% as on December 31, 2022 (3.5% as on March 31, 2022). Including write-offs in 9M FY2023 and repossessed vehicles, the gross NPA% stood at 4.9% as on December 31, 2022. However, with improved provisioning, the net NPAs have been reducing and stood at 2.0% as on December 31, 2022.

Environmental and social risks

Given the service-oriented business of Shalibhadra, its direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material. While lending institutions can be exposed to environmental risks indirectly through their portfolio of assets, Shalibhadra's exposure to environmentally sensitive segments remains moderate. This is on account of borrower profile who get impacted by climate change. Hence, moderate indirect transition risks arise from changes in regulations or policies concerning the underlying assets.

With regards to social risks, data security and customer privacy are among the key sources of vulnerability for lending institutions as any material lapses could be detrimental to their reputation and could invite regulatory censure. Shalibhadra has not faced such lapses over the years, which highlights its sensitivity to such risks.

Liquidity position: Adequate

The liquidity position is adequate with no negative cumulative mismatches in the Statement of Structural Liquidity as on December 31, 2022, given the largely similar tenor of the loan book and borrowings and the low leverage. Shalibhadra had unencumbered cash and cash equivalents of Rs. 6.4 crore and unutilised bank lines of Rs. 12.5 crore as on January 31, 2023. This is adequate to meet the scheduled debt repayments of Rs. 16 crore due till July 2023.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the rating if the company is able to increase its scale of operations while maintaining its asset quality and profitability with adequate capitalisation.

Negative factors – ICRA could downgrade the rating or change the outlook if there is a material deterioration in the asset quality on a sustained basis, impacting the profitability. Also, a sustained and significant increase in the gearing could exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Shalibhadra Finance Limited (Shalibhadra), registered with the Reserve Bank of India (RBI) as a non-banking financial company (NBFC), was incorporated in 1992 and commenced operations in 1995. The company was listed on the Bombay Stock Exchange (BSE) in 1995. Shalibhadra was promoted by Mr. Minesh Doshi, who is currently the Managing Director of the company. Shalibhadra was initially engaged in four-wheeler (4W) financing and was operational in the urban/semi-urban areas of Gujarat. However, on account of increasing competition from banks and other NBFCs in 4W financing, the company shifted its focus towards two-wheeler (2W) financing in rural areas.

At present, Shalibhadra is engaged in 2W financing in rural, semi-rural, and other underbanked areas in Gujarat, Maharashtra and Madhya Pradesh. Its head office is in Mumbai. As on December 31, 2022, the company had a portfolio of Rs. 128 crore. The portfolio is spread across 43 branches in Gujarat, Maharashtra and Madhya Pradesh.

In FY2022, the company reported a profit after tax (PAT) of Rs. 6 crore on a total income base of Rs. 22 crore compared to Rs. 4 crore and Rs. 21 crore, respectively, in FY2021. In 9M FY2023, the PAT was recorded at Rs. 6 crore on a total income base of Rs. 20 crore.

Key financial indicators (audited)

Shalibhadra Finance Limited	FY2021	FY2022	9M FY2023*
Total income	21	22	20
Profit after tax	4	6	6
Net worth	45	58	70
Net Loan book	106	111	123
Total assets	112	119	135
Return on assets	3.0%	5.2%	6.2%
Return on net worth	8.1%	11.4%	12.6%
Gearing (times)	1.38	0.98	0.86
Gross NPA	3.6%	3.5%	3.3%
Net NPA	2.8%	2.4%	2.0%
Solvency (Net NPA/Net worth)	6.5%	4.6%	3.5%
CRAR	40.3%	50.0%	41.2%

Source: Company, ICRA Research; * Provisional numbers

All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2022 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Apr 28, 2023			
						-	Feb 22, 2022	Dec 31, 2020
1	Long term – Fund based/Cash credit	Long term	12.50	9.10	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Long term – Fund based/Cash credit	Long term	17.50	-	[ICRA]BBB-(Stable); withdrawn	-	[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: [Click Here](#)

Annexure I: 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	12.50	[ICRA]BBB- (Stable)
NA	Long term – Fund based/cash credit	NA	NA	NA	17.50	[ICRA]BBB- (Stable); withdrawn

Source: Company

Annexure II: 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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