

October 04, 2023

Shalibhadra Finance 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/Cash credit	12.50	-	-
Long term – Fund based/Others	-	40.00	[ICRA]BBB- (Stable); Assigned and reaffirmed

*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 its loan book and earnings growth. The rating also takes into consideration the company's adequate capitalisation levels (gearing of 0.63x and regulatory capital adequacy ratio (CAR) of 63.3% as on June 30, 2023) and comfortable profitability with an annualised return on assets (RoA) of 6.5% in FY2023.

The rating is, however, constrained by the moderate scale of operations (loan book of Rs. 128 crore as on June 30, 2023) and the monoline nature of the business. Shalibhadra's asset quality remains moderate with 90+ days past due (dpd) of 5.4% as on June 30, 2023. 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 Gujarat (accounted for around 52% of the portfolio as of December 31, 2022, 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.

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 12% on a year-on-year (YoY) basis in FY2023 to Rs. 129 crore as on March 31, 2023. While the growth had been affected due to the impact of the Covid-19 pandemic-related lockdowns, it is expected to be higher 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. 81 crore as June 30, 2023 (CAR of 63.3% and gearing of 0.63 times). Shalibhadra had issued convertible warrants in March 2022, 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), to the relatives/promoters. 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 were converted on September 30, 2023, resulting in an additional capital infusion of ~Rs. 7 crore. Due to the conversion of the warrants, the promoter's shareholding increased to 60% as of September 11, 2023 from 55% as of February 28, 2023. The equity was utilised to repay the borrowings from the relatives/promoters, which reduced to Rs. 2-3 crore as on September 30, 2023 (Rs. 26 crore as of March 31, 2021). While the company's borrowings are expected to increase with its 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 of Rs. 7.79 crore (10% of the net worth as on June 30, 2023, against which Shalibhadra has deposited Rs. 40 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 FY2023 (RoA of 6.5% and 5.2% in FY2023 and FY2022, respectively, compared to 3.0% in FY2021). The company reported an annualised RoA of 7.2% in Q1 FY2024. In the medium term, Shalibhadra's ability to maintain good operating efficiency and control its 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 June 30, 2023. 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 diversify its geographical presence further with an increase in its scale of operations in the long term. Its nature of business is monoline with the entire loan book concentrated towards 2W financing (new and used). 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 (directly and indirectly) 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 5.4% as on June 30, 2023. Shalibhadra recognises non-performing advances (NPAs) at 180+dpd and reported gross NPAs of 3.2% as on June 30, 2023 (3.5% as on March 31, 2022). Including write-offs in FY2023 and repossessed vehicles, the gross NPA stood at 5.1% as on March 31, 2023. However, with improved provisioning, the net NPAs have been reducing and stood at 1.7% as on March 31, 2023.

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 the borrowers, who get impacted by climate change. Hence, moderate indirect transition risks arise from changes in regulations or policies concerning the underlying assets.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for lending institutions as 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 March 31, 2023, given the largely similar tenor of the loan book and the borrowings and the low leverage. Shalibhadra had unencumbered cash and cash equivalents of Rs. 1.14 crore, liquid investments of Rs. 10.82 crore and unutilised bank lines of Rs. 2.9 crore as on July 31, 2023. This is adequate to meet the scheduled debt repayments of Rs. 10.41 crore due till January 2024.

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
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. 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 FY2023, the company reported a profit after tax (PAT) of Rs. 8 crore on a total income base of Rs. 28 crore compared to Rs. 6 crore and Rs. 22 crore, respectively, in FY2022. In Q1 FY2024, the PAT was recorded at Rs. 2 crore on a total income base of Rs. 7 crore.

Key financial indicators (audited)

Shalibhadra Finance Limited	FY2022	FY2023	Q1 FY2024*
Total income	22	28	7
Profit after tax	6	8	2
Net worth	58	78	81
Net Loan book	111	124	122
Total assets	117	137	135
Return on assets	5.2%	6.5%	7.2%
Return on net worth	11.7%	12.3%	12.6%
Gearing (times)	0.98	0.70	0.63
Gross NPA	3.5%	3.2%	3.2%
Net NPA	2.3%	1.7%	1.5%
Solvency (Net NPA/Net worth)	4.6%	2.8%	2.3%
CRAR	50.0%	60.6%	63.3%

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 Jun 30, 2023 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Oct 04, 2023	Apr 28, 2023			
1	Long term – Fund based/Others	Long term	40.00	9.34	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Long term – Fund based/Cash credit	Long term	-	-	-	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
3	Long term – Fund based/Cash credit	Long term	-	-	-	[ICRA]BBB-(Stable); withdrawn	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based/Others	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/Others	NA	NA	NA	40.00	[ICRA]BBB- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@icraindia.com

Harsh Mange
+91 22 6114 3429
harsh.mange@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Jui J. Kulkarni
+91 22 6114 3427
jui.kulkarni@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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