October 15, 2019

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	30.00	30.00	[ICRA]BBB-(Stable); Reaffirmed
Total	**30.00**	**30.00**	

**Instrument details in Annexure-I*

Rationale

The rating factors in Shalibhadra Finance Limited's (SFL) operational track record in two-wheeler financing, local knowledge of the management, and an established dealer and sub-dealer network built over the years. The rating also takes into account the company's track record of good profitability (return on equity (RoE) of 19.02% for FY2019) and its comfortable capitalisation levels (regulatory capital adequacy ratio or CAR of 34.6% as on March 31, 2019 against 15% prescribed by the Reserve Bank of India, RBI). The rating is, however, constrained by SFL's modest scale of operations (managed portfolio size of Rs. 108.43 crore as on March 31, 2019), portfolio vulnerability arising on account of inherent risks associated with two-wheeler financing and the relatively moderate credit profile of the borrowers, geographical concentration of its operations with around 68% of the portfolio in the state of Gujarat and company's limited financial flexibility. ICRA also takes note of the marginal deterioration in SFL's asset quality indicators in FY2019 with gross NPAs[1] increasing to 2.81% as on March 31, 2019 from 2.51% as on March 31, 2018.

ICRA believes SFL will continue to benefit from its established market presence in Gujarat and Maharashtra, comfortable capitalisation and good earnings profile.

Key rating drivers and their description

Credit strengths

Long track record in two-wheeler financing; healthy portfolio growth - SFL started operations in 1995, and was promoted by Mr. Minesh Doshi, the company's Managing Director. SFL has demonstrated the ability to grow its loan book by CAGR of ~24% over the past 4 years primarily in two-wheeler financing segment. During FY2019, the loan book had grown by 22% to Rs. 108.43 crore as on March 31, 2019 from Rs. 89.09 crore as on March 31, 2018.

Established relationships with local sub-dealer network in its region of operations - 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 the scheduled district co-operative banks for collections which improve its operating efficiency as well as reduce the risk of cash handling at its branches.

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[1] *NPA classification 180+ DPD basis and repossessed stock of vehicle is not included in Gross NPAs by the company*

Good profitability indicators - SFL has a track record of reporting good profitability indicators over the past few years which has continued in FY2019. During FY2019, the company reported profit after tax of Rs. 6.4 crore (Rs. 5.7 crore in FY2018) reflecting in a healthy RoA (profit after tax (PAT)/average total assets (ATA)) of 6.1% in FY2019, supported by healthy margins, moderate leverage and modest credit costs. NIMs were under pressure during FY2019 due to tightened liquidity environment which led to increase in funding cost. However, profitability profile was supported by decrease in operating expenses/ATA to 4.1% in FY2019 from 5.0% in FY2018 and stable credit costs during FY2019. ICRA expects the profitability to remain stable provided the company able to control fresh slippages and, hence, credit costs.

Comfortable capitalisation - The company's capitalisation profile remains comfortable with CAR of 34.6% and gearing at 1.96 times as of March 2019. Going forward, the incremental capital requirement is expected to be low owing to the company's healthy internal accruals (RoE at 19.02% for FY2019) which is expected to be adequate to support the growth plans in the near to medium term.

Credit challenges

Monoline nature of business -SFL's nature of business is largely monoline with ~99% of the portfolio comprising two-wheeler financing and refinancing as of March 2019. While SFL has expanded its portfolio, over the years, to finance used four-wheelers, used three-wheelers and used tractors, their share in the overall portfolio remained low at around 1% as on March 31, 2019. However, the company's long track record of operation in the segment and ability to keep asset quality under control provide some comfort.

Small scale of operations with concentrated region of operations -SFL's overall scale of operations remains modest with a total portfolio of Rs. 108.43 crore and a net worth of Rs. 36.48 crore as on as on March 31, 2019. SFL's operations remain focused in the state of Gujarat. As on March 31, 2019, 68% of the loan book was concentrated in Gujarat, albeit lower as compared to 70% in March 31, 2018. ICRA has taken note of the steps taken by 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 supported by improving rural income levels and good monsoons in 2019.

Moderate customer profile keeps portfolio vulnerability relatively high and could keep asset quality volatile -SFL is primarily engaged in providing funding for 2W segment, its portfolio vulnerability remains relatively high on account of inherent risks associated with two-wheeler 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. While the company has demonstrated the ability to collect from such borrowers through cycles, the delinquencies are likely to remain volatile for the company given the target borrower profile. During FY2019, there was marginal deterioration in the SFL's asset quality indicators to GNPA and NNPA of 2.81% and 2.54%, respectively, as on March 31, 2019 from 2.51% and 2.26%, respectively, as on March 31, 2018. Further, GNPA and NNPA as on June 30, 2019 stood at 2.89% and 2.60% respectively.

Limited financial flexibility -The company funds its portfolio mainly through its net worth and borrowings raised from banks and NBFCs and from promoters / directors and their relatives. As on March 31, 2019, company's total borrowings of Rs.71 crore comprised cash credit facilities from banks (32% of total borrowings), term loans from banks (14%) and loan from NBFCs (21%) and balance being borrowings from bodies corporates, directors & relatives. The company's funding cost was around 12.1% during FY19. The company had term loans of Rs. 24.13 crore from bodies corporates, directors & relatives as on March 31, 2019. The company's ability to diversify its funding sources and raise funds at competitive cost would be critical for the envisaged portfolio expansion.

Liquidity Position: Adequate

The liquidity profile of the company remains adequate with positive cumulative mismatches across buckets due to favorable asset maturity profile. The company had cash and cash equivalents worth Rs. 2.6 crore as on March 31, 2019. As per ALM as on March 31, 2019, the company had principal loan repayments of Rs. 14.72 crore in the next one year while SFL expects inflows (including interest and prepayments) from maturing advances to the tune of Rs. 102.74 crore in the next one year, which provide adequate cover for liability repayments.

Rating Sensitivities

Positive triggers - ICRA could upgrade the rating if the company scales up its loan book significantly while maintaining GNPA of less than 3% on sustained basis and maintaining the track record of comfortable capitalisation and earnings profile.

Negative triggers - Pressure on the company's rating could arise if there is a deterioration in the asset quality, which could affect its profitability. A weakening in the earnings profile with the return on managed assets falling below 5% could exert pressure on the company's ratings. Also, given the relatively higher receivable cover taken by the lenders, company's gearing exceeding 3 times or a stretch in liquidity could also exert pressure on the company's rating.

Analytical Approach:

Analytical Approach	Comments
Applicable Rating Methodologies	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 NBFC, was incorporated in the year 1992 and started its operations in 1995. The company was listed on Bombay Stock Exchange (BSE) in 1995. SFL was promoted by Mr. Minesh Doshi, who is presently the Managing Director of the company. Initially SFL was 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 two-wheeler financing in rural areas.

At present, SFL is engaged in Two-Wheeler financing in Rural, Semi-rural, and other under-banked areas in the State of Gujarat, Maharashtra and Madhya Pradesh. The head office of the company is based at Mumbai. As on March 31, 2019, the company had portfolio of Rs. 108.43 crores. The portfolio is spread across its 35 branches in the state of Gujarat, Maharashtra and Madhya Pradesh. Recently they have opened a new branch in Rajasthan.

During FY2019, the company reported a PAT of Rs. 6.40 crore on a total income base of Rs. 22.22 crore as compared to Rs. 5.67 crore on a total income base of Rs. 19.40 crore in FY2018. During Q1FY2020, the company reported PAT of Rs. 1.75 crore vs. Rs.1.57 crore in Q1FY2019. Company's loan book was Rs. 107.46 crore as of June 30,2019.

Key financial indicators (Audited)

	FY2018	FY2019
Net interest income	12.90	14.30
Profit before tax	7.93	8.94
Profit after tax	5.67	6.40
Portfolio	89.09	108.43
Total assets	95.26	114.90
% Tier 1	34.60%	34.60%
% CRAR	34.60%	34.60%
Gearing	1.93	1.96
% Net profit/Average total assets	6.74%	6.06%
% Return on Net Worth	20.25%	19.02%
% Gross NPAs	2.51%	2.81%
% Net NPAs	2.26%	2.54%
% Net NPA/Net worth	6.52%	7.54%

Amount in Rs. Crore; All ratios as per ICRA calculations

Source: SFL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No.	Instrument	Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
		Type	Amount rated (Rs. crore)	Rating	FY2019	FY2018		FY2017
				15-Oct-2019	9-Jul-2018	18-May-2017	15-May-2017	-
1	Fund based/ cash credit	Long Term	30.00	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – fund based/ cash credit	NA	NA	NA	30.00	[ICRA]BBB-(stable)

Source: SFL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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