Press Release

Agriwise Finserv Limited (AFL)

(Erstwhile StarAgri Finance Limited)

December 08, 2022

Ratings

Facilities	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicator
Non-Convertible Debentures (NCD)	10.00	IVR BBB-/ Negative (IVR Triple B Minus with Negative Outlook)	Reaffirmed with revision in outlook	Complex
Proposed Non-Convertible Debentures (NCD)	40.00	IVR BBB-/ Negative (IVR Triple B Minus with Negative Outlook)	Reaffirmed with revision in outlook	Complex
Long term Bank Facilities – Term Loans	41.41 (Reduced from 79.54)	IVR BBB-/ Negative (IVR Triple B Minus with Negative Outlook)	Reaffirmed with revision in outlook	Simple
Long term Bank Facilities – Proposed Term Loan	258.59 (Increased from 220.46)	IVR BBB-/ Negative (IVR Triple B Minus with Negative Outlook)	Reaffirmed with revision in outlook	Simple
Long term Bank Facilities – Cash Credit	50.00	IVR BBB-/ Negative (IVR Triple B Minus with Negative Outlook)	Reaffirmed with revision in outlook	Simple
Total	**400.00**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating reaffirmation to the bank facilities and Non-Convertible Debentures (NCDs) of Agriwise Finserv Limited (AFL) continues to derive comfort from the experienced management, diverse borrowing profile, comfortable capitalisation with low gearing However, ratings are constrained on account of consistent degrowth witnessed in the loan portfolio, average asset quality, credit risk concentration and low profitability.

Further, the rating outlook has been revised to "Negative" Outlook given the consistent degrowth in the loan book as company has revised it changed it business model to move from B2B to B2C and the new business model is yet to make substantial contribution towards the growth of the business coupled with the volatility in asset quality resulting in deterioration of overall financial profile of the company.

Key Rating Sensitivities:

Upward Factor:

- Substantial Growth in loan portfolio along with increase in profitability.
- Substantial improvement in asset quality on a sustained basis.

Downward Factor:

- Substantial degrowth in the loan portfolio and profitability
- Weakening of credit profile and decline in asset quality.
- Deterioration in the capitalization levels.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced management

The Managing Director of the company is Mr. Suresh Goyal who has more than 3 decades of experience in agriculture and farming related businesses like agri-financing, agri-procurement, commodity trading and warehousing. He has been associated with leading corporates in advisory and consulting roles. Mr. Amit Kumar Goyal who is Executive Director of the company who oversees administration and operations at AFL. Mr. Amith Agarwal handles corporate tie-ups and legal and financial matters along with Business Development activities of AFL.

Diverse borrowing profile

AFL enjoys good financial flexibility, being a part of Agriwise Group, they have access to funds from diversified entities comprising of banks, NBFCs, Financial Institutions and other lenders, including SBI, Dena Bank, Karur Vysya Bank, Indian Overseas Bank, Uco Bank and The Catholic Syrian bank among others; providing them access to funds from a diverse group at competitive interest rates. The cost of borrowings for the company has been within the range of 10%-13%.

Comfortable capitalisation coupled with low gearing

AFL has comfortable capitalization with total CRAR of 55.83% as on 31 March 2022 and 55.80% as on 30 September 2022. At the same time, given the conscious decision of the company to curtail its disbursements, securitize its loan assets and reduce debt levels has helped the company to reduce its gearing from 1.21x in FY21 to 0.83x in FY22 and further to 0.69x in H1FY23. The total debt of the company (largely consisting of term debt) has declined from Rs 201.19 crore in FY21 and to Rs 141.95 crore in FY22 and further to Rs 119.54 Crores in H1FY23.

Key Rating Weaknesses

Average asset Quality

Given the impact of COVID 19 on the collections and low seasoning of the portfolio, asset quality of the company deteriorated with Gross and Net NPA ratios increasing to 6.96% and 3.46% respectively as on March 31, 2021. As informed by the management, the company had adequate collateral of commercial/ residential properties against all NPA accounts and hence was able to sell down NPA accounts worth ~Rs 55 Crores to Asset Reconstruction Companies (ARCs) with a haircut of ~Rs 11 Crores coupled with improved collections, the GNPA and NNPA has come down to 0.89% and 0.44% respectively in FY22. However, the asset quality moderated in H1FY23 with GNPA and NNPA increasing to 2.12% and 0.98% respectively on account of degrowth in the loan portfolio and fresh slippages. Provision coverage ratio of the company is comfortable at ~54%. The ability of the company to maintain healthy asset quality on a sustainable basis will be a key rating sensitivity.

Continued de-growth in loan portfolio and moderation in profitability

AFLs loan portfolio has consistently declined in the past three years on account of a cautious approach followed by the company due to sharp increases in NPAs in this lending segment. The company has also changed its business model to move from high ticket sized, high tenure B2B loans to granular, lower tenure B2C loans which is yet to make substantial contribution towards the growth of the business. The loan portfolio has declined from Rs 454.41 crore in FY19 to Rs 325.30 crore in FY21, to Rs 243.01 in FY22 and further declined to Rs 188.69 Crores as on 30 September 2022. This is also evident with the decline in total income over the past three fiscals from Rs 73.59 crore in FY19 to Rs 54.48 crore in FY21 to Rs 43.95 crore in FY22 and further to Rs 17.37 crores in H1FY23. PAT has also declined from Rs 5.86 crore in FY20 to Rs 3.37 crore in FY21. However, the same has improved with company reporting a PAT of Rs 6.22 Crore for FY22. For H1FY23, the company has reported net loss of Rs 2.71 Crores on account of higher impairment costs.

Credit risk concentration

The target borrower segment, comprising entities in the agriculture segment, specifically targeting borrowers with a modest credit profile who are susceptible to commodity price fluctuation risk and risks of adverse weather conditions. The company has identified value chains in the agriculture segment and geographies based on their own experience and consumer credit behaviour, although focusing on value chains have helped them in creating an expertise in that segment. Their loan origination factors in the prospective borrowers within the agri value chain and their past transaction history, apart from the credit bureau checks and the financial assessment. Concentration on any one asset segment/sector is deemed to be riskier as any unexpected changes in the market or regulatory dynamics could impact the earnings performance of the company.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Non-Banking Finance companies

Criteria of assigning rating outlook

Liquidity - Adequate

Liquidity is adequate given the Asset Liability Mismatch (ALM) profile of the company as on September 30, 2022, had no negative cumulative mismatch across various buckets and total CRAR of 58.50%. AFL had cash and cash equivalents of Rs 36.62 Crores as on September 30 2022, tangible networth of Rs 169.56 Crores and gearing of 0.64x. With the improving collection efficiency and recoveries, the company is expected to maintain adequate liquidity.

About the Company

Agriwise Finserv Limited (AFL) (Erstwhile StarAgri Finance Limited), the company was renamed in FY20 and was incorporated in March 1995 post acquisition of a Baroda-based NBFC named Raylight Leasing and Finance Limited by Star Agriware housing and Collateral Management Limited during FY15 (Parent company of AFL). Company is catering the fund requirement of the Agri & MSME borrowers through the diversified product suite consist of Agri Term Loan, Secured Term Loan, Commodity based Financing (Agri Commodity Loans), Short term Working Capital loans (Flexi loans) and B2C loans (Invoice discounting). The company re-started its operations under the current management in February 2015. The company has presence in 6 states across 22 locations and expanding to more locations in future.

Financials (Standalone)

INR in Crore

For the year ended* As on	31-03-2021	31-03-2022
	Audited	Audited
Total Income	54.48	43.95
PAT	3.37	6.22
Tangible Net Worth	165.95	172.01
Total Loan Assets	325.30	243.01
ROTA (%)	0.87	1.82
Total CAR (%)	47.63	55.83
Gross NPA (%)	6.96	0.89
Net NPA (%)	3.46	0.44

** Classification as per Infomerics' standards*

Details of Non-Co-operation with any other CRA: Nil

Any other information: N.A.

Rating History for last three years:

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<tr><th rowspan="2">Sr. No.</th><th rowspan="2">Name of Instrument/Facilities</th><th colspan="3">Current Ratings (Year 2022-23)</th><th colspan="5">Rating History for the past 3 years</th></tr>
<tr><th>Type</th><th>Amount outstanding (Rs. Crore)</th><th>Rating</th><th>Date(s) & Rating(s) assigned in 2022-23 (Dated: August 09, 2022)</th><th>Date(s) & Rating(s) assigned in 2021-22 (Dated: February 18, 2022)</th><th>Date(s) & Rating(s) assigned in 2021-22 (Dated: October 06, 2021)</th><th>Date(s) & Rating(s) assigned in 2021-22 (Dated: September17, 2021)</th><th>Date(s) & Rating(s) assigned in 2020-21 (Dated: September 22, 2020)</th></tr>
<tr><td>1.</td><td>Non-Convertible Debentures (NCD)</td><td>Long Term</td><td>10.00</td><td>IVR BBB-/Negative</td><td>IVR BBB-/Stable</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB/ Negative Outlook</td></tr>
<tr><td>2.</td><td>Proposed Non-Convertible Debentures (NCD)</td><td>Long Term</td><td>40.00</td><td>IVR BBB-/Negative</td><td>IVR BBB-/Stable</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB/ Negative Outlook</td></tr>
<tr><td>3.</td><td>Fund Based Facility – Term Loan</td><td>Long Term</td><td>41.41</td><td>IVR BBB-/Negative</td><td>IVR BBB-/Stable</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB/ Negative Outlook</td></tr>
<tr><td>4.</td><td>Fund Based Facility – Proposed Term Loan</td><td>Long Term</td><td>258.59</td><td>IVR BBB-/Negative</td><td>IVR BBB-/Stable</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB/ Negative Outlook</td></tr>
<tr><td>5.</td><td>Fund Based Facility – Cash Credit</td><td>Long Term</td><td>50.00</td><td>IVR BBB-/Negative</td><td>IVR BBB-/Stable</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB-/ Credit Watch with Developing Implication</td><td>IVR BBB/ Negative Outlook</td></tr>
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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	ISIN	Date of Issuance	Coupon Rate	Tenor/ Maturity	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Non-Convertible Debentures (NCD)	INE363T07011	06/07/2020	12%	3 Years (06-07-2023)	10.00	IVR BBB-/ Stable
Proposed Non-Convertible Debentures (NCD)	-	-	-	-	40.00	IVR BBB-/ Stable

Long Term Fund Based Facility – Term Loan	-	-	-	-	41.41	IVR BBB-/ Stable
Long Term Fund Based Facility – Proposed Term Loan	-	-	-	-	258.59	IVR BBB-/ Stable
Long Term Fund Based Facility – Cash Credit	-	-	-	-	50.00	IVR BBB-/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Agriwise-dec22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:

NCD issue of Rs 10 Crores

Particulars	Non-Convertible Debentures
Instrument Description	12% RATED,LISTED,UNSUBORDINATED, SECURED, TRANSFERABLE, REDEEMABLE, NON-CONVERTIBLE DEBENTURES.
ISIN	INE363T07011
Issue size	INR10.00 crore
Date of allotment	July 06, 2020
Redemption date	July 06, 2023
Redemption amount	INR10.00 crore
Coupon Rate	12.00%
Frequency of coupon payment	Annual
Investor	Union Bank of India
Purpose of the issue	Onward Lending
Name of the trustee	Catalyst Trusteeship Limited

Covenants	To maintain the value of security at all times equal to 1.1 (One decimal point one) time or 110.0% (One hundred and ten percent) the aggregate amount of principal and interest outstanding of the NCDs where at least 1.1 (One decimal point one) time or 110.0% (One hundred and ten percent) of the security cover is from principal and interest receivables. Minimum CRAR as per the regulatory minimum prescribed by the Reserve Bank of India under the NBFC Master Directions.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.