



Press Release

StarAgri Finance Ltd (SFL)

September 22, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crores)	Rating Assigned	Rating Action
1.	Proposed Non-Convertible Debenture (NCD)	50.00	IVR BBB/Negative Outlook (IVR Triple B with Negative Outlook)	Re-affirmed
2.	(Proposed) Fund Based Facility - Term Loan	300.00	IVR BBB/Negative Outlook (IVR Triple B with Negative Outlook)	Assigned
3.	(Proposed) Fund Based Facility – Cash Credit	50.00	IVR BBB/Negative Outlook (IVR Triple B with Negative Outlook)	Assigned
	Total	400.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the proposed bank facilities derives comfort from their experienced management team, diverse borrowing profile and moderate capitalisation metrics and scale of operations. However, the rating strengths are partially offset by an unfavourable operating environment, modest credit profile of target borrower segment and higher dependence on one asset segment & credit risk concentration, declining earnings stability and deteriorating asset profile.

The Outlook is Negative on account of industry headwinds arising out of COVID-19 crisis and the rise in NPAs during FY20.

Key Rating Sensitivities

Upward factors:

- Substantial improvement in asset quality and earnings profile of the company.
- Ability to maintain its capitalisation metrics.

Downward factors:

- Increase in delinquencies and deterioration in asset quality impacting the overall profitability of the company.



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- Any challenges/delays faced by the company to raise funds in a timely manner.

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced management team

The Managing Director of the company, Mr. Suresh Goyal 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 is an Executive Director of the company, oversees administration and operations at StarAgri group. Mr. Amith Agarwal handles corporate tie-ups, legal and financial matters along with Business Development activities of StarAgri Group.

Diverse borrowing profile

SFL enjoys good financial flexibility, being a part of StarAgri Group, they have access to funds from diversified entities comprising of banks and other lenders, at competitive interest rates. The cost of borrowings for the company has been within the range of 10%-13%.

Moderate capitalisation metrics and scale of operations

SFL has a moderate capital structure indicated by a tangible net worth of INR 182.16 crore in FY20 (provisional). SFL's capital adequacy ratio (CAR) was 48.37% in FY20 (P), increased from 37.43% in FY19; which is well above the minimum regulatory requirement of 15% which is complemented by a gearing ratio of 1.22x as the company has adopted a conservative approach towards their borrowings as they want to keep their books moderately leveraged largely because of the prevailing scenario in the lending sector. The scale of operations have remained moderate at INR 64.14 crore in FY20 (P) in comparison to INR 73.59 in FY19 due to the rise in NPAs on account of unseasonal rains in the country and floods in the western parts of Maharashtra in calendar year 2019, but with the current normal Rabi crop and expected normal monsoon, the portfolio performance is expected to be satisfactory.



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Key Rating Weaknesses

Unfavourable operating environment

The NBFCs across the country are facing a tough turf to grow their businesses as the after-effects of the IL&FS defaults. The growth in the industry is expected to decline in comparison to the previous year. Constrained funding access and increased borrowing costs, offloading risky assets from loan books and an overall slow-down in the economy coupled with deterioration in business and customer confidence during Covid-19 has hampered the growth for NBFCs.

Modest credit profile of target borrower segments and higher dependence on one asset segment

Asset quality moderated in the recent past, with 90+ dpd increasing to 6.24% as of March, 2020 from 2.56% as of March 2019. 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 borrower's 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.

Credit risk concentration, declining earnings stability and deteriorating asset profile

SFL primarily focuses on the affluent farmer class, causing an inherent credit risk concentration in the loan portfolio of the company. Given the low vintage of business operations (as they have started their operations under new management in FY15) the company's ability to navigate through business cycles remains largely untested, hence their ability to respond to changes in the market in terms of changes in regulations and lending norms, sourcing strategies while ensuring they maintain their margins in proportion with the risks taken, is a vital factor moving forward. Given the growth plans in terms of venturing into untapped areas of the country having agriculture as the primary source of income and with



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the current market conditions, the ability of the company to focus on diversity of quality funding sources which will be available in conditions of stress is a vital factor moving forward. The current liquidity profile is moderate, given the scale of operations, with sufficient sanctioned bank lines of around Rs. 50.00 crore. The earnings of the company have declined after seeing an increase since 3 years, the PAT has reduced by ~39% in FY20 (P) to INR 5.02 crore from INR 8.33 crore in FY19. SFL's asset quality also decreased in FY20; evident by the rise in Gross NPA to 6.24% in FY20 from 2.56% in FY19. The ALM profile of the company has not shown any negative mismatches and the management has indicated that they would be willing to infuse equity during times of need.

Analytical Approach & Applicable Criteria

Standalone Approach

Rating Methodology for Non-Banking Finance Companies

Financial Ratios & Interpretation (Financial Sector)

Liquidity - Adequate

StarAgri Finance Ltd.'s asset liability (ALM) profile reflects no cumulative mismatches in the less-than-one-year bucket. The expected debt payments of the company in the coming 6 months' amounts to INR82.46 crore against an expected inflow of ~INR130.40 crores. The liquidity profile is also supported by adequate funds in the form of cash & bank balance amounting to INR34.13 crores (including margin money against securitization amounting).

About the company

StarAgri Finance Limited (SFL) was acquired in FY15 post acquisition of a Baroda-based NBFC named Raylight Leasing and Finance Limited by Star Agriwarehousing and Collateral Management Limited (Parent company of StarAgri Finance Limited). SFL is in the business of providing agri-based loans, warehousing receipt finance, secured term loans, unsecured term loans and flexi loans. The company re-started its operations under the current management in February, 2015. Currently, the company has 25 branches/spokes across 6 states in the country. The company has been classified as a systemically important NBFC in FY19 on account of an asset base of INR 506.66 crore as on March 31, 2018.



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Financials (Standalone)*:

(INR crores)

For the year ended/ As On	31-03-2018	31-03-2019	31-03-2020
	(Audited)	(Audited)	(Provisional)
Total Operating Income	63.28	73.59	64.14
PAT	10.41	8.33	5.02
Tangible Net Worth	168.47	176.92	182.16
Total Assets	505.28	490.12	427.38
ROTA (in %)	2.88	3.04	1.46
Interest Coverage Ratio (times)	1.50	1.29	1.21
Total CAR (%)	28.70	37.42	48.37
Gross NPA (%)	2.03	2.56	6.24
Net NPA (%)	1.78	2.03	5.12

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Proposed Non-Convertible Debenture (NCD)	Long Term	50.00	IVR BBB/ Negative Outlook (Re-affirmed)	--	--	--
2.	(Proposed) Fund Based Facility – Term Loan	Long Term	300.00	IVR BBB/ Negative Outlook	--	--	--
3.	(Proposed) Fund Based Facility – Cash Credit	Long Term	50.00	IVR BBB/ Negative Outlook	--	--	--

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.



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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Proposed Coupon Rate	Proposed Tenor	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Proposed Non-Convertible Debenture (NCD)	NA	12%	3 years	50.00	IVR BBB/ Negative Outlook (Re-affirmed)
(Proposed) Fund Based Facility – Term Loan	NA	NA	To be decided	300.00	IVR BBB/ Negative Outlook
(Proposed) Fund Based Facility – Cash Credit	NA	NA	Revolving	50.00	IVR BBB/ Negative Outlook