



Press Release

Shree Biradev Finance Private Limited

December 24, 2020

Rating

| Sl. No. | Facility | Amount (Rs. Crore) | Rating | Rating Action |
|---------|--|--------------------------------------|---|---------------|
| 1 | Long Term Fund Based Bank Facilities (Including Proposed Limit of Rs 30.00 Cr) | 50.00 | IVR BB+/ Stable (IVR Double B Plus with Stable Outlook) | Assigned |
| | Total | 50.00 (Rs. Fifty crores only) | | |

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Shree Biradev Finance Private Limited (SBFPL) derives comfort from its long track record of operation under experienced and professional management team with adequate systems and processes, comfortable capital adequacy levels and growth in total income albeit moderation in profitability in FY20. These rating strengths are partially offset by its small scale of operations with geographical concentration risk, exposure to marginal borrower profile with susceptibility to income shocks, moderate asset quality, competitive nature of the industry and limited resource profile.

Rating Sensitivities

Upward factors

- Increase its scale of business while improving asset quality and profitability
- Diversification of resource profile

Downward Factors

- Moderation in scale of operations with moderation in profitability
- Decline in asset quality
- The inability to tie up long-term funding, which would widen the asset liability gaps, will also be a negative rating trigger

Detailed Description of Key Rating Drivers



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Key Rating Strengths

- **Experienced and professional management team with adequate systems and processes**

SBFPL is managed by a four-directors governing body headed by Mr. Ramachandra Raghoji. All the governing body members are well versed with the intricacies of the business operation of asset finance and NBFC. The day-to-day affairs is handled by Mr. Ramachandra Raghoji having more than three decades of experience in the finance sector. SBFPL has installed good tracking and MIS systems, which are adequate to support future growth expansion. Further, the company has invested significantly in technology to ensure the real-time availability of collection data, e-verification of customer details and cashless disbursements. Internal audits are conducted regularly, and the scope and coverage are in line with industry practices.

- **Long track record of operation**

Mr. Ramachandra Raghoji, the chairman and managing director of the SBFPL, has more than 30 years of experience in Vehicle finance. Further he has been a dealer for India Cements for 13 years. Hence there has been long track of operation in Vehicle finance by the promoters.

- **Comfortable capital adequacy levels**

SBFPL's capital adequacy ratio (CAR) was at 37.55% as on March 31, 2020 (44.66% as on March 31, 2019), as against the regulatory requirement of 15%. Tier I CAR at over 37.55% provides leeway to raise resources to support business growth going forward. SBFPL had a comfortable capital structure marked by overall gearing of 0.60x as on March 31, 2020. The debt protection metrics also remained comfortable marked by interest cover of 2.8x for FY20. SBFPL's ability to maintain strong collection efficiency and underwriting standards to ensure the maintenance of the asset quality while scaling up its operations going forward would remain critical from a rating perspective apart from tying up the funding requirement for the targeted growth plans.

- **Growth in total income albeit moderation in profitability in FY20**

SBFPL's total operating income increased from Rs.10.54 crore in FY19 to Rs.13.06 crore in FY20 driven by increase in interest income backed by increase in owned loan portfolio (~ Rs. 73.94 crore as on March 31, 2020 as compared to ~Rs.51.69 crore as on March 31, 2019) However, net spread and NIM deteriorated in FY20 due to increase in capital cost during



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FY20. Moreover, with moderation in NIM coupled with stagnant in operating expenses (Cost to Income ratio remain flat at 44.42% from 43.44%), ROTA deteriorated from 8.28% in FY19 to 7.4% in FY20. The overall ability of the company to maintain good profitability indicators over cycles and diversify its earnings by venturing into other products/asset classes will be important from a credit perspective.

Key Rating Weaknesses

- **Small scale of operations with geographical concentration risk**

The scale of operations of SBFPL remained modest with a loan portfolio of Rs.73.94 crore as on March 31, 2020. SBFPL is engaged in business of hire purchase of two-wheeler, three-wheeler and four-wheeler loans to individuals in Karnataka. SBFPL's operations are concentrated only in the state of Karnataka with Gulbarga region highly concentrated at 77.58% of the total portfolio. One state concentration exposes the SBFPL to high geographical concentration risk. As on September 30, 2020, SBFPL is operating in 13 branches, all of which is in the state of Karnataka. In H1FY21, the company has achieved a total operating income of Rs.5.71 crore.

- **Marginal borrower profile with susceptibility to income shocks**

SBFPL mainly primarily lends to micro businesses like kirana shops/ general stores/ traders, farmers and relatively lower salaried people. The customers in this segment generally have limited credit history and their cash flows could be volatile and highly sensitive to minor business disruptions and external shocks. Also, such borrowers do not have the financial flexibility to pay more than one or two instalments at a time. Given the marginal borrower profile and the assessed income-based lending model, the segment remains susceptible to income shocks. Hence movement of delinquencies will remain a key rating monitorable.

- **Moderate asset quality**

There was shortfall in collection due to nationwide lockdown in the month of March'20, April'20 & May'20 apart from that SBFPL has managed to maintain its collection efficiency for the rest of the months with no major incidence of shortfall. SBFPL though remain exposed to risks associated with the lending business able to maintain a stable asset quality backed by its strong loan monitoring and adequate credit appraisal process. The GNPA stood at 3.58% and NNPA is about 2.96% as on March 31, 2020 (3.04% & 2.49 % respectively as on March 31,2019). However, the GNPA improved to 2.59% as on September 30,2020. The company's



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ability to maintain the asset quality in the new originations, and maintain field discipline will be important from a credit perspective.

- **Competitive nature of industry**

SBFPL is exposed to stiff competition from other NBFCs and banks. Moreover, the NBFC sector is witnessing a major shake-up after the default of a large NBFC. Better capitalised and more conservatively run finance companies are likely to swallow up an increasing number of smaller rivals. The current uncertainty due to the pandemic driven operating restrictions in the market will mean NBFCs with financially strong backers will stand out. However, the said risk is mitigated by long presence of the company in the concerned industry.

- **Limited resource profile**

SBFPL avenues of funds is dependent on own funds and cash credit from banks with limited avenue of other sources such as term loan, debentures, securitization etc. The company's ability to raise funds from diversified sources remains crucial from credit perspective. To the comfort, SBFPL have a revenue sharing agreement (RSP) with Hinduja Leyland Finance Ltd. As bank funding is relatively scalable and cost competitive, the ability of the company to increase the share of the same in its overall funding mix will be critical for the targeted growth while maintaining a competitive cost of funds.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Financial Institutions/ NBFCs

Financial Ratios & Interpretation (Financial Sector)

Liquidity: Adequate

The company had adequate liquidity in the form of unencumbered cash and liquid balances of Rs.0.42 crore, as on November 30, 2020. As the advances comprise relatively shorter-tenure asset finance loans compared to the tenure of the borrowed funds, the asset liability maturity profile remains adequate. While Infomerics expects the company to meet its debt obligations in a timely manner, it would be important for SBFPL to maintain its collection efficiency while ensuring the regular flow of funds to meet its internal growth projections.



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About the Company

Karnataka based Shree Biradev Finance Pvt Ltd (SBFPL) was incorporated in 1994. The company is a non-deposit taking NBFC registered with RBI and is engaged in financing of new and used vehicle. The company has its presence in five districts and six taluka's namely Kalaburagi, Bidar, Vijayapura, Bagalkot, Dharwad, Humnabad, Shahapur, Jewargi, Yadgir, Sindgi and Indi. Further the company is a Revenue Sharing Partner of Hinduja Leyland Finance Limited (HLF) since 9th November 2018. Mr. Ramachandra Raghoji is the Chairman and Managing Director (CMD) who handles the day-to-day operations of the company.

Financials (Standalone):

| For the year ended* / As On | (Rs. crore) | |
|-----------------------------|----------------|----------------|
| | 31-03-2019 | 31-03-2020 |
| | Audited | Audited |
| Total Operating Income | 10.53 | 13.05 |
| PAT | 2.71 | 2.75 |
| Tangible Net worth | 24.02 | 30.46 |
| Total Asset | 54.58 | 78.58 |
| Ratios | | |
| ROTA (%) | 8.44 | 8.87 |
| Interest Coverage (times) | 3.44 | 2.84 |
| Total CAR (%) | 44.66% | 37.55% |
| Gross NPA (%) | 3.04% | 3.58% |
| Net NPA (%) | 2.49% | 2.96% |

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2020-21) | | | Rating History for the past 3 years | | |
|---------|--|-------------------------------|--------------------------------|-----------------|---|---|---|
| | | Type | Amount outstanding (Rs. 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. | Cash Credit (Including proposed limit of Rs. 30.00 Crores) | Long Term | 50.00 | IVR BB+ /Stable | - | - | - |



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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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| | |
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About Infomerics:

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Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|--|------------------|------------------|---------------|------------------------------|--------------------------|
| Long Term Fund Based Limits – Cash Credit (Including Proposed Limit of Rs. 30.00 Cr) | - | - | - | 50.00 | IVR BB+/Stable |