Newlink Overseas Finance Limited

January 21, 2021

Ratings

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures - III	3.40 (reduced from 4.12)	**CARE BB-; Negative [Double B Minus; Outlook: Negative]**	Revised from CARE BB+; Stable [Double B Plus; Outlook: Stable]
Non-Convertible Debentures - IV	6.73 (reduced from 12.49)	**CARE BB-; Negative [Double B Minus; Outlook: Negative]**	Revised from CARE BB+; Stable [Double B Plus; Outlook: Stable]
Non-Convertible Debentures - V	10.17 (reduced from 15.00)	**CARE BB-; Negative [Double B Minus; Outlook: Negative]**	Revised from CARE BB+; Stable [Double B Plus; Outlook: Stable]
Non-Convertible Debentures - VI (Proposed)	10.00	**CARE BB-; Negative [Double B Minus; Outlook: Negative]**	Revised from CARE BB+; Stable [Double B Plus; Outlook: Stable]
Total Long-term Instruments	**30.30 (Rs. Thirty crore thirty lakh only)**		
Fixed Deposits	15.12	**CARE BB- (FD); Negative [Double B Minus (Fixed Deposit); Outlook: Stable]**	Revised from CARE BB+ (FD); Stable [Double B Plus (Fixed Deposit); Outlook: Stable]
Total Medium-term Instruments	**15.12 (Rs. Fifteen crore twelve Lakh only)**		

Details of instruments/facilities in Annexure-1

** Fixed deposits can be raised to the maximum of 1.5 times the Net Owned Funds (NOF). With losses reported in FY20, the NOF stood at Rs.4.43 crore and 1.5 times of NOF results in Rs.6.65 crore. However, with outstanding FD of Rs.15.12 crore and no further FD can be mobilized, CARE is continuing to rate the outstanding balance. Also, NOFL needs to adhere relevant RBI guidelines at the time of renewal of deposits.*

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the debt instruments of Newlink Overseas Finance Limited (NOFL) factors in the significant moderation in asset quality parameters and its impact on profitability during FY20 (refers to the period from April 01 to March 31) resulting in capital adequacy ratio (6.89% as on March 31, 2020) falling below regulatory requirement as on March 31, 2020. NOFL reported GNPA of 38.30% as on March 31, 2020 and net loss of Rs.6.27 crore during FY20. The ratings continue to be constrained by small size of operations, client concentration risk, concentrated funding profile and moderate level of operating system. The ratings also take note of the changes in the management team.

The ratings draw strength from long operational track record of the company in the lending business.

<u>Rating Sensitivities</u>

Positive factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Improvement in the scale of operations along with improvement in the capital adequacy parameters, asset quality parameters and profitability parameters.

Negative factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Continuation of losses going forward.
- Further deterioration in asset quality.
- Continuation of capital adequacy parameters below regulatory requirement.

Outlook: Negative

The outlook is revised to 'Negative' reflecting moderation in networth because of the weak asset quality leading to moderation in capital adequacy parameters below RBI requirement. The asset quality remains weak majorly due to the slippages in higher ticket loans during FY20. The outlook may be revised to stable if there is significant amount of equity infusion to improve the capital adequacy levels well above RBI requirement along with significant recovery from overdue customers.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations

Size of operations of NOFL continues to be small with presence only in Tamil Nadu (6 Branches) and New Delhi (2 Branches). With the growing NPA, NOFL paused the disbursements during FY20 and disbursed only Rs.0.26 crore as loan against deposit. With lower disbursement and lower collections during FY20, Loan portfolio de-grew by 4%and stood at Rs.64.03 crore as on March 31, 2020 as against Rs.66.49 crore as on March 31, 2019.

Weak asset quality

With the significant NPA addition of Rs.20 crore during FY20, GNPA and NNPA increased significantly from 7.08% and 3.65% respectively as on March 31, 2019 to 38.30% and 31.14% respectively as on March 31, 2020. With loss reported due to high NPA parameters, Networth declined and thus Net NPA to Networth stood at 450.62% as on March 31, 2020 as against 19.78% as on March 31, 2019. Top 4 NPA accounts contributed for 82% of the total GNPA as on March 31, 2020.

Also Provision Coverage Ratio (%) moderated to 18.73% as on March 31, 2020 from 46.76% as on March 31, 2019.

Going forward, ability of the company to improve its asset quality levels by improving collection from overdue customers is critical from credit perspective.

Losses reported during FY20

With the significant increase in the NPA parameters, total income has dropped 67% Y-O-Y from Rs.9.95 crore during FY19 to Rs.3.27 crore during FY20.

With the decline in interest income, Net Interest Margin (NIM) remained negative in FY20. Opex to average total assets remained at 3.99% in FY20. Credit cost has increased from 1.16% during FY19 to 3.15% during FY20 because of the significant slippage during FY20. The company reported net loss of Rs.6.27 crore in FY20 as against a loss of Rs.0.18 crore in FY19.

Capital adequacy falling below regulatory requirement

With significant drop in Networth from Rs.12.23 crore as on March 31, 2019 to Rs.4.43 crore as on March 31, 2020 because of the loss reported during FY20, CAR and Tier I CAR significantly moderated to 6.89% (PY: 17.30%) and 6.51% (PY: 16.95%) as on March 31, 2020 which is lower than the RBI regulatory requirement of 15.00% and 10.00% respectively. The ability of the company to raise additional equity to bring back the capital adequacy level above RBI requirement would be a key rating sensitivity.

Client concentration risk

Top 10 customers constitute 34% of the total loan portfolio and Top 20 customers constitute 39% of the total loan portfolio as on March 31, 2020.

Concentrated funding profile

Funding profile of NOFL has remained concentrated over the years with dependence on NCDs and FDs. RBI vide their letter dated Nov 18, 2019 has advised the company to stop accepting fresh public deposits and renewing existing deposits with immediate effect. The Share of FDs as % of total borrowings stood at 47% (PY: 51%) and share of NCDs stood at 33% (PY: 28%) as on March 31, 2020. Apart from these, ICDs (7%) and working capital loans from banks (13%) account for the balance portion of the funding mix as on March 31, 2020.

Public deposit as on March 31, 2020 stood at Rs.15.73 crore and NOFL maintained a statutory liquidity reserve in government securities and bank deposits of Rs.4.42 crore which is 28.09% of the total deposits as against a RBI regulatory requirement of 15.00%.

Key Rating Strengths

Long standing track record of the company

NOFL was incorporated in January 1991 and has a long-standing track record of around 30 years of operations. During this period, the company has established itself in a niche market and has a good customer base in Tamil Nadu and New Delhi.

Experienced management

Post the demise of Mr. A. Namasivayam (Former MD) in December 2018, there were many changes in the board of directors and currently the board comprises of 5 directors as on March 31, 2020 namely Mr Rm.Subbiah, Mr O.P.Garg, Mr U.P.Prakasham, Mrs Denise Marcelle Mollex Panjwani and Mrs S.Deivanai. Directors take care of the day to day operations of the company ably supported by a small team of professionals with experience in the banking sector.

Outlook and prospects

The outlook for NBFCs and HFCs has turned negative due to Covid-19 outbreak. The sector which grappled with liability side disruptions could see another wave of challenges, this time in the form of asset quality. Amidst these, funding challenges could mount again, as banks become more selective in extending credit. While asset quality of NBFCs has witnessed moderation in FY20, the impact of COVID-19 on the asset quality remains to be seen.

Impact of Covid-19

NOFL has availed moratorium from the banks for the working capital facilities and the company has provided moratorium to its borrowers. With the significant deterioration in asset quality before Covid-19, the impact of Covid is expected to add further pressure on the asset quality and profitability parameters.

Liquidity: Stretched

As per the ALM profile as on March 31, 2020, Liquidity remains comfortable with no negative cumulative mismatch in any of the time buckets upto 1 year. However, with the lower collections during FY20, the collectability of principal along with the interest on the contractual maturity date remains to be seen. Timely infusion of equity and improvement in collections from overdue customers is highly critical for the company. The company also had cash and bank balance of around Rs.0.80 crore as on March 31, 2020 and unavailed CC limit of Rs.0.03 crore out of the total limit of Rs.6.25 crore.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook and Credit watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial Ratios-Financial Sector]
[CARE's Rating Methodology for Non-Banking Finance Companies (NBFCs)]

About the Company

NOFL is a Chennai-based deposit taking Non-Banking Finance Company (NBFC) registered with the Reserve Bank of India (RBI). It was promoted in January 1991 by retired bankers in Chennai and operates through a network of eight branches (six in Tamil Nadu and two in New Delhi).

The company is engaged in hypothecation loans, hire purchase financing and short-term lending. The company extends hypothecation loans/hire purchase finance for industrial equipment and vehicles (heavy commercial vehicles, cars and two wheelers). The short-term lending is generally secured by deposits or property and third party guarantee. The client profile of NOFL mainly consists of small and medium enterprises including educational trusts.

NOFL has set up five windmills in rural areas of Tamil Nadu as a tax planning measure. The company earned Rs.0.71 crore during FY20 (PY: Rs.1.12 crore) as revenue by sale of power generated from these wind mills to the Tamil Nadu state electricity board (TNEB).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	9.95	3.27
PAT	-0.18	-6.27
Interest coverage (times)	0.90	NM
Total Assets	79.97	76.83
Net NPA (%)	3.65	31.14
ROTA (%)	NM	NM

A: Audited; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments-

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures-III	-	-	10.25%	Oct 31, 2021	3.40	CARE BB-; Negative
Debentures-Non Convertible Debentures-IV	-	-	9.25%	Nov 25, 2021	6.73	CARE BB-; Negative
Debentures-Non Convertible Debentures-V	-	-	9.50%	Dec 16, 2022	10.17	CARE BB-; Negative
Debentures-Non Convertible Debentures-VI	-	-	-	-	10.00	CARE BB-; Negative
Fixed Deposit	-	-	-	Upto 3 years	15.12	CARE BB- (FD); Negative

Annexure-2: Rating History for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fixed Deposit	LT	15.12	CARE BB- (FD); Negative	-	1)CARE BB+ (FD); Stable (04-Nov-19) 2)CARE BBB (FD); Stable (02-Apr-19)	-	1)CARE BBB (FD); Stable (06-Mar-18)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (02-Apr-19)	-	1)CARE BBB-; Stable (06-Mar-18)
3.	Debentures-Non Convertible Debentures	LT	3.40	CARE BB-; Negative	-	1)CARE BB+; Stable (04-Nov-19) 2)CARE BBB-; Stable (02-Apr-19)	-	1)CARE BBB-; Stable (06-Mar-18)
4.	Debentures-Non Convertible Debentures	LT	6.73	CARE BB-; Negative	-	1)CARE BB+; Stable (04-Nov-19) 2)CARE BBB-; Stable (02-Apr-19)	-	1)CARE BBB-; Stable (06-Mar-18)
5.	Debentures-Non Convertible Debentures	LT	10.17	CARE BB-; Negative	-	1)CARE BB+; Stable (04-Nov-19) 2)CARE BBB-; Stable (02-Apr-19)	-	-
6.	Debentures-Non Convertible Debentures	LT	10.00	CARE BB-; Negative	-	1)CARE BB+; Stable (04-Nov-19) 2)CARE BBB-; Stable (07-May-19)	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fixed Deposit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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