Namdev Finvest Private Limited

July 02, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	250 (enhanced from 105)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Reaffirmed**
Total facilities	**250 (Rs. Two Hundred and Fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating continues to derive strength from the experience of the promoters of Namdev Finvest Private Limited (NFPL), regular fund infusion by the promoters, growth in scale of operations in FY20 (refers to the period April 1 to March 31), moderate asset quality and earning profile, adequate liquidity and diversified resource base. The rating also derives comfort from its adequate Management Information System (MIS) and internal control systems for its current scale of operations.

The rating, however, continues to remain constrained due to the moderate scale of its operations, geographical concentration risk, low seasoning of portfolio with moderate capital adequacy and leveraged capital structure. CARE also takes cognizance of the company availing the moratorium granted by its lenders as a COVID relief measure (as permitted by the Reserve Bank of India) for the interest and installment repayments on its term loan/ working capital facilities from its lenders.

Rating Sensitivities

Positive Factors

- Diversification in terms of geography and resource base along with improvement in asset quality and profitability.
- Significant growth in loan portfolio along with adequate portfolio seasoning.

Negative Factors

- Deterioration in profitability with ROTA declining below 2.00%.
- ALM position shows negative mismatches exceeding RBI regulatory norms.
- Significant decline in liquidity position due to impact on collection efficiency in the wake of Covid-19 pandemic situation and non-availability of fresh funding.
- Deterioration in asset quality with Gross NPA exceeding 4.00%.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and regular fund infusion to support the operations: NFPL is promoted by Mr. Jitendra Tanwar (Founder & Managing Director) who has more than a decade of experience in vehicle financing in Rajasthan. Mr. Jitendra Tanwar along-with his wife Mrs. Latika Tanwar looks after the overall management of the company and is supported by experienced second line of management. NFPL has established an Advisory Board in April 2020 that consists of two members having more than two decades of experience in the industry, to advise NFPL in developing & implementing strategies and strengthening corporate governance. Further, NFPL has also inducted an experienced independent director i.e. Ruby Agrawal in the board in April 2020. Over the years, promoters have also supported the operations of the company by way of regular infusion of fund. The promoters/relatives/friends have regularly infused need-based in the company over the years, including Rs.9.04 crore in FY19 and Rs.8.40 crore in FY20 in the form of CCPS/CCD/Equity.

Adequate MIS and risk management system: NFPL has implemented 'Finone' MIS software for loan origination, credit, disbursement and collection in December, 2019 switching from the earlier MIS system. The installation of the software process and training of the employees are completed. Data migration for the past years is under process. Further, new loan origination and disbursements are moving through 'Finone' MIS system only. Majority of the important operational aspects like credit appraisal as well as disbursements is managed from its Head Office in Jaipur. NFPL has adequate MIS system and risk management systems for the current scale of operations.

***Moderate Asset quality*:** NFPL's asset quality remained moderate with Gross NPA as a % of Gross Advances and Net NPA as a % of Net Advances being 0.31% and 0.28% respectively as on March 31, 2020 considering 120 days dpd. Delinquency (based on 90+ dpd) has stood at 0.47% as on March 31, 2020 as compared with 0.22% as on March 31, 2019. The NPAs are mainly in the two wheeler segment while LAP/SME segment has lower number of cases above 120 days dpd as on March 31, 2020.

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

NFPL has NIL write off during last three years (FY18, FY19 & FY20). NFPL's strong underwriting process and loans in LAP at lower LTV have resulted in moderate asset quality.

Diversified resource base: Over the years NFPL has diversified and increased its resource base. NFPL currently enjoys loans from 7 banks and more than 20 Financial Institutions. Promoters and their relatives have infused funds of Rs.8.40 crore in NFPL during FY20 including Rs.2.14 crore through Compulsory Convertible Preference Shares (CCPS) that are compulsorily convertible into equity at the end of 3rd year from deemed date of allotment. However, average borrowing cost has increased during FY20 mainly on account of industry scenario and fund raising being more skewed towards Financial Institutions.

Moderate earning profile: Average yield on NFPL's portfolio was 21.79% during FY20 which remained at similar level compared to FY19. However, its average borrowing cost increased from 13.28% during FY19 to 14.01% during FY20 mainly on account of increase in rate of interest on funds borrowed post September 2018. Thereby, its Net Interest Margin (NIM) declined in FY20 by 45 bps to 9.79% as a sizeable portion of the increase in asset portfolio was financed through debt leading to increase in interest expenses. Further, operating expenses/average total assets has marginally increased to 5.48% during FY20 as compared with 5.06% during FY19 as the new branches were opened during the year for which new employees were hired resulting in increased fixed cost. However, ROTA has marginally improved to 4.09% during FY20 as compared to 3.87% during FY19 mainly due to increase in other income as other income as a % of average total asset has improved from 0.53% in FY19 to 1.47% during FY20. Average credit cost has remained in the range of 0.10% to 0.25% during last 5 years mainly on account of increase in loan portfolio as well as strong collection mechanism resulting in lower slippages.

Liquidity - Adequate: The Asset Liability Management (ALM) profile of NFPL was adequate as on March 31, 2020 with no cumulative negative mismatches in any of the time buckets. Further, the average working capital limit utilization stood at 33.59% during last 12 months ended May 31, 2020 which provides additional cushion to its liquidity. Further, the company had free cash and bank balance of Rs.24.27 crore as on April 01, 2020 against the debt repayment of Rs.56.14 crore in FY21 covering around 5 months of repayments. The average collection efficiency stood at 98.94% during last 12 months ended May, 2020 (considering nil demand where moratorium was given to clients as per RBI guidelines). NFPL's management has articulated that the company will maintain minimum liquidity for 3 months of debt repayment at any point of time and the same policy has been followed post September, 2018.
NFPL has provided moratorium to its customers based on Opt-in policy for the months of April and May, 2020. Therefore, NFPL did collection of around 19% (without considering the moratorium) during April and May, 2020. Further, NFPL has envisaged collection of around 70% during June, 2020 mainly due to resumption of operations of the company post lockdown. Simultaneously, NFPL has opted for the moratorium on debt servicing from its lenders for a period of three months from March 1 to May 31, 2020 as a part of Covid 19 relief measure (as permitted by the RBI) and it has received moratorium for around 70% of its total debt from different lenders.

Key Rating Weaknesses

Geographical concentration risk*:* As on March 31, 2020, NFPL's major business was concentrated in Rajasthan (mainly around Jaipur region). As on March 31, 2020, NFPL had 28 branches including Head Office thereby increasing the geographical reach within Rajasthan. However, NFPL has diversified into Delhi NCR region; albeit with meager portfolio share of 0.83% (P.Y.: 1.47%) of total outstanding loan portfolio as on March 31, 2020.

Moderately diversified product profile: NFPL's loan portfolio is moderately diversified with LAP portfolio/SME loans (secured) comprising of 82% of outstanding loan portfolio, new/used vehicle loans (CV/MUV/Car) comprising 4% while two-wheeler loans (11%) and Gold loans (2%) comprise the balance.The average tenure of Auto loans (two wheeler/ three wheeler loans) varies from 15-18 months, while the same for Car/CV/MUV varies from 24-48 months and LAP/SME varies from 48-60 months. NFPL has shifted its focus to LAP/SME financing segment which is evident from the increase in disbursement in LAP segment in FY20. Top 10 borrowers stood at around 1.69% of total loan portfolio as on March 31, 2020 majorly in the LAP product resulting in lower customer concentration risk.

Moderate; albeit growing scale of operations with low seasoning of loan portfolio: The size of operations of NFPL though improved remained moderate marked by its outstanding loan portfolio of Rs.167.38 crore and total asset size of Rs.202.00 crore as on March 31, 2020 as compared to outstanding loan portfolio of Rs.111.29 crore and total asset size of Rs.135.39 crore as on March 31, 2019 thereby registering 50.39% growth in loan portfolio in FY20 over FY19. NFPL's AUM has grown by around 50% during FY20 with major lending towards LAP product. Its LAP product has average tenor of around 48 months resulting in moderate seasoning in that product profile. As a result, its asset quality performance through different economic cycles and geographies is yet to be established. Although NFPL is doing SME/LAP funding from last 4 years however, AUM has grown significantly in last two years.

Moderate capital adequacy and leveraged capital structure: Capital adequacy ratio (CAR) of NFPL stood at moderate level of 25.61% as on March 31, 2020 (25.47% as on March 31, 2019) mainly on account of equity infusion and infusion through CCPS. NFPL has envisaged maintaining the overall gearing below 5 times going forward. Going forward, NFPL is envisaging equity infusion of around Rs.14 crore during FY21 to support the expansion of the portfolio.

Industry Outlook: Due to subdued economic environment, last three years have been challenging period for the NBFCs with moderation in growth and rising delinquencies resulting in higher provisioning thereby impacting profitability. However, comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs in spite of impact on profitability. Also, with the improvement in economic environment, asset quality pressures should ease which will partially offset the impact of migration towards 90 -day NPA recognition norm.
Further, the spread of the COVID-19 pandemic has led to a nation-wide lockdown which is likely to impact the overall growth and collections of NBFCs/HFCs sector. As a result, in CARE's view the credit risk profile of NBFCs/HFCs is expected to deteriorate over the medium term. Liquidity profile, resource raising ability, funding support from parent/group and exposure to vulnerable asset classes and operating profiles in terms of geographies and borrower types would be critical monitorable factors in the NBFCs/HFCs sector.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Non-banking Financial Companies
Financial Sector Ratios

About the Company
Incorporated in April, 1997, Namdev Finvest Private Ltd. (NFPL) is a Jaipur (Rajasthan) based RBI registered Non-Deposit taking NBFC, engaged in financing of New/Used Commercial Vehicle, Cars, two/three wheelers, Loan against Property (LAP), SME loans and Gold loans. Head office of NFPL is situated in Jaipur and most of the business is concentrated in rural and semi-urban areas of Jaipur district. As on March 31, 2020, NFPL has 28 branches including Head Office and loan portfolio of Rs.167.38 crore as on March 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	20.92	37.99
PAT	3.77	6.91
Interest coverage	1.52	1.55
Total Assets	135.39	202.00
Net NPA (%)	0.17	0.28
ROTA (%)	3.86	4.09

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	23.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	Feb-2028	227.00	CARE BBB-; Stable

Annexure-2: Rating History of 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.	Fund-based - LT-Cash Credit	LT	23.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (18-Jun-19)	1)CARE BB+; Stable (17-Jul-18)	1)CARE BB; Stable (29-Jan-18) 2)CARE BB; Stable (29-Dec-17)
2.	Fund-based - LT-Term Loan	LT	227.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (18-Jun-19)	1)CARE BB+; Stable (17-Jul-18)	1)CARE BB; Stable (29-Jan-18)

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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