

Newlink Overseas Finance Limited

May 07, 2019

Ratings

| Instruments | Amount (Rs. crore) | Rating ¹ | Rating Action |
|----------------------------------------------|----------------------------------|----------------------------------------------------------------------|---------------|
| Non-Convertible Debentures- VI (Proposed) | 10.00 (Rupees Ten crore only) | CARE BBB-; Stable (Triple B Minus; Outlook: Stable) | Assigned |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed Non-Convertible Debenture issue of Newlink Overseas Finance Limited (NOFL) continue to factor in the long operational track record of the company supported by experienced management team, adequate capital adequacy and comfortable liquidity position. The ratings also take note of the moderation in profitability during FY18 (refers to the period April 01 to March 31) and H1FY19 (refers to the period April 01 to September 30). The ratings, however, continue to be constrained by small size of operations, client concentration risk, concentrated funding profile, moderate asset quality and moderate level of operating systems. The ability of the company to grow its business while improving asset quality and profitability are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long standing track record of operations

NOFL was incorporated in January 1991 and has a long-standing track record of over 27 years of operations. During this period, the company has established itself in a niche market and has a stable deposit base spread over various regions of Tamil Nadu.

Experienced management

The board comprises of 14 directors including 10 independent directors. The day to day operations of the company were handled by Mr. A. Namasivayam (former Executive Director, Indian Overseas Bank), Managing Director. Post his demise in December 2018, whole-time 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.

Adequate capital adequacy

Capital adequacy of the company has remained adequate over the years with moderate growth in business. Total CAR remained adequate at 18.85% as on March 31, 2018 (PY: 20.52%). Tier I CAR stood at 18.48% (PY: 20.17%) as on March 31, 2018. As on September 30, 2018, total CAR stood at 19.18% with Tier I CAR of 18.81%. The company would require additional capital in order to grow the portfolio in the medium term.

Comfortable liquidity

ALM profile as on December 31, 2018, was comfortable with positive cumulative mismatches across time buckets, as the loans are short to medium term in nature that are funded by FDs, NCDs and bank facilities with relatively longer tenor. The company also had cash and bank balance of around Rs.75 lakhs as on February 28, 2019.

Key Rating Weaknesses

Small scale of operations

Size of operations of NOFL continues to be small. The company made disbursements of Rs.42 crore in FY18 as compared to Rs.40 crore in FY17. Loan portfolio grew by 10% (PY: 5%) from Rs.58.61 crore as on March 31, 2017 to Rs.64.54 crore as on March 31, 2018. However, during H1FY19, the company made disbursements of only Rs.7.80 crore. As a result, loan Portfolio declined to Rs.62.97 crore as on September 30, 2018. It may be noted that due to shorter tenure of loans, growth in loan portfolio remains at moderate levels.

Moderation in profitability during FY18 and H1FY19

Net Interest Margin (NIM) remained at 5.57% in FY18 as compared to 4.92% in FY17. Pre-Provision Operating Profit increased from Rs.1.41 crore in FY17 to Rs.1.81 crore in FY18. However, Loan loss provisions and write-offs as a % of average total assets increased from 0.20% in FY17 to 2.70% in FY18 due to write-off of one large NPA amounting to Rs.1.56 crore. On account of the same, the company made loss of Rs.0.20 crore at PBT level in FY18. ROTA moderated from 1.13% in FY17 to 0.41% in FY18. The profitability parameters moderated during H1FY19 with NIM and ROTA at

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

2.47% and 0.10% respectively. The moderation in H1FY19 is majorly due to reduction in disbursement/portfolio with fixed overheads remaining at the similar level.

Moderate asset quality

Prior to March 2015, GNPA levels of the company stood around 2.7-3.0%. The NPA levels increased then due to slippages of few large accounts. During FY18, NOFL has made transition in NPA recognition norms from 120 days basis to 90 days basis for Hypothecation loans and from 180 days basis to 90 days basis for HP loans. GNPA and NNPA ratios stood at 3.37% and 1.51% respectively as on March 31, 2018 as compared to 5.13% and 3.82% respectively as on March 31, 2017 majorly due to write-off despite transition in NPA recognition norms. Net NPA to Networth improved from 16.57% as on March 31, 2017 to 7.29% as on March 31, 2018.

GNPA increased to 5.51% as on September 30, 2018 majorly due to slippage of few large accounts. As on September 30, 2018, Net NPA to Networth stood at 16.76%.

Given the relatively small size of operations and networth, it is critical for the company to ensure that there are no further slippages in high value exposures. Going forward, ability of the company to improve its asset quality and Net NPA/networth levels are critical from credit perspective.

Concentrated funding profile

Funding profile of NOFL has remained concentrated over the years with dependence on NCDs and FDs. The share of NCDs as % of total borrowings stood at 25% as on March 31, 2018 and share of FDs stood at 54% as on March 31, 2018. Apart from these, ICDs (10%) and working capital loans from banks (11%) account for the balance portion of the funding mix as on March 31, 2018.

Outlook and prospects

NOFL focused more on corporate segment with its hypothecation loan portfolio catering to commercial vehicles and construction equipment space, which are relatively lower yielding assets. In the past, notwithstanding the credit profile of its customers, NOFL has been able to limit its GNPA levels. However, GNPA levels stood relatively higher in the past three fiscals ended March 2018. Going forward, ability of the company to improve asset quality and sustain/improve its business levels in view of increasing competition will be critical to the credit profile of the company.

Analytical approach:

Standalone

Applicable Criteria

[Criteria on assigning Outlook 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.

During FY18, the company reported PAT of Rs.0.31 crore on a total income of Rs.12.13 crore. During H1FY19, the company reported PAT of Rs.0.04 crore on a total income of Rs.4.63 crore.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|-------------------------------------|-----------------|-----------------|
| Total operating income | 11.28 | 12.13 |
| PAT | 0.78 | 0.31 |
| Interest coverage (times) | 1.19 | 1.02 |
| Total Assets | 71.22 | 77.52 |
| Net NPA (%) | 3.82 | 1.51 |
| ROTA (%) | 1.13 | 0.41 |

A: Audited

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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

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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About CARE Ratings:

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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 |
|-----------------------------------------------------|------------------|-------------|---------------|-------------------------------|-------------------------------------------|
| Debentures-Non Convertible Debentures-VI (Proposed) | - | - | - | 10.00 | 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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fixed Deposit | LT | 20.00 | CARE BBB (FD); Stable | 1)CARE BBB (FD); Stable (02-Apr-19) | - | 1)CARE BBB (FD); Stable (06-Mar-18) | 1)CARE BBB (FD); Stable (15-Mar-17) 2)CARE BBB (FD) (11-Apr-16) |
| 2. | Debentures-Non Convertible Debentures | LT | - | - | - | - | - | 1)Withdrawn (15-Mar-17) 2)CARE BBB- (11-Apr-16) |
| 3. | Debentures-Non Convertible Debentures | LT | - | - | 1)Withdrawn (02-Apr-19) | - | 1)CARE BBB-; Stable (06-Mar-18) | 1)CARE BBB-; Stable (15-Mar-17) 2)CARE BBB- (11-Apr-16) |
| 4. | Debentures-Non Convertible Debentures | LT | 5.00 | CARE BBB-; Stable | 1)CARE BBB-; Stable (02-Apr-19) | - | 1)CARE BBB-; Stable (06-Mar-18) | 1)CARE BBB-; Stable (15-Mar-17) 2)CARE BBB- (11-Apr-16) |
| 5. | Debentures-Non Convertible Debentures | LT | 13.38 | CARE BBB-; Stable | 1)CARE BBB-; Stable (02-Apr-19) | - | 1)CARE BBB-; Stable (06-Mar-18) | - |
| 6. | Debentures-Non Convertible Debentures | LT | 15.00 | CARE BBB-; Stable | 1)CARE BBB-; Stable (02-Apr-19) | - | - | - |
| 7. | Debentures-Non Convertible Debentures | LT | 10.00 | CARE BBB-; Stable | - | - | - | - |

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