

September 30, 2021

Sri Vishnu Priya Finance: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities	18.00	18.00	[ICRA]B+ (Stable); reaffirmed
Total	18.00	18.00	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the rating, ICRA has taken a consolidated view of Sri Padma Priya Finance Corporation (PP) and Sri Vishnu Priya Finance (VP) as these entities are under the same management and operate in the same business segment. The combined entity is henceforth referred to as PPVP/the entities.

The rating reaffirmation factors in PPVP's small scale with a combined portfolio of Rs. 61.5 crore (provisional) as on March 31, 2021, high geographical concentration with a presence in a single state and subdued profitability indicators. The rating continues to factor in the operational and managerial support from the SB Group. The Group's promoters have diverse business interests including auto dealership, real estate and tour & travel operations. The rating also factors in PPVP's moderate asset quality indicators with the 90+ delinquencies at 1.6% and the moderate capital structure with a gearing of 2.2 times (provisional) as on March 31, 2021, given the small scale of operations.

ICRA notes that there is scope for improvement in PPVP's credit appraisal, internal control and risk management systems, which is crucial for business expansion. The rating also takes into consideration the lack of regulatory oversight as the entities operate as partnership firms. PPVP's ability to improve its funding diversity, maintain the asset quality and scale up its operations, going forward, would be crucial from a rating perspective.

Key rating drivers and their description

Credit strengths

Moderate capitalisation profile, given the small scale of operations – PPVP's capitalisation continues to be moderate with a gearing of 2.2 times as on March 31, 2021, supported by the limited portfolio growth. ICRA expects the capital structure to remain stable over the medium term.

Moderate asset quality supported by aggressive repossession and recovery efforts – As on March 31, 2021, about 83% of PPVP's total loans were towards used two-wheelers with the remaining towards new two-wheelers. Typically, the credit profile of the borrowers in these segments is modest, making PPVP vulnerable to adverse economic cycles. PPVP's soft bucket delinquencies remained high as the 0+ days past due (dpd) stood at 30.1% as on March 31, 2021.

However, the forward flows are restricted by repossession and recovery efforts. In FY2021, PPVP recovered 22% of the opening portfolio through auctions, whereby there was no requirement for any loan write-offs. Overall, the asset quality remains moderate backed by the 90+ dpd¹ of 1.6% as on March 31, 2021 (1.5% as on March 31, 2019).

¹ The delinquency is estimated by the management, which is followed consistently basis the past trends, and the scope for variance is low

Support from Group entities and promoters – The SB Group has business interests in various fields including auto dealership, auto financing, real estate and tour & travel operations. PPVP derives operational and managerial support from the SB Group and leverages the Group’s established auto dealerships, namely SB Wheels Zone Private Limited and SB Motor Corporation, for business growth. PPVP also derives financial support from Group entities in the form of unsecured loans to bridge its funding requirement. These loans accounted for 30% of the total borrowings as on March 31, 2021 (27% as on March 31, 2020).

Credit challenges

Small scale and geographically concentrated operations – PPVP has a small scale of operations (portfolio of Rs. 61.5 crore² as on March 31, 2021) limited to Andhra Pradesh. ICRA also takes note of the initiatives taken by PPVP to reduce its reliance on Group entities for business. ICRA expects the operations to remain concentrated in Andhra Pradesh over the medium term.

Subdued profitability indicators – PPVP’s profitability (Profit after tax/Average total assets) was modest at 0.9% in FY2021 (provisional) owing to higher operating expenses (Operating expense/Average total assets of 45.9%). Going forward, it would be crucial for PPVP to improve its operating efficiency. The cost-to-income ratio was 96.4% in FY2021 (96.3% in FY2020).

Scope for improvement in credit appraisal; lack of regulatory oversight – PPVP’s appraisal process does not include borrower income analysis or credit bureau checks. It relies largely on reference checks for feedback while making credit decisions, which accentuates the credit risk considering the modest target customer profile. The management information system is not integrated with the accounting system. Given the absence of regulatory oversight and constitution (partnership firms), PPVP does not provide for non-performing assets.

Modest funding diversity – The funding profile largely consists of unsecured loans from Group entities and partners in addition to a cash credit facility from a bank. The entities’ ability to diversify the funding sources and secure long-term borrowings at competitive rates would be critical for portfolio expansion.

Liquidity position: Adequate

PPVP has an adequate liquidity profile with the average utilisation of the cash credit limit standing at 86% for the six-month period ended August 2021. It had sanctioned unutilised bank lines of Rs. 5.0 crore as of August 2021 against an estimated monthly interest outflow of Rs. 0.8 crore.

ICRA notes that collections were adversely impacted by the second wave of the Covid-19 pandemic in May 2021 and June 2021 with monthly collections at Rs. 4.2 crore and Rs. 4.8 crore, respectively. However, the same improved in subsequent months to Rs. 5.3 crore in July 2021 and Rs. 5.6 crore in August 2021. The entities do not have any external term loan repayment obligations. The presence of sizeable unsecured loans from Group entities provides a liquidity cushion to some extent.

Rating sensitivities

Positive factors – ICRA could change the outlook or upgrade the rating if PPVP improves its earnings and funding profile, as the portfolio expands, while controlling the asset quality and capital profile.

² Includes unmatured hire purchase charges

Negative factors – ICRA could change the outlook or downgrade the rating in case of a deterioration in the asset quality adversely impacting the earnings. A significant deterioration in the capital or liquidity profile would also negatively impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the consolidated financials of PP and VP

About the company

VP was set up in 1996 as a partnership firm in Rajahmundry (Andhra Pradesh). It finances two-wheelers in the west Godavari region of Andhra Pradesh. As on March 31, 2021, VP's total vehicle loan portfolio stood at Rs. 28.2 crore (provisional; including unmatured hire charges). VP reported a net profit of Rs. 0.2 crore in FY2021 on an asset base of Rs. 29.3 crore.

Group Profile

PPVP is a part of the Rajahmundry-based SB Group. The key entities in the SB Group include SB Motor Corporation, SB Wheels Zone, PP and VP. With an established track record of over three decades, the SB Group is primarily engaged in two- and four-wheeler dealerships and financing. Mr. Rangaprasad, Mr. Ramkumar, Ms. Parimala, and Mr. Suresh Kumar are the partners in all the entities of the Group with varying shares in each firm.

The Group's financing activities are undertaken by PP and VP. Both are partnership firms and provide finance for two-wheelers, mostly used vehicles, with a focus on the rural market.

As on March 31, 2021, PPVP's total vehicle loan portfolio stood at Rs. 61.5 crore (provisional; including unmatured hire purchase charges; Rs. 43.1 crore excluding unmatured hire purchase charges). For FY2021 (provisional), the combined entity reported a net profit of Rs. 0.6 crore on an asset base of Rs. 60.0 crore. As on March 31, 2021, PPVP's total net worth in relation to the total assets was 31.2% (provisional).

Key financial indicators (combined entity – PPVP)

	FY2019	FY2020	FY2021*
Total income (Rs. crore)	34.3	36.4	38.6
Profit after tax (Rs. crore)	0.5	0.5	0.6
Net worth (Rs. crore)	17.0	17.8	18.8
Loan book - Excluding unmatured hire charges (Rs. crore)	49.3	44.0	43.1
Total managed assets (Rs. crore)	65.4	61.1	60.0
Return on managed assets (%)	0.8%	0.9%	0.9%
Return on net worth (%)	2.9%	3.1%	3.0%
Managed gearing (times)	2.8	2.4	2.2
Gross stage 3 (%)	NA	NA	NA
Net stage 3 (%)	NA	NA	NA
Solvency (Net stage 3/Net worth)	NA	NA	NA
CRAR (%)	NA	NA	NA

Source: Company, ICRA Research; *Provisional; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2018
					Sep 30, 2021	Sep 30, 2020	Jun 28, 2019	Mar 29, 2018
1	Long-term bank facilities	Long term	18.00	18.00	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term bank facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	18.00	[ICRA]B+ (Stable)

Source: Sri Vishnu Priya Finance

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sri Padma Priya Finance Corporation	100% [@]	Full Consolidation
Sri Vishnu Priya Finance	100% [@]	Full Consolidation

[@]Partners with 100% share in profits are common for both entities

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