January 27, 2023

Agro Indus Credits Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Cash credit	10.00	10.00	[ICRA]B+ (Stable); reaffirmed
Long-term fund based – Working capital term loan	9.00	9.00	[ICRA]B+ (Stable); reaffirmed
Short-term fund based – Overdraft	5.00	5.00	[ICRA]A4; reaffirmed
Total	**24.00**	**24.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in Agro Indus Credits Limited's (AICL) senior management's experience in the retail finance business and the company's low leverage with a gearing of 0.4x as on September 30, 2022. The ratings continue to factor in AICL's modest scale, weak asset quality and the risks associated with its geographically concentrated operations. The company has limited external borrowings and it is crucial for it to diversify its funding profile as the business expands.

AICL's asset quality {overall 90+ days past due (dpd)}, although weak, improved to 36.5% as on September 30, 2022 (36.1% as on March 31, 2022) vis-à-vis 45.7% as on September 30, 2021 (52.0% as on March 31, 2021) due to the increasing share of gold loans in the loan portfolio. The 90+ dpd for the gold loan portfolio was 15.4% as on September 30, 2022 and 10.9% as on March 31, 2022 (17.4% as on September 30, 2021 and 24.4% as on March 31, 2021), while the entire non-gold book was in the 180+ dpd bucket. Timely recovery from the overdue accounts is a key monitorable as the sustained weak asset quality would impact the earnings and capital profile. In view of the above, maintaining adequate liquidity would be key from a rating perspective.

Key rating drivers and their description

Credit strengths

Experience of key managerial personnel in retail lending – AICL's senior management consists of personnel with average experience of more than a decade in the banking sector. The company's Chief Executive Officer, Mr. C.P. Sasidharan, has over 30 years of experience in banking and non-banking financial services. Mr. Muraleedharan Kesavan, the Chairman and Managing Director of the Abu Dhabi-based SFC Group of Companies, is AICL's major promoter holding a 77.1% stake along with his spouse. The promoters have been infusing equity over the last few years (Rs. 5 crore infused during FY2022-23) and have also subscribed to the majority of the non-convertible debentures (NCDs) issued by the company.

Moderate capitalisation; recoveries in non-gold segment key monitorable – The company's capitalisation profile is moderate, characterised by net non-performing advances (NPA)/net worth of 27.2% as on September 30, 2022 and 30.2% as on March 31, 2022 (33.1% as on March 31, 2021). ICRA notes that compulsorily convertible debentures (CCDs) of Rs. 2 crore each were converted to equity in FY2022 and H1 FY2023, shoring up the net worth to an extent in view of the weak earnings. Although the 90+ dpd as a proportion of net worth, improved to 50.4% as of September 2022 (48.5% as of March 2022) from 76.8% as of March 2021 (63.0% as of March 2020), it remained higher than the March 2019 level of 21.1%. Going forward, further recoveries from the non-gold segments would remain monitorable from a capitalisation and funding perspective.

Credit challenges

Modest scale and regionally concentrated operations – AICL's portfolio improved to Rs. 82.9 crore as on September 30, 2022 (Rs. 77.2 crore as on March 31, 2022) from Rs. 63.8 crore as on September 30, 2021 (Rs. 84.5 crore as on March 31, 2021), largely due to the growth in the gold loan portfolio on account of increasing gold prices. However, the portfolio compound annual growth rate (CAGR) during FY2020-22 remained low at 4% due to stiff competition in the gold loan segment and the rundown of the mortgage loan portfolio. Given its modest scale, AICL's portfolio remains concentrated in two states with 26 branches in Kerala and 32 branches in Tamil Nadu. The portfolio consisted of gold loans (75%), mortgage loans (21%) and vehicle loans (4%) as on September 30, 2022. Going forward, the share of gold loans in the overall portfolio is expected to increase as disbursements for mortgage loans and vehicle loans were stopped since FY2020.

Weak asset quality indicators; improvement due to increasing share of gold loans – The asset quality has improved with the overall 90+ dpd at 36.5% as on September 30, 2022 (36.1% as on March 31, 2022) vis-à-vis 45.7% as on September 30, 2021 (52.0% as on March 31, 2021) due to increasing share of gold loans in the loan portfolio. The 90+ dpd for the gold loan portfolio was 15.4% as on September 30, 2022 and 10.9% as on March 31, 2022 (17.4% as on September 30, 2021 and 24.4% as on March 31, 2021) while the entire non-gold book was in the 180+ dpd bucket. The company's gross NPA (on a 180+ dpd basis) stood at 24.9% as on September 30, 2022 (28.3% as on March 31, 2022) vis-à-vis 34.3% as on September 30, 2021 (25.9% as on March 31, 2021) largely due to limited collections in the mortgage and vehicle loan segments. The ability to recover from the mortgage and vehicle loans and keep the asset quality under control would be crucial, going forward.

Subdued profitability; pressure expected because of asset quality, going forward – The company's return on assets improved to 1.4% (provisional) in H1 FY2023 from the loss of 1.8% in FY2022 (profit of 0.04% in FY2021). This was due to the reversal in provisions, resulting in credit cost of -0.3% in H1 FY2023 vis-à-vis 2.6% in FY2022 (1.5% in FY2021), and the improvement in the net interest margin to 11.7% in H1 FY2023 from 9.4% in FY2022 (11.4% in FY2021). However, the margin remains lower than the pre-Covid-19 pandemic level mainly because of the decline in the net interest margin, given the stiff competition in the gold loan segment and interest reversal on NPA accounts. Although the provision cover improved to 20.9% as of September 2022 (20.6% as of March 2022) from 13.5% as of March 2021 for NPAs (180+ dpd basis), it remains low.

Credit costs could increase, considering the low provision cover and the high overdues, if the same is not recovered. AICL had closed a few branches in FY2021, resulting in lower operating costs of 10.4% in H1 FY2023 and 9.4% in FY2022 compared to the pre-pandemic level of 13.1% in FY2020. The asset quality performance would be critical for incremental profitability, considering the high overdues.

Liquidity position: Adequate

AICL had cash and undrawn bank lines of Rs. 6.7 crore as on December 31, 2022 while repayment of term loan and non-convertible debentures (NCDs) of Rs. 3.3 crore (including interest) is due over the next six months. It currently has working capital limits of Rs. 15 crore with three banks and average utilisation was around 51% in H1 FY2023. AICL's funding is largely from banks (75% of the total borrowings as of September 2022), NCDs and unsecured loans from promoters/directors and their relatives (25%).

ICRA notes that around 70% of the gold loans is rolled over on the respective due dates, post the receipt of interest accrued, thereby limiting the inflows from this segment. Also, collections are expected to remain limited from the non-gold loan segment as all the loans are in the 180+dpd bucket. Going forward, the company's ability to maintain adequate liquidity and secure incremental funding from diverse sources would be critical from a rating perspective.

Rating sensitivities

Positive factors – The ratings could be upgraded if AICL demonstrates profitable business growth and improvement in the asset quality by achieving a 90+dpd of less than 5.0% while maintaining a prudent capital structure.

Negative factors – ICRA could downgrade AICL's ratings on a significant weakening in the liquidity profile or further deterioration in the asset quality.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Agro Indus Credits Limited (AICL) is a non-deposit taking non-banking financial company (NBFC) incorporated in January 1997. It was acquired by the current promoters, Mr. Muraleedharan, Mrs. Beena Muraleedharan and others, in 2010. At present, AICL offers gold loans while mortgage loans and vehicle loans were sanctioned earlier. It operates mainly in Tamil Nadu and Kerala through its branches, with its head office in Kochi (Kerala). The company has 58 branches in Kerala and Tamil Nadu, including 32 in Tamil Nadu. Its total portfolio outstanding was Rs. 82.9 crore and Rs. 77.2 crore as of September 2022 and March 2022, respectively.

AICL reported a net profit of Rs. 0.6 crore (provisional) on a total asset base of Rs. 91.3 crore in H1 FY2023, while it reported a net loss of Rs. 1.7 crore on a total asset base of Rs. 90.0 crore in FY2022.

Key financial indicators (IGAAP)

Standalone	FY2020	FY2021	FY2022	H1 FY2023
Total income	15.0	14.0	11.6	6.5
Profit after tax	1.1	0.0	(1.7)	0.6
Net worth	57.1	57.1	57.4	60.1
Loan book	79.6	84.5	77.2	82.9
Total managed assets	86.2	97.5	90.0	91.3
Return on managed assets	1.4%	0.0%	(1.8%)	1.4%
Return on net worth	2.0%	0.1%	(3.0%)	2.2%
Managed gearing (times)	0.5	0.6	0.5	0.4
Gross NPA (180+dpd)	12.1%	25.9%	28.3%	24.9%
Net NPA	10.6%	23.2%	23.8%	20.8%
Solvency (Net NPA/Net worth)	14.5%	33.1%	30.2%	27.2%
CRAR	66.5%	67.3%	65.1%	NA

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jan 27, 2023	Jan 27, 2022	Nov 19, 2020	Oct 31, 2019
1	**Long-term fund based – Cash credit**	Long term	10.00	10.00	**[ICRA]B+ (Stable)**	**[ICRA]B+ (Stable)**	**[ICRA]B+ (Stable)**	-
2	**Long-term fund based - WCTL**	Long term	9.00	4.67	**[ICRA]B+ (Stable)**	**[ICRA]B+ (Stable)**	**[ICRA]B+ (Stable)**	-
3	**Short-term fund based – Overdraft**	Short term	5.00	5.00	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund based – Cash credit	Simple
Long-term fund based – Working capital term loan	Simple
Short-term fund based – Overdraft	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 I: Instrument details

ISIN	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	-	NA	-	10.00	[ICRA]B+ (Stable)
NA	**WCTL**	Feb-17-2021	NA	Feb-17-2024	9.00	[ICRA]B+ (Stable)
NA	**Overdraft-1**	-	NA	-	2.50	[ICRA]A4
NA	**Overdraft-2**	-	NA	-	2.50	[ICRA]A4

Source: Company; NA-Not Available

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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