

April 21, 2022

Lok Suidha Finance Limited: [ICRA]BBB-(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	[ICRA]BBB-(Stable); assigned
Total	-	

*Instrument details are provided in Annexure-1

Rationale

ICRA has assigned an issuer rating of [ICRA]BBB- to Lok Suidha Finance Limited (LSFL) with a Stable outlook. The assigned rating factors in the company's successful track record in the two-wheeler (2W) financing business, its established relationships with dealers, and its lending arrangements with financial institutions. The earnings are healthy (return on net worth (RoNW) of 16.5% in 9M FY2022 and 18.7% in FY2021).

The rating remains constrained by the low capital levels with respect to the managed assets, the inherent risk in LSFL's primary business (2W financing) and its target borrower segment (more than 50% of the borrower segment is in rural areas and is self-employed), as well as the monoline nature of the business (98% of the portfolio comprised 2W financing as of December 31, 2021). ICRA notes that LSFL has been expanding its geographical presence (currently present in 3 states) though it had significant geographical concentration in Madhya Pradesh (53%) and Maharashtra (46%) as of December 2021.

LSFL's gross non-performing assets (GNPAs) and net NPAs (NNPAs) stood at 2.7% and 0.1%, respectively, as on December 31, 2021, compared to 3.9% and 0.6%, respectively, as on March 31, 2021. ICRA notes that LSFL's ability to improve its collections and liquidity profile would remain a key near-term monitorable.

Key rating drivers and their description

Credit strengths

Successful track record and established relationships with dealers – LSFL, which started operations in 2008, was founded by Mr. Nimish Laddhad, currently the Managing Director of company. He is a Chartered Accountant and has more than 25 years of experience in the 2W finance industry. Over the years, LSFL has established a strong network of 700+ dealers for business sourcing and would likely to cross the target of 1,000 dealers by FY2023. LSFL has a relationship with almost all the leading original equipment manufacturers (OEMs) of 2Ws. Around 85% of the business was sourced through Hero and Honda in 9M FY2022. LSFL has been able to grow its assets under management (AUM) at a healthy pace over the years on the back of its dealer/sub-dealer network. It reported an average compound annual growth rate (CAGR) of 31.5% over the last 3 years.

Healthy profitability indicators – LSFL has a track record of reporting good profitability indicators and has posted profits in the last four years. The company reported a profit after tax (PAT) of Rs. 3.36 crore in 9M FY2022 (Rs. 2.90 crore in FY2021), leading to average return on equity (RoE) of 15.5% in the last 3 years. ICRA expects the profitability to increase in the near term due to healthy net interest margins. In the medium-to-long-term, the company's ability to maintain good operating efficiency levels and control the credit costs would be critical for incremental profitability.

Tech-driven and faster underwriting process – LSFL’s credit underwriting process is aided by technology. Thus, it provides smoother user interface with loan disbursement taking place within just 30 minutes. LSFL’s system makes extensive use of artificial intelligence (AI) and machine learning (ML) based scoring models for evaluating multiple parameters such as customer profile, bureau score, loan parameters, delinquency performance of respective pin codes, etc, to stimulate accurate and faster decision-making. The entire disbursal is made through 100% digital mode. The company has also implemented host-to-host integration with banks for the immediate disbursal of loan amounts once its operations team approves the loan.

Credit challenges

Low capitalisation and high managed gearing – Although LSFL’s gearing level of 0.57 times as of December 2021 looks comfortable for its own loan book, the managed gearing remained high at 5.67 times. With the expectation of a significant increase in the AUM in FY2023, the managed gearing is likely to increase in the event if capital infusion is not commensurate with growth. ICRA will evaluate following further rounds of equity infusion. LSFL is currently housing the entire 90+ days past due (DPD) on its own books. With a high managed gearing, any shocks related to the AUM will have outsized the impact on the capital levels.

Relatively weak borrower profile – LSFL’s portfolio vulnerability remains relatively high on account of the inherent risks associated with 2W financing and the relatively weaker credit profile of the borrowers. Around 93% of its total customer base is self-employed with concentration in Tier III cities at more than 75%. For most of these customers, income assessment is not possible due to the lack of income proof. LSFL reported a cheque bounce rate of ~32% as of December 2021. The company has a typical bounce rate of 30% and it makes active collection efforts thereafter to reduce the overall NPAs.

The GNPA ratio (180 days basis on the AUM) was 2.7% as of December 2021 and 3.9% as of March 2021. The 90+ DPD ratio was 4.5% as of December 2021 and 6.7% as of March 2021. The company had substantially ramped up its collection efforts post the second wave of the Covid-19 pandemic, which led to an improvement in the overall collection efficiency to 63% in December 2021 from 57% in March 2021.

Monoline nature of business – LSFL’s nature of business is largely monoline with ~98% of the portfolio comprising 2W financing as of December 31, 2021. In the last couple of years, LSFL has expanded its portfolio to finance e-rickshaw and solar panel loans, though the total share of these segments in the overall portfolio remained low at ~1% and 0.21%, respectively, as on December 31, 2021. The company’s long track record of operations in the 2W segment and its ability to keep the asset quality under control provide some comfort. ICRA expects new 2W loans to remain a key focus in future.

Moderate scale and high geographical concentration in Maharashtra and Madhya Pradesh – Despite increasing, the company’s loan book remained moderate at Rs. 221 crore as on December 31, 2021 (Rs. 139 crore as on March 31, 2021 with an average CAGR of 31.5% in the last 3 years). The operations remain focused in Maharashtra and Madhya Pradesh, leading to geographical concentration. As on December 31, 2021, Madhya Pradesh and Maharashtra accounted for ~53% and 46% of the loan book, respectively. The company has expanded its operations to Chhattisgarh, which accounted for just ~1% of the total portfolio as on December 31, 2021. LSFL aims to diversify its geographical presence with an increase in its scale of operations in the long term.

Liquidity position: Adequate

LSFL’s liquidity profile remains adequate with unencumbered cash and cash equivalents of Rs. 8.39 crore as on December 31, 2021. The company has Rs. 147.71 crore (excluding fixed deposits) due in the next six months till January 2022. The cash and cash equivalents and liquid investments along with collections are adequate to meet the scheduled debt obligations (including operating expenses) for the next six months. The company would require a minimum collection efficiency of 80-85% to meet its total outflows for the next six months. Improvement in collections and the ability to secure incremental sanctions are crucial from a liquidity perspective in the near term.

Rating sensitivities

Positive factors – The rating may be upgraded if the company scales up its business significantly while maintaining the asset quality and having an adequate managed gearing level.

Negative factors – Pressure on the company’s rating could arise if there is a material deterioration in the asset quality on a sustained basis, impacting the profitability. Also, a significant increase in the managed gearing above 6 times along with a stretch in the liquidity profile could exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Non-banking Finance Companies
Parent/Group Support	NA
Consolidation/Standalone	Standalone

About the company

Lok Suvidha Finance Limited (LSFL) is a Nagpur-based public, unlisted, non-deposit taking NBFC registered with the Reserve Bank of India (RBI). The company is promoted by Mr. Nimish Laddhad and was incorporated in FY2009. It is primarily engaged in the business of financing of 2Ws. LSFL also provides e-rickshaw loans and solar panel loans. Its aims to create a data analytics and technology-based financial services enterprise and to play a role in the growth of the rural India by providing financial assistance to customers.

As on December 31, 2021, the company’s AUM was Rs. 221.20 crore. In 9M FY2022 (provisional), LSFL reported a PAT of Rs. 3.36 crore vis-à-vis a PAT of Rs. 2.90 crore in FY2021. As on December 31, 2021, the company’s total asset base was Rs. 58.63 crore and its gearing was 0.57 times (considering Compulsorily Convertible Debentures as a part of equity).

Key financial indicators

Lok Suvidha Finance Limited	FY2019	FY2020	FY2021	9M FY2022
Net Interest income (Rs. crore)	11.26	13.43	19.24	25.07
Profit after tax (Rs. crore)	2.75	1.40	2.90	3.36
Net worth (Rs. crore)	11.72	13.12	17.97	36.33
Own Loan Book (Rs. crore)	8.11	16.80	36.05	25.47
AUM (Rs. crore)	97.22	98.10	139.52	221.20
Total Managed Assets (Rs. crore)	107.61	107.55	144.82	243.79
Return on managed assets (%)	3.1%	1.3%	2.3%	2.3%
Return on net worth (%)	30.7%	11.3%	18.7%	16.5%
Gross gearing (times)	0.52	0.71	0.89	0.57
Managed gearing (times)	8.13	6.90	6.71	5.67
Gross NPA	1.01	1.48	5.46	6.06
Net NPA	-	-	0.86	0.18
Gross stage 3 (%)	1.0%	1.5%	3.9%	2.7%
Net stage 3 (%)	-	-	0.6%	0.1%

Lok Suvridha Finance Limited	FY2019	FY2020	FY2021	9M FY2022
Solvency (Net stage 3/Net worth)	-	-	4.8%	0.5%
CRAR (%)	67.8%	44.0%	46.5%	71.9%

Source: LSFL, ICRA Research

All ratios as per ICRA's calculations

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 as of April 21, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Apr 21, 2022				
1	Issuer rating	-	-	-	[ICRA]BBB-(Stable)	NA	NA	NA	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable

The complexity indicator mentioned here is subject to change when the terms will be finalised

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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer rating	-	NA	NA	-	[ICRA]BBB- (Stable)

Source: LSFL

Annexure-2: List of entities considered for consolidated analysis – NA

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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.

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