December 08, 2023

Lok Suvidha Finance Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	-	[ICRA]BBB-(Stable); reaffirmed
Long-term fund-based bank lines – Others	15.00	15.00	[ICRA]BBB-(Stable); reaffirmed
Non-convertible debentures	25.00	25.00	[ICRA]BBB-(Stable); reaffirmed
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in Lok Suvidha Finance Limited's (LSFL) established relationships with automobile dealers, which have helped it scale up its two-wheeler (2W) financing portfolio over the years and are likely to aid future growth. The company started operations in 2008 as a business correspondent (BC) and has established relationships with 1,000+ dealers. It gradually increased its on-balance sheet lending since FY2019 and its assets under management (AUM) stood at Rs. 331 crore as on September 30, 2023 (2W financing comprised ~69% of the portfolio, followed by e-rickshaw financing at ~30%). While the scale of operations remains moderate, LSFL has an in-house digital workflow, which is likely to be beneficial for future growth.

The rating remains constrained by the moderate capitalisation with a managed gearing[1] of 6.9 times as on September 30, 2023. Further, the asset quality remains exposed to the inherent risk in LSFL's primary business (2W/e-rickshaw financing) and its modest borrower segment. While the company has been expanding its dealership presence, the portfolio is geographically concentrated in the states of Madhya Pradesh (54% as on September 30, 2023) and Maharashtra (38%). Given the moderate scale of operations, the company's profitability remains subdued. Going forward, ICRA expects the profitability to improve on the back of operating efficiency as LSFL scales up its operations, provided it can raise funds at competitive rates, control its credit costs and raise equity capital for growth.

The Stable outlook on the rating factors in the steady growth in the AUM, asset quality and profitability, while the planned capital raise by the company in the near term shall keep the managed gearing below the negative rating trigger.

Key rating drivers and their description

Credit strengths

Established relationships with dealers – LSFL, which started operations in 2008, has established relationships with 1,000+ dealers for business sourcing over the years. It has relationships with the leading original equipment manufacturers (OEMs) of 2Ws and e-rickshaws. Around 85-88% of the business was sourced through two OEMs, i.e. Hero and Honda, in H1 FY2024. LSFL has been able to grow its AUM at a healthy pace over the years on the back of its relationship with the dealer/sub-dealer network. The AUM grew to Rs. 331 crore as on September 30, 2023 from Rs. 241 crore as on March 31, 2022. The company has developed an in-house digital workflow for loan underwriting and monitoring, which has helped in scaling up the portfolio.

[1] Managed gearing is defined as {(total borrowings including off-balance sheet borrowings) / (net worth + compulsorily convertible debentures (CCDs)}

Credit challenges

Capital raise critical for growth – The company's capitalisation remains moderate with a net worth of Rs. 44 crore (including compulsorily convertible debentures (CCDs) of Rs. 15 crore), translating into a managed gearing of 6.9 times as on September 30, 2023 (6.2 times as on March 31, 2022). The AUM growth has largely been through BC partnerships and co-lending, which accounted for 51% and 9%, respectively, of the AUM as on September 30, 2023. LSFL bears the losses from the delinquent portfolio under its BC and co-lending arrangements with the lenders and past losses have largely remained within the loss-sharing arrangements with the partners. It is, however, looking at entering into co-lending arrangements without loss-sharing arrangements. The sizeable AUM and modest net worth resulted in a high managed gearing while the on-balance sheet gearing stood at 2.2 times as on September 30, 2023. The promoters infused Rs. 4-crore equity in the company in H1 FY2024 and additional Rs. 6-crore infusion expected by the end of FY2024. Further, the management has guided towards an equity raise by September 2024, which is critical for growth and for keeping the leverage within the negative rating trigger.

Relatively weak borrower profile – LSFL's portfolio vulnerability remains relatively high on account of the inherent risks associated with 2W and e-rickshaw financing and the comparatively weaker credit profile of the borrowers with the company largely catering to the self-employed segment in Tier III/Tier II cities. The asset quality deteriorated in FY2023 due to asset quality issues in some locations, which led to an increase in the 90+ days past due (dpd) to 5.3% of the AUM (4.8% as on March 31, 2022). This declined to 3.9% as on September 30, 2023. The ability to maintain the asset quality and contain credit costs, with the growth in the portfolio, would be a key driver of profitability and capitalisation.

Moderate scale and high geographical concentration in Maharashtra and Madhya Pradesh; monoline nature of business – While the AUM has been increasing, it remains moderate and the operations remain focused in Maharashtra and Madhya Pradesh, leading to geographical concentration. As on September 30, 2023, Madhya Pradesh and Maharashtra accounted for 54% and 38% of the AUM, respectively. The company has expanded its operations to Chhattisgarh and Uttar Pradesh, which accounted for just 5% and 2%, respectively, of the total portfolio as on September 30, 2023. Further, its nature of business is monoline with 2W financing accounting for 69% of the AUM as on September 30, 2023. LSFL has expanded its portfolio to finance e-rickshaws, which accounted for 30% of the AUM. The share of 2W financing in the overall AUM is expected to decline while the share of e-rickshaw finance is expected to increase to ~35% in the near term; the overall customer profile is expected to remain weak.

Given its moderate scale of operations, the company's profitability remained subdued with profit after tax (PAT)/average managed assets (AMA) of 0.5% in FY2023 (1.6% in FY2022). The profitability was impacted in FY2023 by the higher credit costs in select locations. It improved in H1 FY2024 with PAT/AMA of 1.4%, supported by lower operating expenses as well as lower credit costs. Going forward, ICRA expects the profitability to improve with the scale-up in the portfolio, leading to an improvement in the operating efficiency, provided the company is able to control its credit costs.

Limited financial flexibility – LSFL's financial flexibility remains limited with the resource profile largely comprising higher-cost funding from non-banking financial companies (NBFCs). Even its BC and co-lending partnerships are with two key lending partners, which have helped meet its funding requirements. The company's ability to maintain its relationships with its key lending partners and diversify its funding profile to raise resources at better prices would be critical for scaling up its loan book and profitability.

Liquidity position: Adequate

The liquidity position is adequate with no negative cumulative mismatches in the Statement of Structural Liquidity as on September 30, 2023, given the largely similar tenor of the loan book and borrowings. The company's unencumbered cash and bank balance stood at Rs. 8.1 crore as on October 31, 2023 with a sanctioned but unutilised line of Rs. 17.5 crore. Also, the expected inflow from on-balance sheet advances till March 2024 is ~Rs. 41 crore compared to on-balance sheet debt repayments of ~Rs. 34 crore during this period.

Rating sensitivities

Positive factors – The rating may be upgraded or the outlook may be revised to Positive if the company is able to increase its scale of operations while maintaining the asset quality and improving its capitalisation and earnings profile.

Negative factors – ICRA could downgrade the rating or change the outlook if there is a material deterioration in the asset quality on a sustained basis, impacting the profitability. Also, a sustained increase in the managed gearing above 7 times could exert pressure on the rating.

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	Standalone

About the company

Lok Suvidha Finance Limited (LSFL), incorporated in FY2008, 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, who is currently its Managing Director. It primarily finances 2Ws and also provides e-rickshaw loans. As on September 30, 2023, the company's AUM was Rs. 330.9 crore. LSFL reported a PAT of Rs. 2.4 crore on total assets of Rs. 146.9 crore in H1 FY2024 (provisional) vis-à-vis Rs. 1.6 crore and Rs. 111.6 crore, respectively, in FY2023.

Key financial indicators (audited)

	FY2022	FY2023	H1 FY2024
Net interest income	34.7	42.6	24.2
Profit after tax	3.3	1.6	2.4
Net worth^	36.3	37.9	44.3
Own loan book	44.3	95.9	120.3
AUM	241.2	309.9	330.9
Total managed assets	262.8	325.6	357.5
Return on managed assets	1.6%	0.5%	1.4%
Return on net worth	17.0%	4.5%	12.3%
Reported gearing (times)	0.8	1.9	2.2
Managed gearing (times)	6.2	7.5	6.9
90+dpd	4.8%	5.3%	3.9%
Gross NPA*	-	-	-
Solvency (Net NPA/Net worth)	-	-	-
CRAR	41.5%	37.0%	32.6%

*Amount in Rs. crore; H1 FY2024 financials are provisional; *LSFL recognises non-performing advances (NPAs) at 180+dpd and write-offs at 180+, resulting in nil gross and net NPAs; ^Including CCDs of Rs. 15 crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information:

LSFL faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial, operating and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 01, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Dec 08, 2023	Mar 31, 2023	Apr 21, 2022	-	-
1	Issuer rating	Long term	-	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	NA	NA
2	Long-term fund-based bank lines – Others	Long term	15.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	NA	NA	NA
3	Non-convertible debentures	Long term	25.00	7.50	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	NA	NA	NA

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not Applicable
Long-term fund-based bank lines – Others	Very Simple
Non-convertible debentures	Very Simple^

^To be finalised post issuance

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 Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Issuer rating**	-	NA	NA	-	[ICRA]BBB- (Stable)
NA	**Long-term fund-based bank lines – Others^**	NA	NA	NA	15.00	[ICRA]BBB- (Stable)
INE0H9607053	**Non-convertible debentures**	Nov 16, 2023	14.25%	Dec 07, 2025	7.50	[ICRA]BBB- (Stable)
Not yet placed	**Non-convertible debentures**	NA	NA	NA	17.50	[ICRA]BBB- (Stable)

Source: Company; ^Proposed

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.

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