

Rating Rationale

February 28, 2023 | Mumbai

Amrit Malwa Capital Limited

Rating reaffirmed at 'CRISIL BBB/Stable'; 'CRISIL BBB/Stable' assigned to Bank Debt

Rating Action

| | |
|---|-------------------------------------|
| Total Bank Loan Facilities Rated | Rs.100 Crore |
| Long Term Rating | CRISIL BBB/Stable (Assigned) |

| | |
|---|---------------------------------------|
| Rs.50 Crore Fixed Deposits | CRISIL BBB/Stable (Reaffirmed) |
| Rs.50 Crore Non Convertible Debentures | CRISIL BBB/Stable (Reaffirmed) |

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BBB/Stable**' rating to Rs 100 crore Long term bank loan facilities of Amrit Malwa Capital Ltd (Amrit Malwa). CRISIL Ratings has also reaffirmed its ratings on non-convertible debentures and fixed deposit programme at 'CRISIL BBB/Stable'.

The rating continues to reflect the extensive experience and long vintage of the promoter in the two-wheeler financial business, the adequate capital position of the company, its comfortable asset quality and moderate, though improving earnings. These strengths are partially offset by moderate scale of operations with regional concentration and high capital funds.

Assets under management (AUM) grew by 42% to Rs 315 crore as on March 31, 2022, from Rs 223 crore a year earlier. The growth in AUM was attributed to higher demand of vehicles with improving economic sentiments, expansion in new geographies, and continued focus on the two-wheeler segment and the new segment, three-wheelers (e-rickshaws). AUM stood at Rs 437 crore as on December 31, 2022. In fiscal 2022, the company disbursed around Rs 213 crore, compared with Rs 118 crore in fiscal 2021.

As far as asset quality is concerned, 90+ days past due (dpd; including write-offs) remained stable at 3.0% as on December 31, 2022, compared with 3.8% as on March 31, 2022. The company has been able to maintain portfolio quality primarily because of an adequate risk management system and long track record of operations in existing geographies. Furthermore, the company demonstrated strong recovery even during the Covid-19 pandemic. Peak 90+ dpd level rose to 3.7% as on June 30, 2022, owing to the pandemic. Moreover, though collection efficiency was slightly impacted during the moratorium period, it started to improve from June 2020 (following impact of the first wave). Collection remained above 70% throughout the lockdown period. Following lifting of restrictions, the collection efficiency improved to 89% and has ever since remained above this level. The collections were marginally impacted in the second wave and dropped to 86% in May 2021 from 95% in April 2021 but remained above 95% through November 2022. CRISIL Ratings believes the company has shown the ability to maintain asset quality and collection efficiency even during challenging times. Nevertheless, as the company largely operates in the two-wheeler segment and has growing presence in other segments such as loans against property, ability to maintain asset quality will remain a key monitorable.

Analytical Approach

CRISIL Ratings has considered the standalone business and financial risk profiles of Amrit Malwa.

Key Rating Drivers & Detailed Description

Strengths:

- **Extensive experience of the promoter:** The managing director, Mr Ajit Pal Singh, has been in the asset financial business for over 30 years. The company has been in the business for more than three decades and has profitably operated the vehicle-financing business in north India through several economic cycles. Furthermore, it enjoys a strong reputation in the area in which it operates, resulting in strong relationships with ~700 dealers and have been able to generate referral business through them. The management's deep understanding of borrower behaviour and the market has helped overcome challenges during the pandemic. The company will continue to benefit from the long track record of the management in successfully scaling up the business while managing asset quality.

- **Adequate capital position:** Amrit Malwa's capital position is adequate in relation to its current and expected scale operations. Network stood at Rs 65.1 crore as on December 31, 2022 (Rs 51.8 crore as on March 31, 2021). Overall gearing was comfortable at 4.8 times as on the same date (3.8 times as on March 31, 2021). The capital position supported by regular capital infusion, with the company raising Rs 42.5 crore since inception out of which Rs 3.7 crore was raised in Q3 Fiscal 2023 and Rs 2 crore was raised in fiscal 2022. Another round of equity infusion amounting to 2-3 crore is planned for Q4 Fiscal 2023. The management's stance is to maintain gearing below 5 times, considering growth in the loan book, going forward. Additionally, CRISIL Ratings understands that the promoters are committed to infuse funds to support growth.
- **Stable asset quality:** The company has been able to maintain 90+ dpd below 5.5% over the past seven years. As on December 31, 2022, 90+ dpd (including write-offs) stood at 3.0%, compared with 3.8% in fiscal 2022. Even during the pandemic, the company was able to sustain its asset quality metrics below 4%. CRISIL Ratings notes that the company did not restructure any account under the one-time restructuring scheme that was announced by the Reserve Bank of India (RBI). While collection efficiency was slightly impacted during the moratorium period, with efficiency ratio dropping to its lowest of 9% in April 2020, it began to improve from May 2020. Additionally, collection remained above 90% throughout the lockdown period. Following lifting of restrictions, the collection efficiency improved to 89% and remained above this level ever since. The collections marginally dropped to 86% in May 2021 from 99% in April 2020 and remained above 95% throughout the second wave.

CRISIL Ratings believes while the company has displayed strong recovery abilities, which supported asset quality metrics during the pandemic, the ability to sustain asset quality metrics while scaling up business will be a key monitorable. Furthermore, growth in newer segments will be monitorable on account of low vintage.

Weaknesses:

- **Moderate scale of operations with regional concentration:** Despite being in the asset-financing business for past three decades, the company achieved sizeable loan book only from fiscal 2018. The company registered 51% growth in fiscal 2018 and 69% in fiscal 2019, which helped achieve moderate book size of Rs 214 crore in fiscal 2019. However, growth was restricted in fiscals 2020 and 2021 owing to pandemic, assets under management (AUM) for the company stood at Rs 315 crore in fiscal 2022 as compared to Rs 223 crore in fiscal 2021 (Rs 219 crore in fiscal 2020). As on December 31, 2022, the assets under management for the company stood at Rs 437 crore registering growth of 39%.
- **Operations are concentrated in three states:** Punjab, Rajasthan and Himachal Pradesh. Punjab dominates the portfolio with over 58% followed by Rajasthan (31%) and Himachal Pradesh (10%). The company ventured into Chandigarh and Haryana in fiscal 2022, and the asset quality performance in these states is to be closely monitored on account of low vintage of the portfolio. Based on the discussion with the management, CRISIL Ratings understands that Punjab will continue to contribute to majority of the portfolio. CRISIL Ratings believes that the ability of the company to scale up its loan book in the existing and new geographies while sustaining its asset quality performance will remain monitorable.
- **High cost of funds:** The company's resource mix comprises term loans from non-banking finance companies (NBFCs) and banks (53%), non-convertible debentures and bonds (35%) and fixed deposits (33%). The company's resource profile is marked with higher dependency on borrowing from NBFCs, which has resulted in higher borrowing cost for the entity than its peers. Average cost of borrowing stood at 12.7% in Q3 of fiscal 2023 (14.2% in fiscal 2022). Amrit Malwa is a deposit-taking NBFC; however, the deposit base is miniscule. The cost of borrowing is expected to improve over the medium term with the onboarding of public sector banks. The company should continue to have a diversified resource base, however the ability to raise funds at competitive rates remains critical for its profitability.

Liquidity: Adequate

Asset-liability maturity profile was comfortable as on December 31, 2022, with positive mismatch across buckets of up to one year. As on January 31, 2023, the company had liquidity of Rs 41.3 crore (including cash and equivalent, liquid investments and unutilised cash credit and working capital loan). Against this, debt obligation (including operating expenses) was around Rs 29.8 crore until March 2023. This represents liquidity cover (assuming nil collections) of more than 1 time over two months. Liquidity is further supported by commitment of support by the promoter during exigencies.

Outlook: Stable

CRISIL Ratings believes Amrit Malwa will continue to scale up its portfolio aided by its experienced management and maintain adequate capitalisation over the medium term.

Rating Sensitivity factors

Upward factors:

- Sustenance of the asset quality with 90+ days past due (dpd; including write-offs) remaining below 4% over the medium term
- Further improvement in the capital position with gearing below 4 times
- Ability to raise external funding at competitive rates

Downward factors:

- Adverse movement in asset quality, with 90+ days past due increasing beyond 6%, and its impact on earnings
- Stress in capitalisation with significant rise in gearing while scaling up the portfolio

About the Company

Incorporated in 1987, Amrit Malwa was registered as a deposit-taking NBFC in Jalandhar. The company is classified as an asset-financing company and is engaged in the financing of vehicles. It majorly finances two-wheelers and operates in rural and semi-urban Punjab through a network of 37 branches. The company has recently diversified into financing of two-wheelers, SMEs and loans against property.

Key Financial Indicators

| Particulars | Unit | Dec-2022 | 2022 | 2021 |
|------------------------|----------|----------|-------|-------|
| Total assets | Rs crore | 455.1 | 358.9 | 295.3 |
| Total income | Rs crore | 55.8 | 60.4 | 53.6 |
| Profit after tax (PAT) | Rs crore | 5.3 | 4.8 | 3.3 |
| 90+ dpd | % | 3.0 | 2.6 | 2.9 |
| Adjusted gearing | Times | 4.8 | 4.4 | 3.8 |
| RoA | % | 1.7@ | 1.5 | 1.1 |

@annualised

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

| ISIN | Name of instrument | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs crore) | Complexity level | Rating assign with outlook |
|------|---------------------------------------|-------------------|-----------------|---------------|-----------------------|------------------|----------------------------|
| NA | Proposed Long-Term Bank Loan Facility | NA | NA | NA | 100.0 | NA | CRISIL BBB/Stable |
| NA | Non-convertible debentures* | NA | NA | NA | 50.0 | Simple | CRISIL BBB/Stable |
| NA | Fixed Deposit | NA | NA | NA | 50.0 | Simple | CRISIL BBB/Stable |

*Yet to be issued

Annexure - Rating History for last 3 Years

| Instrument | Type | Current | | 2023 (History) | | 2022 | | 2021 | | 2020 | | Star 202 |
|----------------------------|------|--------------------|-------------------|----------------|-------------------|------|--------|------|--------|------|--------|----------|
| | | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rati |
| Fund Based Facilities | LT | 100.0 | CRISIL BBB/Stable | | -- | | -- | | -- | | -- | -- |
| Fixed Deposits | LT | 50.0 | CRISIL BBB/Stable | 19-01-23 | CRISIL BBB/Stable | | -- | | -- | | -- | -- |
| Non Convertible Debentures | LT | 50.0 | CRISIL BBB/Stable | 19-01-23 | CRISIL BBB/Stable | | -- | | -- | | -- | -- |

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

| Facility | Amount (Rs.Crore) | Name of Lender | Rating |
|---------------------------------------|-------------------|----------------|-------------------|
| Proposed Long Term Bank Loan Facility | 100 | Not Applicable | CRISIL BBB/Stable |

This Annexure has been updated on 28-Feb-2023 in line with the lender-wise facility details as on 28-Feb-2023 received from the rated entity

Criteria Details

| Links to related criteria |
|---|
| Rating Criteria for Finance Companies |

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