S V Creditline Limited

September 14, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	97.00	97.00	Upgraded to [ICRA]BBB- (Stable) from [ICRA]BB+ (Stable)
Bank lines	70.00	70.00	Upgraded to [ICRA]BBB- (Stable) from [ICRA]BB+ (Stable)
Subordinated debt programme	10.00	10.00	Upgraded to [ICRA]BBB- (Stable) from [ICRA]BB+ (Stable)
Total	**177.00**	**177.00**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has upgraded the long-term rating of the Rs. 97.00-crore[1] non-convertible debenture (NCD) programme, Rs. 70.00-crore bank lines and Rs. 10.00-crore subordinated debt programme of S V Creditline Limited (SVCL; formerly known as S V Creditline Private Limited)[2] to [ICRA]BBB- (pronounced ICRA triple B minus) from [ICRA]BB+ (pronounced ICRA double B plus). The outlook on the long-term rating is Stable.

Rationale

The rating upgrade factors in the company's improved capitalisation profile supported by an investment of Rs. 57.5 crore by the promoters and ICICI Prudential Life Insurance Company in the form of compulsorily convertible preference shares. This has improved its loss-absorbing capacity as well as its ability to sustain operations post the impact of demonetisation. The rating continues to factor in the extensive experience of the senior management, adequate IT systems, and improvement in the company's overall asset quality indicators with the 0+ dpd improving to 14.87% as on June 30, 2018 from 49.69% as on March 31, 2017. The rating also factors in the continued support from lenders and improvement in the diversification of the resource profile.

The rating is, however, constrained by the high geographical concentration risk with the top two states (Uttar Pradesh and Madhya Pradesh) accounting for 68% of the overall portfolio as on June 30, 2018 and the weak profitability during FY2018 owing to increased credit costs. The company needs to make provisions for ~Rs. 14 crore of liability as on June 30, 2018. Further, it would need regular rounds of capital infusion to scale up operations. Overall, the company's ability to maintain good collection efficiency and capitalisation will be critical from a credit perspective.

Outlook: Stable

ICRA believes SVCL will continue to benefit from the extensive experience of its senior management. The outlook may be revised to Positive if substantial growth in revenue and profitability and an improved capitalisation profile strengthens the financial risk profile. The outlook may be revised to Negative if credit losses increase significantly, or if any stretch in the capitalisation profile weakens solvency.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key rating drivers

Credit strengths

Experienced senior management team and good track record with adequate IT systems - SVCL's senior management team is experienced and the company has a strong second line of management with diverse experience in the microfinance, information technology, social impact and financial services sectors. It has robust loan origination and monitoring systems. The company's branches are audited every quarter on a surprise basis and the scope and coverage of the internal audit is in line with industry practices.

Good funding relationships - SVCL has a diversified funding profile with relationships with around 25 direct lenders as on March 31, 2018. The company continued to receive funding support post demonetisation. The cost of funding during FY2018 stood at 13.3% compared to 14.2% for FY2017, driven by lower cost of incremental funds (on account of an increase in borrowings from public sector entities) and a fall in interest rates. SVCL has a total business correspondence (BC) limit of Rs. 600 crore with IndusInd, Kotak and Edelweiss, of which Rs. 320 crore has been utilised.

Adequate IT systems; integrated MIS systems with 100% branch connectivity – SVCL is using a mobile-based origination system that scans the QR code to capture the Aadhaar card details of the borrowers in order to avoid errors in manual entries. The company has classified its branches into three categories on the basis of which the frequency of branch audit is determined while surprise audits are conducted regularly at all branches.

Credit challenges

Moderate capitalisation profile; improved loss-absorption capacity due to equity infusion – Despite the shrinking of the portfolio, the company's capitalisation levels remained stretched due to to losses on account of non-performing assets (NPAs). However, capital infusion of Rs. 15 crore by the promoters, Rs. 35 crore by ICICI Prudential Life Insurance Company Limited and Rs. 7.5 crore by others in FY2018 sustained the company's net worth at Rs. 90.97 crore as on March 31, 2018 (Rs. 90.49 crore as on March 31, 2017). The company's capital adequacy met the regulatory requirements (15% CRAR and 7.5% Tier-I CAR) with CRAR at 22.4% and Tier-I CAR at 13.4 for FY2018. While the capital infusion in FY2018 helped the company provide for the demonetisation-related losses to a large extent, SVCL would need further rounds of capital infusion to achieve its growth plans. This will be important for the scaling of operations.

Weak asset quality indicators especially in harder buckets – SVCL's overall asset quality is better with the 0+ dpd improving to 14.87%, as on June 30, 2018, from 55.1% as on December 31, 2016 supported by good overall collection efficiency (102.5% in March 2018 and 105% in June 2018), write-offs and restructuring of some loans. However, delinquencies in the harder buckets remained high with 90+ of 6.61% as on June 30, 2018. Gross and net NPAs were 7.86% and 3.08%, respectively, as on March 31, 2018 and 6.56% and 1.82%, respectively, as on June 30, 2018[3]. The company provided for Rs. 19.21 crore of the on-book and Rs. 6.39 crore of the off-book portfolio during FY2018. Another Rs. 18.95 crore of the on-book and Rs. 16.25 crore of the off-book portfolio was written off during this period. As on June 30, 2018, Rs. 13.52 crore of the 90+ portfolio was unprovided for. The company's ability to limit its credit losses and prevent further slippages would be critical from a credit perspective.

[3] *Estimated gross and net NPA using 90+dpd*

Geographical concentration risk – SVCL was present in nine states as of March 2018 though 75% of its portfolio was in the states of Madhya Pradesh, Uttar Pradesh and Rajasthan. Other states include Bihar, Chhattisgarh, Haryana, Punjab, Rajasthan, Uttarakhand and Jharkhand. The top 10 districts, out of a total 131 districts, accounted for 26% of the total portfolio outstanding as on March 31, 2018 and 250% of the net worth, thereby exposing the company to geographical risks given the vulnerable borrower profile. The company's ability to penetrate deeper into existing under-penetrated geographies and bring down concentration risk would be critical.

Marginal borrower profile – The marginal borrower profile and the political and operational risks associated with microlending may result in high volatility in the asset quality indicators. Political, communal, overleveraging and other risks in the company's portfolio and across geographies of operations will remain key sensitivities.

Weak profitability indicators on account of higher credit costs – SVCL's profitability weakened during FY2018 on a reversal in interest income, portfolio de-growth due to capital constraints, and increased credit costs. The company reported a net loss of Rs. 51.7 crore during FY2018 vis-à-vis a net profit of Rs. 22.1 crore during FY2017 on account of provisions and write-offs to the tune of Rs. 60.8 crore during FY2018. The return on managed assets was -4.8% while the return on average net worth was -58.4% for FY2018 (1.9% and 28.8%, respectively, for FY2017). However, it earned a net profit of Rs. 1.04 crore in Q1 FY2019 with return on managed assets and return on average net worth being 0.41% and 4.58%, respectively. The company's ability to keep credit costs low and maintain profitability while regaining momentum would remain a key monitorable.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Rating Methodology for Non-Banking Finance Companies

About the company

New Delhi-based SV Creditline Limited (SVCL) is a non-banking financial company-micro finance institution (NBFC-MFI) that was incorporated in 2008. It is promoted by Mr. Vijay Parekh (through Vans Pte Limited) and Mr. Sunil Sachdeva (through SV Corporation Pvt. Ltd). The company employs a five-member group lending methodology under the joint liability group (JLG) model, wherein the group members undertake the responsibility of approving the loans, disbursements and repayments. As on March 31, 2018, the company had operations in 131 districts, spread across Uttar Pradesh (UP), Madhya Pradesh (MP), Rajasthan, Chhattisgarh, Haryana, Uttarakhand, Bihar, Punjab and Jharkhand.

SVCL reported a net loss of Rs. 51.74 crore on a managed portfolio of Rs. 873 crore in FY2018 vis-à-vis a profit after tax (PAT) of Rs. 22.14 crore on a managed portfolio of Rs. 817 crore in FY2017. Reported net worth was Rs. 90.49 crore as on March 31, 2018. The company reported a net profit after tax of Rs. 1.04 crore as on June 30, 2018 on managed advances of Rs. 762 crore.

Key financial indicators (audited)

	FY 2017	FY2018
Total income	180.7	133.5
Net interest income	49.3	22.3
Profit before tax	34.3	-58.9
Profit after tax	22.1	-51.7
Total managed portfolio	817.1	873.0
Total managed assets	1,083.0	1,054.1
% Tier 1	16.1%	13.4%
% CRAR	23.1%	22.4%
Gearing	6.62	5.78
% Net profit / average managed assets	1.9%	-4.8%
% Return on average net worth	28.76%	-58.38%
% Gross NPA	0.85%	7.86%
% Net NPA	0.30%	3.08%
Net NPA / net worth	1.48%	15.67%

Source: ICRA research and company; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No.	Instrument	Current Rating (FY2019)					Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017			Date & Rating in FY2016			
					September 2018	April 2018	November 2017	March 2017	December 2016	August 2016	March 2016	December 2015	September 2015	June 2015
1	NCD	Long Term	97.00	97.00	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BBB-@	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Bank lines	Long Term	70.00	70.00	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BBB-@	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
3	Subordinated debt	Long Term	10.00	10.00	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BBB-@	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE472Q07057	NCD – 1	31-Jul-14	15.00%	18-Dec-20	3.00	[ICRA]BBB- (Stable)
INE472Q07073	NCD – 2	30-Nov-15	13.53%	30-Nov-20	26.00	[ICRA]BBB- (Stable)
INE472Q07081	NCD – 3	23-Dec-15	13.53%	5-Jan-21	26.00	[ICRA]BBB- (Stable)
INE472Q07099	NCD – 4	24-Aug-16	14.03%	24-Aug-22	42.00	[ICRA]BBB- (Stable)
INE472Q08014	Subordinated debt	29-May-15	18.00%	18-Dec-20	10.00	[ICRA]BBB- (Stable)
NA	Term Loan – 1	14-Jul-16	NA	28-Oct-18	2.86	[ICRA]BBB- (Stable)
NA	Term Loan – 2	19-Mar-18	NA	19-Mar-20	17.28	[ICRA]BBB- (Stable)

Source: S V Creditline Limited

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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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