CARE Ratings
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20 YEARS PLUS Analytical Excellence

No. CARE/DRO/RR/2017-18/1110

Mr. Rakesh Dubey
President
SV Creditline Pvt Ltd
5th Floor, Tower B, SAS Towers,
Medicity, Sec-38, Gurgaon - 122001

April 14, 2017

Dear Sir,

Credit rating of SV Creditline Pvt Ltd for Bank Facilities of Rs.100cr

Please refer to our letter(s) dated March 31, 2017 on the above subject.

2. A write-up (brief rationale) on the above rating is proposed to be issued to the press shortly. A draft of this is enclosed for your perusal as **Annexure-I**.

3. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by April 15, 2017, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

Ankita

[Arti Tahiliani]
Manager

[Ankita Sehgal]
Senior Manager

Encl.: As above

Annexure-I

Press Release

S V Creditline Pvt Ltd

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	100	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Total Facilities	100 (Rupees One hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in the ratings for the bank facilities of SV Creditline Pvt. Ltd. (SVCL) takes into account the deterioration in the asset quality due to lower collections post demonetization which could potentially impact the capitalization levels of the company going forward. The rating, remains constrained by the leveraged capital structure, geographical concentration of operations and inherent socio-political, regulatory and operational risks pertaining to the micro finance industry. The ratings, however, continues to derive strength from the experience of the promoter and management team, diversified resource base, consistent growth in scale of operations and adequate loan portfolio management system in place.

The ability of the company to improve its collections thereby restore the asset quality,further geographically diversify its operations, infuse capital and improve its capital structure and gearing levels are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Deterioration in asset quality post demonetization

SVCL had been able to maintain asset quality at a comfortable level over the years despite aggressive growth in loan portfolio. However, the overall collections of SVCL have been impacted post demonetization. The overall collections of SVCL stood at 76% for the period November 8, 2016 to March 15, 2017 as against nearly 100% collections earlier. The collections have been particularly impacted in the Uttar Pradesh and Uttarakhand where the collections have been only 68% and 48% respectively as against 78-93% in all the other regions. This has been largely due to the adverse scenario in the Western UP belt and UP which has been impacted due to less availability of cash, political intervention in certain districts of Uttar Pradesh and Madhya Pradesh and RBI circular on relief in asset classification for FIs being misinterpreted as a loan holiday. The company has taken various measures to address this concern on the ground level for educating its borrowers. Consequently, the collections are gradually improving, although disbursements continue to be moderate given the current scenario. The company has adequate liquidity and sanctioned bank lines available for the interim period. Also, given the RBI dispensation in classification of loans, the company is expected to meet the capital adequacy norms in the short term. However, the ability of the company to further improve its collection efficiency and maintain its asset quality remains to be seen.

Potential impacton capital adequacy and overall gearing due to expected write-off/ provisioning

SVCL's capitalization has remained at a moderate level, although, the promoters have consistently infused capital in the company and raised Tier-II capital from external sources to meet the capital adequacy requirements and support the growth plans of the company. The Capital Adequacy of the company stood at 26.59% with Tier-I CAR being 18.17% as on February 28, 2017. However, with the deterioration in the asset quality and potential write-off/provisioning on own loans post May 2017 (upon completion of dispensation period allowed by RBI on loans disbursed before November 8, 2016), drawal of cash collateral/First Loss Default Guarantee provided on the securitized/business correspondent

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

portfolio and reversal of income on delinquent accounts, there could be large write-off of capital thereby impacting the capital adequacy and gearing levels going forward. Thus, the ability of the company to shore up the capital base would be crucial.

High geographical concentration

SVCL is exposed to regional concentration risk as the company's operations are largely present in two states, viz, UP and MP which together constituted 68.80% of the overall loan portfolio as on February 28, 2017. The Top State (UP) Concentration/Net Worth stood at 406% as on February 28, 2017.

Regulatory uncertainty and socio-political intervention risks in the microfinance industry

Post the AP crisis and regulatory intervention by RBI, the microfinance sector has seen strong growth in loan portfolio on account of improving funding profile, control over operating expenses, improving margins and moderate leverage levels. However, the risks emanating from socio-political intervention continue to impact the sector given the unsecured lending to a fragile and sensitive section of the society as seen in the wake of demontization. Also, the recent farm loan waiver announced by the Govt of UP could have a spillover impact on the collections of MFIs such as SVCL who have high exposure in the state.

Key Rating Strengths

Experienced board and management team

The promoters, Mr Vijay Parekh and Mr Sunil Sachdeva, and other board members have significant experience in diverse fields. The chairman of SVCL, Mr Surinder Singh Kohli has vast experience with various financial institutions (viz. SIDBI, Punjab and Sind Bank, Punjab National Bank and IIFCL). SVCL's management team is led by Mr Rakesh Dubey (CEO) who has more than nineteen years of experience in the microfinance industry and also long exposure of setting up microfinance institutions domestically as well as internationally. Other senior members comprise of professionals with over a decade of diverse experience from microfinance, social and financial sector.

Consistent growth in scale of operations and earnings; *albeit slowdown post demonetization*

Over the years SVCL has consistently grown its loan book. The AUM of SVCL grew by 141% to Rs.1016.52 crore as at end of March 31, 2016 vis-à-vis Rs.421.20 crore on March 31, 2015. This was primarily on account of high growth in the Banking Correspondent (BC) portfolio which grew from Rs.145.67 crore as on March 31, 2015 to Rs.538.98 crore as on March 31,2016. High growth in loan portfolio has meantconsistent improvement in the earnings profile of SVCL during the last three financial years ended FY 13-16. During FY16, SVCL has registered a 72% y-o-y growth in total income to Rs.123.20 crore (P.Y. Rs.71.46 crore) while reporting PAT of Rs.11.21 crore (P.Y. Rs.8.20 crore). The growth in profitability of the company was, however, lower during FY16 as against the growth in loan portfolio due to significant increase in employee and finance costs. SVCL has however, reaped the benefit from growth in loan portfolio during the previous period; reporting PAT of Rs.22.90crore on a total income of Rs.140.50 crore during 9MFY17.

However, since the announcement of demonetization on November 8, 2016, the company has been conservative in its lending and has consequently run down its book to Rs. 785.48 crore as on February 28, 2017, with the focus being on collections and improving the asset quality before growing its portfolio again.

Adequate Loan portfolio management and accounting system in place

SVCL has a loan portfolio management and accounting system that has been developed over a period of time. SVCL has adequate systems in place entailing rigorous supervision by the operations team & follow-up by Internal Audit Department for monitoring the operations.

Moderately diversified resource base

Major source of external funding for SVCL has been term loans from banks and financial institutions (FIs). As on September 30, 2016, the company has funding tie-up with 21 banks and 9 FIs. Amongst banks, it has a mix of both private sector and public sector banks, with 12 PSU banks,in the list of lenders. SVCL has also accessed securitization route and Business Correspondent route (with IndusInd Bank, Kotak Mahindra Bank and Edelweiss Financial Services Ltd) for tapping funds and growing its operations.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology for Non-Banking Financial Companies
Financial Sector Ratios

About the Company
SVCL (CIN: U7129DL1996PTC081376) was incorporated in August 1996 as Mantrana Finlease Pvt Ltd and was renamed as SVCL in September 2008. The microfinance business was started in January 2010. Pursuant to RBI's directions on separate category of NBFC doing MFI activities, SVCL received the certificate of registration as an NBFC-MFI on November 22, 2013. SVCL provides loans to the individual members in the group (joint liability group), with each group consisting of five members. The loans provided to individuals are based on the mutual guarantee from members. SVCL offers loans in the range of Rs.10,000 to Rs.40,000 at interest rate of 23.70% p.a. on a reducing balance for a maximum period of two years on a weekly/bi-weekly/monthly repayment frequency. During the year FY16, SVCL has also diversified its products into e-rickshaw loans (Rs.70000 to Rs.120000) and housing loans (Rs.50000 to Rs.500000) to tap new markets which are backed by security of respective asset financed by the company. As on February 28, 2017, SVCL was operating in 124 districts spread across 8 states, viz.; Rajasthan, Uttar Pradesh, Madhya Pradesh, Bihar, Delhi-NCR, Chhattisgarh, Haryana and Uttarakhand.

During FY16 (refers to the period April 1 to March 31), the company registered a total income of Rs.123.20 crore (P.Y: Rs.71.46 crore) with a PAT of Rs.11.21 crore (P.Y: Rs.8.20 crore) on a total Asset Under Management (AUM) size of Rs.1016.52 crore (P.Y: Rs.421.20 crore). During 9MFY17 (refers to the period April 1 to December 31, 2016), the company registed total income of Rs. 140.50 crore and PAT of 22.90 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Mar-19	100.00	CARE BB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	100.00	CARE BB+; Stable	-	1)CARE BBB-; Negative (20-Feb-17)	1)CARE BBB- (01-Feb-16)	1)CARE BBB- (09-Mar-15)