

India Ratings Revises Outlook on S V Creditline's Bank Loans to Negative; Affirms 'IND BBB'

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India Ratings and Research (Ind-Ra) has revised the Outlook on SV Creditline Private Limited's (SVCL) bank loans to Negative from Stable while affirming the Long-term rating as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Bank loans	-	-	-	INR500	IND BBB/Negative	Affirmed; Outlook revised to Negative

KEY RATING DRIVERS

Demonetisation Impact: The Outlook revision reflects SVCL's sharply lower collection efficiencies on account of demonetisation that could result in credit loss and capital erosion. The ratings continue to reflect investor pedigree, promoter ability for equity support and management experience in microfinance. The rating also reflects the company's geographical concentration, moderate size in the microfinance industry (MFI), modest capitalisation level and high credit risk inherent in unsecured MFI lending.

Asset Quality: SVCL's PAR 0 increased to over 56% in February 2017 from less than 0.21% in March 2016 and PAR 90 increased to 3.90% in February 2017 from 0.17% in March 2016. The increase was primarily due to political interference in Uttar Pradesh and Uttarakhand and demonetisation. Ind-Ra expects average credit costs (including write-offs and provisions for standard assets; credit cost is calculated over its loan portfolio on its balance sheet) to remain stable in FY17 due to the Reserve Bank of India's dispensation on NPA recognition. However, SVCL is likely to bear significant credit costs and thus capital erosion from 1QFY18 onwards in case collections do not ramp up to 120% on a consistent basis. In case the recently announced farmer loan waiver by the UP government on bank loans impacts MFI loans, credit costs may elevate, requiring a larger capital infusion. Collection ramp-up and credit costs will be a key monitorable.

Capital Adequacy: SVCL's capital adequacy ratio improved to about 24% in 9MFY17 from 17.17% in FY16 on

account of healthy accruals in 9MFY17. Ind-Ra's analysis indicates consolidated yearly NPAs of 3.5% and the resultant income reversal would bring capital below regulatory minimum. Ind-Ra expects SVCL's capitalisation to take a hit on account of credit costs in FY18. Declining capitalisation would have to be supplemented by timely equity infusion either by promoters or new investors. Moreover, Ind-Ra expects the promoters to continue to infuse sufficient equity periodically to bring capitalisation to the pre-demonetisation level and absorb credit costs.

Liquidity: As of February 2017, SVCL had INR1.2 billion of cash at hand. Until February 2017, 76% of the borrowers had paid all EMIs and 15% of them had paid partially. Ind-Ra expects cash at hand and borrower repayments to cover six-eight-month repayment obligations totalling about INR250 million per month. The company has restarted disbursements (based on certain collection criteria) to infuse confidence in the borrowers and prompt regularisation of loans.

RATING SENSITIVITIES

Sustained collection efficiencies of over 120% in 1HFY18 and/or equity infusion by the promoters or new investors to cover capital erosion and credit costs periodically could result in the Outlook revision to Stable. Failure to do so in a reasonable timeframe could result in a negative rating action.

COMPANY PROFILE

SVCL is a Delhi-based non-banking finance company - microfinance institution. It had a managed loan portfolio of INR8.15 billion as at March 2017. Its operations are primarily concentrated in northern and central India (Uttar Pradesh, Madhya Pradesh and Rajasthan).

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook
	Rating Type	Outstanding Limits (million)	Rating	21 March 2016
Bank loans	Long-term	INR500	IND BBB/Negative	IND BBB/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

Bank facilities are instruments with low complexity levels, where the relationship between inherent risk factors and intrinsic return characteristics is straightforward.

For more information, visit <https://www.indiaratings.co.in/complexity-indicators>.

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Applicable Criteria

Financial Institutions Rating Criteria

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