

Rating Rationale

July 08, 2024 | Mumbai

ICL Fincorp Limited

'CRISIL BBB-/Stable/CRISIL A3' assigned to Bank Debt and Debt Instruments

Rating Action

Total Bank Loan Facilities Rated	Rs.50 Crore
Long Term Rating	CRISIL BBB-/Stable (Assigned)

Rs.400 Crore Non Convertible Debentures	CRISIL BBB-/Stable (Assigned)
Rs.50 Crore Subordinated Debt	CRISIL BBB-/Stable (Assigned)
Rs.100 Crore Commercial Paper	CRISIL A3 (Assigned)

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/CRISIL A3**' ratings to the bank loan facilities and debt instruments of ICL Fincorp Limited (ICL Fincorp).

The rating reflects the extensive experience of the promoters in the gold financing business and the adequate capital position of the company backed by regular equity infusion by promoters. These strengths are partially offset by small, though improving scale of operations, with regional concentration and the below average earnings profile.

Incorporated in 1991, the current promoters took over the company in 2004 and ventured into gold loans lending in 2013. The company acquired Salem Erode Investments Ltd (SEIL), a listed entity, in February 2020 with the aim of spurring growth in other geographies. On consolidated basis, the company had a portfolio of Rs 478.3 crore as on March 31, 2024, compared with Rs 403.0 crore as on March 31, 2023 (Rs 351 crore as on March 31, 2022). This growth is driven by the gold loan segment, which accounts for 98% of the portfolio. Consolidated networth and gearing were Rs 97 crore and 4.7 times, respectively, as on March 31, 2024, compared with Rs 91.3 crore and 4.1 times, respectively, a year earlier. Gearing is expected to be maintained below 5 times on steady state basis.

CRISIL Ratings has taken note of the recent news concerning disbursement of loans in cash by non-banking financial companies (NBFCs) engaged in the gold loan business. In May 2024, an advisory was sent to a few NBFCs engaged in the gold loans business. The NBFCs have been asked to adhere to the provisions of the Income Tax Act, which essentially stipulate that an individual should not receive more than Rs 20,000 in cash. The NBFCs (including ICL Fincorp) are now moving to online disbursement, and as part of this shift, are revalidating bank account information of existing customers. Bank account details of new customers will need to be verified. This may increase the turnaround time for loan disbursement. Also, the industry may see customers shift to the unorganised sector as borrowers in this segment are habituated to cash transactions. During the transition and as customers adjust to the new normal, disbursement may be affected. CRISIL Ratings will continue to monitor the impact of the revised guidelines on growth in the gold loan portfolio of ICL Fincorp.

Analytical Approach

CRISIL Ratings has consolidated business and financial risk profiles of ICL Fincorp Limited and its subsidiary SEIL. This is because both these companies are involved in similar business operations i.e. offering gold loans. Further, both ICL Fincorp and SEIL have common set of promoters along with commonality in board & top management. In addition, ICL Fincorp also holds a majority stake (75%) in SEIL.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description Strengths:

- **Extensive experience of the promoters and established brand in the gold loan markets in south India:** Experience of more than two decades in the NBFC industry, has enabled the promoters to develop understanding of borrower behaviour and maintain comfortable asset quality, which will continue to support the business. The managing director, Mr K G Anil Kumar, and Ms Uma Devi Anil Kumar took over ICL Fincorp in 2004 and entered gold loan financing in 2013. The group had 292 branches across Eight states, viz Kerala, Tamil Nadu, Telangana, Karnataka Andhra Pradesh, Odisha, Maharashtra and Gujarat in fiscal 2024. The promoters have extensive experience in the gold financing business and are engaged in tours & travel, medical laboratories and boutiques businesses through separate entities.
- **Adequate capitalisation metrics:** The group is adequately capitalised. The promoters have been fairly active in infusing capital; during the last three years, the promoters have infused over Rs 15 crore and additionally supported by internal accruals, resulting in networth of Rs 97 crore as on March 31, 2024 (Rs 91.3 crore as on March 31, 2023). Gearing was adequate at 4.5-4.8 times in the last 2-3 years. To support growth, the promoters plan to infuse Rs 10 crore equity over the near-to-medium term. Additionally, the management plans to focus on bottom-line profitability to generate higher accretion to support the capital position of the company. CRISIL Ratings believes the ability of the company to raise capital to fund growth and maintain gearing below 5 times (thereby maintaining capital adequacy) will remain a key monitorable.

Weaknesses:

- **Small, though improving scale of operations, with regional concentration:** Assets under management grew by around 19% to Rs 478.3 crore on March 31, 2024, as against Rs 403.0 crore as on March 31, 2023. The company disbursed Rs 1,671 crore in fiscal 2024, as against Rs 1,368 crore in fiscal 2023. Despite steady growth and presence of over 10 years, the portfolio has remained small. In terms of geographic diversity, majority of operations are concentrated in southern states such as Kerala, Tamil Nadu and Karnataka. Nevertheless, in the last 2-3 years, the company has focused on establishing branches in states such as Odisha, Telangana, Andhra Pradesh and recently new branches were opened in the states of Maharashtra and Gujarat. Ability of the group to continue to improve scale of operations, thereby reducing geographic concentration, will remain monitorable.
- **Below average earnings profile:** On a consolidated basis, profitability was modest, as reflected in profit after tax (PAT) and return on managed assets (RoMA) of Rs 0.1 crore and 0.01%, respectively, in fiscal 2024, compared with Rs 3.0 crore and 0.6%, respectively, in fiscal 2023. Profitability is constrained by the higher operational costs incurred by the company. The operating expense ratio was high at 11-13% in the last 2-3 years, constraining the earnings profile. One of the key components of operational costs has been 'advertising and promotion expense' and costs incurred towards manpower & setting up of gold loans branches. The group has incurred higher marketing costs to raise funds through the NCD (public issue) route. However, the management now proposes to leverage branch network and advertising efforts to grow its gold loan portfolio in order to achieve sensible profitability over the medium term. Another reason has been due to higher average cost of borrowing of the company for borrowings in fiscal 2024 stood at 13.6%, as compared to 13.3% in fiscal 2023. Therefore, the ability of the group to have substantial improvement in its profitability thereby managing its operational and credit costs will remain key rating sensitivity factor.

Liquidity: Adequate

Cash and equivalent and liquid investments stood at Rs 36.4 crore as on May 31, 2024 (including unutilized bank lines) and two-month liquidity cover (with one-month collection efficiency of 50%) was 3.64 times. If the cash credit limit, which will likely be rolled over, is excluded, the liquidity cover is 4.5 times.

Outlook: Stable

ICL Fincorp will continue to benefit from the extensive experience of its promoters and maintain adequate capitalisation.

Rating Sensitivity factors

Upward factors:

- Substantial improvement in profitability with RoMA remaining above 2%
- Further improvement in capital position with gearing below 5 times
- Diversity in the funding profile with the ability to raise sufficient funding through other routes such as bank loans.

Downward factors:

- Weakening in the capital position with gearing above 6 times
- Deterioration in asset quality metrics

About the Company

Based in Thrissur, Kerala, ICL Fincorp was registered in 1991. The company was acquired by the current promoters in 2004. After acquiring the company, the promoters started extending loans against consumer durables, and ventured into gold loan lending in 2013. The company provides gold loans, business loans (MSME loans), personal loans, loans against property, and two-wheeler loans. Gold loans form the largest portion of offerings, followed by hire purchase and business loans. The promoters acquired Salem Erode Investments Limited (SEIL) in 2020. Salem Erode Investments Limited, a BSE listed NBFC, post the acquisition provides gold loans. SEIL has 38 branches as of March 2024 and ICL Fincorp Limited

holds 75% stake in SEIL. The promoters are also active in businesses such as chits, tours and travels, through separate companies.

Key financial indicators (Standalone)

Particulars for the year / period ended	Unit	Mar 24	Mar-23	Mar-22
Total managed assets	Rs Cr	616	526	458
Total income	Rs Cr	144	110	87
Profit after tax (PAT)	Rs Cr	1.9	3.1	2.0
Adjusted gearing	Times	5.5	4.7	4.7
Return on managed assets	%	0.3	0.6	0.5

Key financial indicators (Consolidated)

Particulars for the year / period ended	Unit	Mar 24	Mar-23	Mar-22
Total managed assets	Rs Cr	637	527	458
Total income	Rs Cr	145	112	89
Profit after tax (PAT)	Rs Cr	0.1	3.0	2.7
90+dpd	%	1.5	3.8	1.9
Adjusted gearing	Times	4.7	4.1	4.0
Return on managed assets	%	0.0	0.6	0.7

Status of non cooperation with previous CRA

ICL Fincorp has not cooperated with INFOMERICS Valuation and Rating Private Limited and Brickwork Ratings India Private Limited, which has classified the company as non-cooperative through a release dated April 11, 2024, and Jan 28, 2022 respectively. The reason provided by them is non-furnishing of information for monitoring of the ratings.

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.Cr)	Complexity Levels	Rating Assigned with Outlook
NA	Non Convertible Debentures^	NA	NA	NA	400	Simple	CRISIL BBB-/Stable
NA	Subordinated Debt^	NA	NA	NA	50	Complex	CRISIL BBB-/Stable
NA	Commercial Paper	NA	NA	7-365 days	100	Simple	CRISIL A3
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	50	NA	CRISIL BBB-/Stable

^Yet to be issued

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Salem Erode Investments Limited	Full	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2024 (History)		2023		2022		2021		Start of 2021
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	50.0	CRISIL BBB-/Stable	--	--	--	--	--	--	--	--	Withdrawn
Commercial Paper	ST	100.0	CRISIL A3	--	--	--	--	--	--	--	--	--

Non Convertible Debentures	LT	400.0	CRISIL BBB-/Stable		--	31-07-23	Withdrawn	26-08-22	CRISIL BB-/Stable	27-08-21	CRISIL BB-/Stable	CRISIL BB-/Stable
Subordinated Debt	LT	50.0	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	50	Not Applicable	CRISIL BBB-/Stable

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Finance Companies
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt

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