

Rating Rationale

Western India Transport Finance Company Pvt. Ltd. (WITFIN)

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Remarks
Long Term Bank Facilities	35.00 (Rupees Thirty Five crore only)	CARE BBB- (Triple B Minus)	Assigned

Rating Rationale

The rating factors in business and operational linkages of WITFIN with its group companies that are into transportation businesses, experienced promoters and management team, average profitability and asset quality parameters, comfortable capitalization levels and comfortable liquidity position. The ratings are, however, constrained by small scale of operations, limited track record, geographical and loan product concentration and riskier borrower segment. Business growth, concentration risk, profitability, asset quality and capital adequacy are the key rating sensitivities.

Background

Western India Transport Finance Company Pvt. Ltd. (WITFIN) was incorporated in April 2006. The company was granted RBI registration as NBFC in August 2011. The company is promoted by Mr. Nikhil Swadi, who is member of Swadi family which is into transportation businesses since more than 40 years. The company lends majorly to the 'used commercial vehicle' segment which constituted around 95% of the total outstanding portfolio as on March 31, 2016. The major focus of the company is towards lending of light commercial vehicle (LCV) and Medium/Heavy Commercial Vehicle (MHCV) forming around 86% of outstanding portfolio as on March 31, 2016 while the rest being commercial three wheelers and passenger cars. The company has presence in Gujarat and Maharashtra with five branches and currently serves 1700 active borrowers. As on March 31, 2016, company's asset base stood at Rs.54.26 crore.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Credit Risk Assessment

Business and operational linkages with group companies

Western India Transport Finance Company Pvt. Ltd. is promoted by Mr. Nikhil Swadi, who is member of Swadi family which is into transportation businesses since more than 40 years. The family has numerous businesses in transportation sector viz. Swadi Automobiles (started as vehicle repair workshop and currently offering garage services to vintage and royal cars), Ganesha Carriers (provides end to end transport services to Ambuja Cements) and Auto HireRS (operates rental services for specialty and luxury vehicles since 1970s). Given the group's expertise in understanding the requirements of commercial driver community and quality/condition of the used vehicles, WITFIN benefits from the group support in the form of business sourcing, commercial vehicle valuations and management support. Over the years, the group has built long standing relationship with local population and players in the industry like truck drivers, transporters, mechanics, service centre and auto spare parts suppliers across all the four states – Gujarat, Maharashtra, Rajasthan and Punjab. These relationships act as cross reference during credit appraisal process.

Experienced promoters and management team

Mr. Dilip Swadi is the chairman cum promoter of the company. Mr. Dilip Swadi is the promoter of various group businesses in transportation sector viz. Swadi Automobiles, Ganesha Carriers and Auto HireRS. The management team is headed by Mr. Nikhil Swadi (son of Mr. Dilip Swadi) who acts as Managing Director of the company. He worked in corporate banking and equity research department of JP Morgan in United States for more than 12 years and later headed various transport businesses of the group. Mr. Pratap Dighe, C.O.O. of the group companies (overseeing car rental and trucking division of the group), acts the one of the Directors of the company. Mr. Satyanarayan Singh acts as the vice-president of operations and credit. Mr. Singh has more than 19 years of experience in working with one of the leading CV finance company with expertise in sales, operations and collections.

Average Profitability

The company was incorporated on April 13, 2006 and started the main activity of lending post getting registered with RBI in August 2011. Over the last four years, company's outstanding loan book has grown at CAGR of 81%. As on March 31, 2016, the company's outstanding loan book stood at Rs.50.7 crore (Mar-15: Rs.28.9 crore). Consequently, company's profitability has been improving over the years. The company caters to high interest yielding segment and hence its yield on average portfolio during FY16 stood at 19.23% (P.Y.: 20%). The company's net interest margin during FY16 reduced by 80 basis points and stood at 10.45% as against 11.25% in FY15 but it still continues to remain robust. During FY16, the company reported PAT of Rs.1.23 crore (P.Y.: Rs.1 crore) on total income of Rs.8.18 crore (P.Y.: Rs.5.06 crore). On the operations front, company's cost to income ratio increased to 55.23% in FY16 as against 44.08% in FY15. The company's RoTA stood at 2.86% in FY16 (P.Y.: 4%).

Average asset quality parameters

As on March, 2016, the company reported GNPA and NNPA at 0.83% and 0.60%, respectively. The company's Net NPA to Networth ratio stood at 1.62%. The major slippage (above 180 d-p-d) is from heavy commercial vehicle segment. The company has grown its portfolio aggressively over the past four years and hence on lag basis, company's GNPA and NNPA stands at 1.46% and 1.06%, respectively.

Comfortable gearing and capitalization levels

WitFin's networth has increased over the years on account of regular capital infusion by the promoters. Over the last four year, promoters have infused equity capital of Rs.12.25 crore. As a result of regular capital infusion, the company's capital adequacy ratio stood comfortable at 34.94% as on March 31, 2016 with Tier I CAR at 34.34%. The company also has low gearing levels of 1.81 times as on March 31, 2016 (P.Y.: 1.06 times). Going forward, the company's gearing levels are projected to touch 2.66x by March 2017 on account of higher disbursements.

Comfortable liquidity position

The liquidity profile of the company as on March 31, 2016 is comfortable with positive cumulative mismatches across all time buckets since company enjoys low gearing levels. Further, the company had unutilised working capital limits of Rs.8.5 crore as on June 30, 2016.

Small size of operations with limited track record of the company

Considering that the company is in a nascent stage and has started its lending operations since August 2011, its scale of operations is small. As on March 31, 2016, the company's loan portfolio and balance sheet size stood at Rs.50.70 crore and Rs.54.26 crore respectively. WITFIN's tangible networth stood at Rs.18.90 crore as on March 31, 2016.

Loan product concentration and geographical concentration

The company lends majorly to the 'used commercial vehicle' segment which constituted around 95% of the total outstanding portfolio as on March 31, 2016. The major focus of the company is towards lending of light commercial vehicle (LCV) and Medium/Heavy Commercial Vehicle (MHCV) forming around 86% of outstanding portfolio as on March 31, 2016 while the rest being commercial three wheelers and passenger cars. Geographically, almost entire loan portfolio of the company is concentrated in Maharashtra state. During FY17, Company plans to diversify geographically by extending credit in various parts of Gujarat state.

Riskier Borrower Segment

The company provides loans for used commercial vehicles which is relatively riskier segment. CV operators are more vulnerable to the negative effects of an economic downturn. However, the company provides CV loans at a loan to value (LTV) ratio of around 75% to mitigate the risk to a certain extent.

Resource Profile

WitFin's outstanding borrowings as on March 31, 2016 stood at Rs.34.25 crore. WitFin's funding profile includes short and long term bank facilities, term loans from various NBFCs and non-

convertible debentures. As indicated by the management, the company is also planning to securitize some of its loan portfolio in near future.

Prospects

Over the last few years, the NBFC sector has gained systemic importance with increase in share of NBFC total assets to bank total assets. The same has resulted in the Reserve Bank of India (RBI) taking various policy actions resulting in NBFCs attracting higher support and regulatory scrutiny. The RBI has revised the regulatory framework for NBFCs which broadly focuses on strengthening the structural profile of NBFC sector, wherein focus is more on safeguarding depositors' money and regulating NBFCs which have increased their asset-size over time and gained systemic importance. On the asset quality front, gradual change in the NPA recognition norms would lead to deterioration in asset quality parameters during the transition phase. Overall the revised regulations are positive for the NBFC sector making it structurally stronger, increase transparency and improve their ability to withstand asset quality shocks in the long run.

Due to subdued economic environment, last few years have been challenging period for the NBFCs with moderation in growth and rising delinquencies resulting in higher provisioning thereby impacting profitability. However, comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs in spite of impact on profitability.

For WITFIN, business growth, concentration risk, profitability, asset quality and capital adequacy are the key rating sensitivities.

Financial Performance of WITFIN -

(Rs. crore)

P&L for year ended	31.03.14	31.03.15	31.03.16
	12m, A	12m, A	12m, A
Interest on loan portfolio	2.48	4.67	7.65
Fee income	0.19	0.39	0.52
Other income	0.00	0.01	0.01
Total Income	2.67	5.06	8.18
Interest Expense & Financial Charges	0.69	1.86	3.16
Employee Costs	0.55	0.81	1.45
Other operating expenses	0.38	0.58	1.25
Depreciation & amortization	0.02	0.03	0.07
Total Operating expenses	0.94	1.41	2.77
Provisions & Write offs	0.15	0.30	0.37
PBT	0.89	1.49	1.88
Tax	0.28	0.49	0.65
PAT	0.61	1.00	1.23
Net Worth	9.15	15.16	18.90
Total Debt	8.94	16.13	34.25
Loan Portfolio (gross)	17.76	28.91	50.70
Total Assets	18.28	31.86	54.26
Key Ratios			
Overall Gearing (times)	0.98	1.06	1.81
Interest coverage (times)	2.30	1.80	1.59
Interest coverage before prov., w/o.(times)	2.52	1.97	1.71
CAR %	53.54	50.81	34.94
Tier I CAR %	53.29	50.56	34.34
Yield on portfolio (A)	18.59	20.00	19.23
Interest / Avg. Borrowed Funds (B)	11.98	14.81	12.56
Spread (A-B)	6.61	5.20	6.67
Net Interest Margin	12.91	11.25	10.45
Cost to income ratio	47.54	44.08	55.23
Total income/Average Total Assets	19.20	20.20	18.99
Operating Expenses/Average Total Assets	6.78	5.64	6.43
ROTA (PAT / Average Total Assets)	4.38	4.00	2.86
RONW	7.57	8.24	7.23
Asset Quality Ratios (%)			
Gross NPA Ratio	0.00	0.52	0.83
Net NPA Ratio	0.00	0.40	0.60
Net NPA to Net worth	0.00	0.75	1.62

Annexure I

Long-term bank facilities as on August 31, 2016

Name of the Bank	Type of facility	Amount (Rs. Cr.)
Ratnakar Bank Ltd.	Cash Credit	4.00
Ratnakar Bank Ltd.	Term Loan	3.00
Proposed	-	28.00
Total		35.00

Disclaimer

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.