



Rating Rationale

20 Oct 2022

Arul Financiers Pvt Ltd.

Brickwork Ratings assigns BWR B+/Stable rating for the Bank Loan Facilities of Rs.10.00 Crs. of Arul Financiers Pvt Ltd.

Particulars

Facilities	Amount Rs. Crs.	Tenure	Rating* [@]
Fund Based- Bank Loans - Term loan (Proposed)	10.00	Long Term	BWR B+/Stable (Assignment)
Total	10.00	Rupees Ten Crores only	

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

Note: Details of bank facilities are provided in Annexure-I

[@]This rating pertains to an existing assignment received prior to 6 October 2022.

RATING ACTION/ OUTLOOK

Brickwork Ratings (BWR) assigns ratings to the bank loan facilities of Arul Financiers Pvt Ltd. (AFPL, Pinke Capital or the company), as tabulated above. BWR has principally relied on the company's audited financials up to FY21, provisional FY22 and Q1FY23 financials and information/clarification as provided by the company.

The rating assignment derives strength from the promoters' support and experience, and adequate capitalisation. The rating is, however, constrained by the company's limited track record, low levels of assets under management (AUM), geographical concentration and moderate profitability, and the nascent stage of operations by the new management.

BWR maintains a Stable outlook for the company, indicating a low likelihood of any rating change over the medium term.

KEY COVENANTS OF INSTRUMENTS/FACILITIES RATED - NIL

KEY RATING DRIVERS

Credit Strengths:-

Experienced management:-

The company is headed by Mr. Pon Aananth as the Chief Executive Officer (CEO), a development finance expert with 20 years of experience in scaling purpose-driven organisations to grow in terms of scope, impact and geographic reach, along with vast experience in access to finance, affordable health care, micro insurance, habitat, micro and small enterprises (MSME), agriculture and water sanitation and hygiene (WASH) financing. Mr. Pon Aananth focuses on building adequate finance for MSMEs led by women entrepreneurs.

R Mahendran, the chief operating officer, is a postgraduate in agriculture and a known face in the microfinance/rural finance business. He comes with over two decades of expertise in development finance, agriculture and agri value chain financing, along with formal branch banking businesses.



He is one of the chief architects of a reputed bank's Sustainable Livelihood Initiatives (SLI)- a programme to lend women under Joint Liability Group (JLGs) model. His deep direct expertise in managing substantial advances throughout his career and association with various microfinance and rural business will assist a long way in building the company's capacities.

Mr. Nanda Kumar, an independent director, is a postgraduate in management. He has deep knowledge and rich experience in retail loan products, having managed credit control and delinquency management for 5 years in financial institutions.

The company's directors have decades of experience in the banking and allied services fields.

Adequate management information systems:-

The company has currently partnered with a software service provider FinOS, a Kanyakumari, Tamil Nadu, based company, for its operations. This offers an end-to-end, completely digital service, where loan officers source loan proposals using their android devices, and the same has been transferred to the next level process of approval and verifications. Similarly, it also offers a good amount of scope for customisation by partner organisations themselves without much time lag. It is capable of accommodating any number of customers and transactions and others, as informed by the management.

Credit Risks:-

Moderate earnings:-

For FY22 (Provisional), the company earned an income of Rs. 0.13 Crs. and a PAT of Rs. 0.03 Crs. Due to employee expenses and administrative expenses, FY22 net profits were lower than that in FY21 in spite of an increase in loan disbursements. For FY23, given the aforesaid business plan, the company expects to grow its income and profits substantially, depending upon the receipt of sanctions and disbursements from various lenders. The company has Business Correspondence (BC) Models with Monexo, India P2P and others. As of 30 June 2022, BC model exposure is Rs.5 lakhs. Going forward, the company's ability to raise funds to finance its loan book and maintain an optimum level of operating expenses remains monitorable.

Unseasoned portfolio:-

Although the company started lending only from January 2022, it selected only those clients having prior loan records and nil overdue with then Arul Financers Pvt Ltd with the previous management. These clients have completed more than 24 months of the repayment period in the previous cycle. First-time loan clients have not been funded by the new management. Hence, the collection and fresh slippages remain monitorable.

Geographical concentration:-

Business is concentrated in under 11 districts across Tamil Nadu and Kerala; also, the company largely lends to unsecured business loans that have exposure of 100% of the overall portfolio as of 30 June 2022. The AUM exposures are 83% in Tamil Nadu, and the rest is in Kerala. However, the company also plans to lend in different product segments, but disbursements are yet to start, given the company's nascent stages of operation.

Relatively low AUM:-

The AUM size as of 30 June 2022 was ~ Rs.2.17 Crs., and the products being offered are Micro Loans, Business loans, and Loan Against property. The company has laid out business plans and proposes to grow its AUM substantially in the near to medium term, and BWR shall monitor growth in the AUM as a key rating sensitivity on its earnings and asset quality.



ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has taken a standalone approach on Arul Financiers Pvt Ltd. for arriving at the ratings. BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the company's ability to show considerable growth in its loan portfolio while maintaining asset quality, profitability and adequate liquidity will be a key rating sensitivity factor.

Positive: The company's ability to show considerable growth in its loan portfolio while maintaining asset quality, profitability and a prudent capital structure are key rating positives.

Negative: Lower-than-expected growth in the loan portfolio or a deterioration in the asset quality and capital structure are key rating negatives.

LIQUIDITY INDICATORS - Adequate

As of 30 June 2022 (Provisional), the company had cash and cash balances of ~Rs.49,146 and had nil borrowings. However, with the proposed borrowings and their availments, and the average collection from January 2022 to June 2022 being Rs.5 lakh, the generation of adequate cash flows to meet the debt and interest obligations shall remain monitorable.

COMPANY'S PROFILE

The company took over the operations of the existing Arul Financiers Pvt Ltd incorporated in 1991, in 2021 after obtaining approval from the Reserve Bank of India. The promoters infused equity capital of Rs. 2 Crs., and the Asset Under Management (AUM), which was at Rs. 0.12 Crs for FY21, had increased to Rs. 1.27 Crs. for FY22 through disbursements made especially during January 2022 to Mar 2022. The same stood at Rs. 2.17 Crs. as of 30 June 2022. The loans given are mostly women-centric, for livelihood generation purposes, with an average ticket size of Rs.50,000, with the tenor ranging between 18-24 months, and an average interest rate of 24% to 28%. The company is headed by CEO Pon Aananth and supported by R Mahendran. The founder and other team members have exclusive microfinance-focused experience of more than two decades.

KEY FINANCIAL INDICATORS

Key Parameters	Unit	FY19(A)	FY20(A)	FY21(A)
Own book	Rs.	0.15	0.17	0.12
Partner Portfolio	Rs.	-	-	-
Total Portfolio	Rs.	0.15	0.17	0.12
Gross NPA	Rs.	-	-	-
Provisions	Rs.	-	-	-
Tangible Net Worth	Rs.	0.72	0.74	0.76
Total Debt	Rs.	0.01	0.01	0.01
Income	Rs.	0.07	0.04	0.03
Profit after tax	Rs.	0.05	0.02	0.02

NON-COOPERATION WITH PREVIOUS RATING AGENCY: NA

RATING HISTORY FOR THE LAST THREE YEARS (including Withdrawn/ Suspended rating)

Sl. No.	Facility	Current Rating			Rating History		
		Type	Amount (Rs. Crs.)	Rating@	2021	2020	2019
1	Fund Based-Bank Loans - Term loan (Proposed)	Long Term	10.00	BWR B+/ Stable (Assignment)	NA	NA	NA
			10.00	Rupees Ten Crores only			

@This rating pertains to an existing assignment received prior to 6 October 2022.

COMPLEXITY LEVELS OF THE INSTRUMENTS - Bank Loans - SIMPLE

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks & Financial Institutions](#)

Analytical Contacts	
Koppula Shyam Sundar Primary Analyst - Ratings shyamsundar.k@brickworkratings.com	Hemant Sagare Director - Ratings +91 80 4040 9999 Ext -333 hemant.s@brickworkratings.com
1-860-425-2742	media@brickworkratings.com

Annexure I - Details of Rated Facilities

Bank	Name of Facility	Nature of the Facility	Rated Amount (Rs. Crs.)
Un-tied Portion	Term Loan	Fund Based- Long Term	10.00
Total			10.00



For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings: Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non-convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER: Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "BWR Party") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental, exemplary,



compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or www.brickworkratings.com Page 8 of 9 losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, www.brickworkratings.com. More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.