

Newlink Overseas Finance Limited

November 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ⁶	Remarks
Non-Convertible Debentures-III	4.12 (reduced from 5.00)	CARE BB+; Stable [Double B Plus; Outlook: Stable]	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Non-Convertible Debentures-IV	12.49 (reduced from 13.38)	CARE BB+; Stable [Double B Plus; Outlook: Stable]	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Non-Convertible Debentures - Proposed	15.00	CARE BB+; Stable [Double B Plus; Outlook: Stable]	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Non-Convertible Debentures - Proposed	10.00	CARE BB+; Stable [Double B Plus; Outlook: Stable]	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Total Debentures	41.61 (Rupees Forty One crore and Sixty One lakh only)		
Fixed Deposits	18.34	CARE BB+ (FD); Stable [Double B Plus (Fixed Deposit); Outlook: Stable]	Revised from CARE BBB (FD); Stable (Triple B (Fixed Deposit); Outlook: Stable)
Total Deposits	18.34 (Rupees Eighteen crore and Thirty Four Lakh only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the Non-Convertible Debentures and fixed deposit programme of Newlink Overseas Finance Limited (NOFL) factors in the significant moderation in asset quality parameters and its impact on profitability during FY19 (refers to the period from April 01 to March 31). GNPA and NNPA moderated from 3.37% and 1.51% respectively as on March 31, 2018 to 7.08% and 3.65% respectively as on March 31, 2019. The ratings continue to be constrained by small size of operations, client concentration risk, concentrated funding profile, and moderate level of operating systems. The ratings, however continue to factor in the long operational track record of the company supported by experienced management team and adequate capital adequacy. The ability of the company to grow its business while improving asset quality and profitability are the key rating sensitivities.

Rating SensitivitiesPositive factors

- Significant improvement in the scale of operations
- Improvement in asset quality parameters on sustained basis
- Sustained improvement in profitability parameters

Negative factors

- Further moderation in asset quality parameters
- Continuation of losses going forward
- Deterioration in capital adequacy levels

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

Credit Risk Assessment**Key Rating Strengths*****Long standing track record of operations***

NOFL was incorporated in January 1991 and has a long-standing track record of over 28 years of operations. During this period, the company has established itself in a niche market and has a stable deposit base spread over various regions of Tamil Nadu.

Experienced management

The board comprises of 7 directors with 2 independent directors as on September 30, 2019. Post the demise of Mr. A. Namasivayam (Former MD) in December 2018, whole-time directors take care of the day to day operations of the company ably supported by a small team of professionals with experience in the banking sector. The company had appointed Mr. Sanjiv Sharan (former Executive Director of Punjab National Bank) as the Managing Director of the company w.e.f April 01, 2019. However, Mr. Sanjiv Sharan resigned from the position in August 2019.

Adequate capital adequacy

Capital adequacy of the company has remained adequate over the years with moderate growth in business. Total CAR remained adequate at 17.30% as on March 31, 2019 (PY: 18.85%) as against 15% stipulated by RBI. Tier I CAR stood at 16.95% (PY: 18.48%) as on March 31, 2019. The company would require additional capital in order to grow the portfolio in the medium term.

Key Rating Weaknesses***Small scale of operations***

Size of operations of NOFL continues to be small. Disbursements declined from Rs.41.95 crore in FY18 to Rs.33.49 crore in FY19. Loan portfolio grew by 3% (PY: 10%) from Rs.64.54 crore as on March 31, 2018 to Rs.66.49 crore as on March 31, 2019. It may be noted that due to shorter tenure of loans, growth in loan portfolio remains at moderate levels.

Significant moderation in Asset quality during FY19

GNPA and NNPA moderated from 3.37% and 1.51% as on March 31, 2018 to 7.08% and 3.65% as on March 31, 2019. Net NPA to tangible networth moderated from 7.30% as on March 31, 2018 to 19.78% as on March 31, 2019. Top 4 NPAs account for 83% of the total NPA as on March 31, 2019.

Losses reported during FY19

Net Interest Margin (NIM) moderated from 5.57% in FY18 to 2.36% in FY19 on account of decline in yields and interest reversals on account of NPAs. Opex to average total assets improved from 4.48% in FY18 to 3.98% in FY19. The company reported pre-provisioning operating loss of Rs.0.10 crore during FY19 despite increase in income from windmill from Rs.0.95 crore in FY18 to Rs.1.12 crore in FY19. The company made provisions of Rs.0.90 crore in FY19 as compared to Rs.2.01 crore in FY18. Loan loss provisions and write-off to average total assets stood at 1.16% in FY19 as compared to 2.70% in FY18. The company made a net loss of Rs.0.18 crore in FY19.

Concentrated funding profile

Funding profile of NOFL has remained concentrated over the years with dependence on NCDs and FDs. The share of NCDs as % of total borrowings stood at 28% as on March 31, 2019 whereas share of FDs stood at 51% as on March 31, 2019. Apart from these, ICDs (10%) and working capital loans from banks (12%) account for the balance portion of the funding mix as on March 31, 2019.

Industry Outlook and Prospects

Given the overall economic scenario and the need to prevent deterioration in asset quality in addition to the competitive nature of retail segment, NOFL focused more on corporate segment with its hypothecation loan portfolio catering to commercial vehicles and construction equipment space, which are relatively lower yielding assets. In the past, notwithstanding the credit profile of its customers, NOFL has been able to limit its GNPA levels. However, GNPA levels stood relatively higher in the past three fiscals ended March 2019. Going forward, ability of the company to improve asset quality, profitability and sustain/improve its business levels in view of increasing competition will be critical to the credit profile of the company.

Liquidity: Adequate

ALM profile as on March 31, 2019, was adequate with no negative cumulative mismatches across time buckets, as the loans are short to medium term in nature that are funded by FDs, NCDs and bank facilities with relatively longer tenor. The company also had cash and bank balance of around Rs.81 lakh as on March 31, 2019.

Analytical approach: Standalone.

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE Policy on Default Recognition](#)

[Rating Methodology- Non Banking Finance Companies](#)

[Financial ratios - Financial Sector](#)

Background

NOFL is a Chennai-based deposit taking Non-Banking Finance Company (NBFC) registered with the Reserve Bank of India (RBI). It was promoted in January 1991 by retired bankers in Chennai and operates through a network of eight branches (six in Tamil Nadu and two in New Delhi).

The company is engaged in hypothecation loans, hire purchase financing and short-term lending. The company extends hypothecation loans/hire purchase finance for industrial equipment and vehicles (heavy commercial vehicles, cars and two wheelers). The short-term lending is generally secured by deposits or property and third party guarantee. The client profile of NOFL mainly consists of small and medium enterprises including educational trusts.

During FY19, the company reported a loss of Rs.0.18 crore on a total income of Rs.9.94 crore. NOFL has set up five windmills in rural areas of Tamil Nadu as a tax planning measure. The company earns revenue by sale of power generated from these wind mills to the state electricity board (TNEB) and this constitutes ~11% of total income in FY19.

(Rs. crore)

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total income	12.13	9.94
PAT	0.31	-0.18
Interest coverage (times)	1.02	0.90
Total Assets	77.52	79.97
Net NPA (%)	1.51	3.65
ROTA (%)	0.41	NM

Note: a). A – Audited; NM – Not Meaningful

b). Ratios have been computed based on average of annual opening and closing balances

c). NIM has been calculated as net interest income/ average annual total assets

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN Number	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	-	-	-	July 03, 2020	4.12	CARE BB+; Stable
Debentures-Non Convertible Debentures	-	-	-	Aug 29, 2021	12.49	CARE BB+; Stable
Debentures-Non Convertible Debentures - Proposed	-	-	-	-	15.00	CARE BB+; Stable
Debentures-Non Convertible Debentures – Proposed	-	-	-	-	10.00	CARE BB+; Stable
Fixed Deposit	-	-	-	Upto 3 Years	18.34	CARE BB+ (FD); 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fixed Deposit	LT	18.34	CARE BB+ (FD); Stable	1)CARE BBB (FD); Stable (02-Apr-19)	-	1)CARE BBB (FD); Stable (06-Mar-18)	1)CARE BBB (FD); Stable (15-Mar-17) 2)CARE BBB (FD) (11-Apr-16)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (15-Mar-17) 2)CARE BBB- (11-Apr-16)
3.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (02-Apr-19)	-	1)CARE BBB-; Stable (06-Mar-18)	1)CARE BBB-; Stable (15-Mar-17) 2)CARE BBB- (11-Apr-16)
4.	Debentures-Non Convertible Debentures	LT	4.12	CARE BB+; Stable	1)CARE BBB-; Stable (02-Apr-19)	-	1)CARE BBB-; Stable (06-Mar-18)	1)CARE BBB-; Stable (15-Mar-17) 2)CARE BBB- (11-Apr-16)
5.	Debentures-Non Convertible Debentures	LT	12.49	CARE BB+; Stable	1)CARE BBB-; Stable (02-Apr-19)	-	1)CARE BBB-; Stable (06-Mar-18)	-
6.	Debentures-Non Convertible Debentures	LT	15.00	CARE BB+; Stable	1)CARE BBB-; Stable (02-Apr-19)	-	-	-
7.	Debentures-Non	LT	10.00	CARE	1)CARE BBB-;	-	-	-

Convertible Debentures			BB+; Stable	Stable (07-May-19)			
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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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