

CARE/HO/RR/2018-19/2684

Mr. Gurinder Singh Sehmbey

Chief Executive Officer,

Staragri Finance Limited

3rd floor, B Wing, Litolier Chambers,

Andheri-Kurla Road, Marol Naka,

Andheri East, Mumbai – 400059

March 29, 2019

Confidential

Dear Sir,

Credit rating of various debt instruments

Please refer to our rating letter dated March 25, 2019 on the above subject.

2. A write-up (brief rationale) on the above rating is proposed to be issued to the press shortly. A draft of this is enclosed for your perusal as **Annexure**.
3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by March 30, 2019, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,



[Aditya Acharekar]

Associate Director

aditya.acharekar@careratings.com

Encl.: As above

Annexure
StarAgri Finance Limited

Ratings

Instrument	Amount (Rs. crore)	Rating¹	Rating Action
Long term bank Facilities	650	CARE BBB+; Stable [Triple 'B' Plus; Outlook:Stable]	Reaffirmed
Short-term Bank Facilities	50	CARE A2 [A Two]	Reaffirmed
Total	700.00 (Rs. Seven Hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of StarAgri Finance Limited (SFL) continue to derive strength from the company's experienced management team, adequate capitalization levels, moderate profitability, improving resource profile, moderate liquidity profile and improved granularity of the loan book. The rating also factors in the experience of the promoter – Star Agriwarehousing and Collateral Management (SACML; rated 'CARE BBB+; Stable/ CARE A2') in agri-warehousing and collateral management business, demonstrated support from the parent through capital infusion and operational support by way of business referrals.

The rating is constrained on account of exposure to a relatively riskier borrower segment, small scale of operations and limited track record resulting in a moderately seasoned portfolio, client concentration risk albeit reducing in its portfolio and moderate asset quality.

Business growth, asset quality, diversification of its loan portfolio, profitability and capitalization are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experience of promoter group in agri-warehousing and collateral management and demonstrated support by way of capital infusion and business referrals by the parent company

SFL's promoter group has rich experience of over a decade in the segment of agri-warehousing and collateral management. SACML along with its subsidiary Farmers Fortune (India) Private Limited (FFIPL) provide a wide gamut of supply chain solutions for agri commodities. The services provided include procurement (carried under its wholly owned subsidiary FFIPL), warehousing & storage services and collateral management. SFL has an exclusive arrangement with SACML for collateral management of SFL's Warehouse Receipt financing (WHR) loan portfolio. Since SFL is into agri-based lending, it enjoys operational linkages and business referrals from the parent company. SACML, in the past, has supported the company by way of corporate guarantee for SFL's borrowings.

Professional & experienced management team

SFL is led by Mr. Suresh Goyal, Managing Director, who has over three decades of experience in running agriculture and farm related businesses like agri-financing, agri-procurement, commodity trading and warehousing. He has been closely involved with the agriculture movement and farmer communities in Rajasthan, Madhya Pradesh, Maharashtra and Gujarat. Mr. Amith Agarwal, the Non-executive Director of SFL and one of the founder members of the StarAgri Group, manages corporate tie-ups, legal and financial matters and business development activities at StarAgri.

The operations of the company are headed by Mr. Gurinder Singh Sehmbe, who has been associated with StarAgri Finance as the Chief Executive Officer since its inception. Mr. Sehmbe has more than 20 years of experience in the NBFC sector, having held a variety of senior leadership positions.

Adequate capitalisation levels

SACML acquired 100% shareholding in SFL and infused equity capital of Rs.150 crore over FY15 (refers to period from April 01 to March 31) and FY16 leading to comfortable capitalization levels. SFL reported Capital Adequacy Ratio (CAR) of 28.70% [Tier I CAR: 28.26%] as on March 31, 2018 as against CAR of 37.59% [Tier I CAR: 37.17%] as on March 31, 2017. As on December 31, 2018 the company's CAR stood at 32.77% with Tier I CAR at 32.30%. The company continued to keep its leverage low and its overall gearing stood at 1.91x as on March 31, 2018 [P.Y.: 1.41x] as the company mobilized funds by way of bank loans to fund the growth of its portfolio. Going forward, as the company expands, overall gearing is expected to remain around 3.5x to 4x.

Moderate profitability

The company achieved breakeven in FY16 wherein it reported PAT of Rs.3.54 crore on total income of Rs.19.09 crore. Supported by the growth in its portfolio, the company saw a growth of 27% in net interest income in FY18. As a result, SFL reported Profit After Tax (PAT) of Rs.10.41 crore on total income of Rs.64.11 crore, as against PAT of Rs.6.61 crore on total income of Rs.42.01 crore during FY17. The company's return on total assets (ROTA) marginally improved to 2.34% as against 2.22% in FY17. During 9MFY19 (refers to period from April 01 to December 31), the company reported PAT of Rs.5.36 crore on total income of Rs.55.83 crore.

Improving resource profile and moderate liquidity profile

In the initial stages of portfolio growth, a major part of lending is through equity. The company is leveraging its resource profile and as on March 31, 2018, borrowings constituted 63% (P.Y.: 57%) of the total liabilities. The company has raised debt from financial institutions and banks. As December 31, 2018, SFL's total borrowings stood at Rs.305.03 crore with overall gearing of 1.76x. The liquidity profile of the company was moderate as the borrowings of the company were predominantly long term loans, while the WHR advances of the company (constituting 3.75% of loan portfolio excluding inter-company loans as on December 31, 2018) are short-term callable loans. In addition, though the contracted tenure of the loans is longer (up to 10 years), the company's long term advances also see a significant amount of prepayments.

Key Rating Weaknesses

Exposure to relatively riskier borrower segment

SFL offers Loan Against Property (LAP) to borrowers dealing in agricultural commodities, finance against warehouse receipt (WHR) as well as unsecured loans against improper collateral (ULIC) (to be restricted to less than 10% of total loan portfolio as per the management) especially to customers in rural and semi urban areas. In 9MFY19, the company introduced Flexi Loans as a product category. Flexi loans are provided to frequent buyers on AgriBazaar - the group's online market platform. Under flexi loans, the customers are assigned a master limit under which short-term sub-lines can be taken. As the borrowers have some dependence on agricultural income, the segment has high dependence on vagaries of nature and monsoon.

In the WHR finance segment, though the company has agreement with SACML for storing the commodities in its warehouses, the company is susceptible to sharp movement in price of the commodities which may impact the profitability. Further, repossession and subsequent sale of the property taken as collateral and the enforceability of collateral obtained against ULIC would be a challenge.

As on December 31, 2018, Agri LAP & Warehouse receipts made up for 60% of the AUM.

Small size of operations, limited track record and unseasoned portfolio

Considering that the company is in a nascent stage and has started its lending operations from February 2015, its scale of operations is relatively small. Currently, the company has 25 branches/spokes across 6 states in the country. Given the nascent stage of operations, the company's portfolio is moderately seasoned. During FY18, the company securitised a pool of around Rs.33.50 crore. The off-balance sheet portfolio stood at Rs.32.51 crore as on March 31, 2018. As on March 31, 2018, the company's gross loan portfolio (excluding loans to related parties) and balance sheet size stood at Rs.428.41 crore and Rs.505.28 crore respectively. At the end of 9MFY19, the company's tangible net worth stood at Rs.173.11 crore. Although, the contractual tenure of the term loans is around 8 to 10 years, a large portion of the loans are repaid in around 5 years.

Client concentration risk, albeit reducing

Owing to the limited track record of the company, its loan portfolio is not very well diversified. Agri LAP & WHR financing constituted 57% & 3% of AUM as on December 31, 2018. Top 20 clients constituted around 34.60% [P.Y.: 40%] of the gross outstanding portfolio on book (including loans to related parties of Rs.35.32 crore) and 91.5% [P.Y.: 110%] of net worth as on December 31, 2018. The company expects the concentration to reduce over the next couple of years as the company expands its loan book. Top 10 clients constituted around 63% of the company's net worth as on December 31, 2018.

Moderate asset quality

Owing to gradual seasoning of the portfolio, the company witnessed NPAs during FY18, leading to Gross NPA and Net NPA ratio (as a percentage of on-book portfolio including loans to related parties of Rs.24.99 crore) of 2.17% and 1.91% including intercompany at the end of FY18. SFL saw rise in slippages in 9MFY19 leading the company to report Gross and Net NPA ratios (as a percentage of on-book portfolio including loans to related parties of Rs.35.32 crore) of 4.99% and 4.26% respectively as on December 31, 2018. Net NPA to Net worth ratio as on December 31, 2018 stood at 11.18%. The company has taken measures to recover the NPAs and is expected to recover the majority of the loans by end of March 2019 which is expected to bring down Gross NPA below 3% and Net NPA below 2%. Going forward, any significant deterioration in asset quality would be a monitorable and key rating sensitivity.

Analytical approach: CARE has based its assessment on the standalone credit profile of the company.

Applicable Criteria

Rating Methodology- Non-Banking Finance Companies

Criteria for assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Financial ratios - Financial Sector

Criteria for Short Term Instruments

Liquidity Profile

The liquidity profile of SFL was moderate with the asset liability maturity (ALM) profile as on September 30, 2018 having no negative cumulative mismatches across all of the time brackets up to 1 year. The company has debt servicing obligations of Rs.52.81 crore from January, 2019 to June, 2019 against which it had loan receivables of Rs.40.35 crore and interest inflow of Rs.28.75 crore and cash and bank balance of Rs.16.77 crore as on December 31, 2018.

About the Company

StarAgri Finance Limited (SAFL) was incorporated on 14th March 1995 as Raylight Leasing & Finance Limited (RLFL). The Company got the Certificate of Registration from RBI for carrying business of a NBFC on 22nd February 2002. However, since inception, the business of the company was insignificant. During FY15, Star Agriwarehousing & Collateral Management Ltd (SACML) acquired 100% equity stake in the company (4th August 2014) and the name of company was changed from Raylight Leasing & Finance Limited to 'StarAgri Finance Limited'. The company is in the business of providing loans against property (LAP) and agri-based loans. The company re-started its operations under the current management in February, 2015. Currently, the company has 25 branches/spokes across 6 states in the country. The company became a systemically important NBFC in FY19 on account of an asset base of Rs.506.66 crore as on March 31, 2018. As on December 31, 2018, the company had a gross loan book of Rs.428.41 crore and tangible net worth of Rs.167.70 crore. The company provides Agri Term Loans (LAP), Loans against Warehouse Receipts, Secured Term Loans (Non-agri LAP), and Unsecured Loans against Imperfect Collateral.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total Income	42.01	64.11
PAT	6.61	10.41
Total Tangible Assets	385.60	505.28
Net NPA (%)	0.62	1.91
ROTA (%)	2.22	2.34

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

AP

Any other information: Not Applicable

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

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

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Disclaimer

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	23-Dec-2022	650.00	CARE BBB+; Stable
Fund-based-Short Term - Proposed	-	-	-	50.00	CARE A2

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based-Long Term	LT	125.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (29-Mar-18) 2)CARE BBB+ (SO); Stable (18-May-17)	1)CARE A (SO) (26-Apr-16)	-
2.	Fund-based-Long Term	LT	327.48	CARE BBB+; Stable	-	1)CARE BBB+; Stable (29-Mar-18) 2)Provisional CARE BBB+ (SO); Stable (18-May-17)	1)Provisional CARE A (SO) (26-Apr-16)	-
3.	Fund-based-Short Term	ST	50.00	CARE A2	-	1)CARE A2 (29-Mar-18) 2)Provisional CARE A2 (SO) (18-May-17)	1)Provisional CARE A1 (SO) (26-Apr-16)	-
4.	Fund-based-Long Term	LT	197.52	CARE BBB+; Stable	-	1)CARE BBB+; Stable (29-Mar-18) 2)CARE BBB+ (SO); Stable (18-May-17)	-	-

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