



**Mr Rajendra Bazaari,**  
Chairman & Managing Director  
**Bazaari Global Finance Limited**  
E-66, Kalpataru Shopping Centre,  
Shastri Nagar,  
Jodhpur-342003

February 17, 2014

Dear Sir,

**Credit rating of Long-term Bank Facilities for Rs.3.50 crore**

Please refer to our letter dated February 14, 2014 on the above subject.

1. The rationale for the ratings is attached as an **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our monthly journal, 'CAREVIEW'.
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 - II**.
3. We request you to peruse the annexed documents 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 February 20, 2014, 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,

**[Harsh Raj Sankhla]**  
**Deputy Manager**  
Encl: As above

**CREDIT ANALYSIS & RESEARCH LTD.**

## Annexure I

### Rating Rationale

#### **Bazaari Global Finance Ltd**

#### **Rating**

<b>Facilities</b>	<b>Amount (Rs. crore)</b>	<b>Rating<sup>1</sup></b>	<b>Remarks</b>
Long-term Bank Facilities	3.50	CARE BB (Double B)	Reaffirmed
<b>Total Facilities</b>	<b>3.50</b>		

#### **Rating Rationale**

*The rating continues to be constrained by the relatively small scale of operations of Bazaari Global Finance Ltd (BGFL), high proportion of unsecured advances in its portfolio, geographical concentration risk, concentrated resource base and declining spreads and profitability.*

*The rating, however, continues to factor in the experience of the promoters in the financial sector, product diversification, comfortable capital adequacy, strong asset quality and adequate risk management and Management Information System (MIS) system.*

*The ability of the company to increase its scale of operations with geographical diversification, maintaining of its asset quality and capital adequacy and expansion of its resource base would be the key rating sensitivities.*

#### **Background**

Incorporated in 1995, BGFL is a Jodhpur-based small-sized (total assets as on March 31, 2013: Rs.19.55 crore) RBI registered non-deposit taking NBFC, engaged in two-wheeler financing (only new vehicles) and loans to small enterprises. The head office of BGFL is situated in Jodhpur and most of the business (two-wheeler as well as small enterprise loans) are concentrated in the rural and semi-urban areas of Jalore, Jodhpur and Pali districts of Rajasthan apart from the urban area (only two-wheelers) in Mumbai.

BGFL also used to assign two-wheeler loan portfolio to MAS Financial Services Ltd (MAS), an Ahmedabad-based NBFC, with credit enhancement of 10% in the form of fixed deposits. Since the portfolio was assigned with recourse, the entire loan default risk is borne by BGFL. The outstanding assigned portfolio was Rs.1.40 crore as on March 31, 2013 (Rs.2.62 crore as on March 31, 2012) and formed 8% of the total Assets Under Management (AUM) of Rs.17.44 crore. Post-introduction of new securitisation/direct assignment of portfolio norms

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

by RBI, MAS has stopped taking over loan portfolio from BGFL from September 2012 onwards.

The company reported a total income of Rs.5 crore and net profit of Rs.0.62 crore in FY13 (refers to the period April 01 to March 31) with loan portfolio of Rs.16.04 crore and total AUM of Rs.17.44 crore as on March 31, 2013.

### **Credit Risk Assessment**

#### ***Experienced promoter group***

BGFL is promoted by Mr Rajendra Bazaari (present chairman & managing director) who belongs to a reputed business class family that owns various petrol pumps and petrol tankers for the last 50 years. The company was involved in the financing of two-wheelers since 1996 and ventured into financing to small enterprises within Rajasthan in 2006. Presently, Mr Rajendra Bazaari along with his son, Mr Ashish Bazaari, who joined BGFL in 2007, looks after the overall management of the company. The company has been able to increase its operations on the back of promoters' knowledge of socio-economic conditions of the regions in which it operates, which are essential for the lending business of BGFL. The company has also benefitted from the experience of its vice-chairman, Mr Mahadev Ballani, ex-chairman MGB Gramin Bank (an SBBJ sponsored rural bank), who is involved in the strategic decision and policy making of the company.

#### ***Product diversification***

BGFL's portfolio is moderately diversified with loans to small enterprises comprising 48% of total loan portfolio and 44% of the total Assets under management (AUM) with two-wheeler loans comprising the balance as on March 31, 2013. This shields the company from slowdown in off-take of new loans as well as increase in delinquencies in any one sector to some extent. The average tenure of small enterprise loans varies from 6-18 months, while the same for two-wheeler loans varies from 12-36 months. The average ticket size of small enterprise loan is Rs.30,000, while the same is Rs.35,000 in the case of two-wheeler loans. While most of the business in the case of small enterprise loans is sourced in the form of repeat customers in the two-wheeler loan segment, dealership is the main source of business generation.

#### ***Strong asset quality***

BGFL maintains a policy of recognizing over 90 days overdue as Non-Performing Asset (NPA) as against the present RBI norm of over 180 days overdue. As per the present RBI norms, the company's NPA levels are very low with gross NPA as a percentage of gross

advances and net NPA as a percentage of net advances being 0.30% and zero respectively, with net NPA to net-worth being zero as on March 31, 2013. Considering the 90-day overdue norm, gross NPAs and net NPAs work out to 1.88% and 1.58%, respectively, with net NPA to net-worth being 3.08% as on March 31, 2013.

#### ***Comfortable capital adequacy and low leverage***

The reported capital adequacy ratio (CAR) of BGFL stood at comfortable level of 46.09% as on March 31, 2013, while the overall gearing, though deteriorated, was lower at 1.31 times as on the same date. Even after adjusting for the assigned portfolio, the adjusted CAR and adjusted overall gearing of BGFL comes to 42.72% and 1.48 times, respectively, as on March 31, 2013. The low overall gearing is mainly on account of the low leverage profile of BGFL. Going forward, with an increasing reliance on external debt for further financing, BGFL's capital adequacy and overall gearing are likely to deteriorate.

#### ***Adequate MIS and risk management system***

The company has got in-house MIS software since 1998 connecting all its branches with the head office that provides information regarding delays in payments at the head office with only single day delay which helps BGFL in controlling its NPAs. Majority of the important operational aspects of the company like approval of loans as well as fund management and MIS are controlled at its head office in Jodhpur. BGFL has formed recovery teams both at head office level and branch level to track overdues and has a separate tele-calling department for reminding the customers and legal department for taking legal action against defaulters.

#### ***Small size of operations***

The size of operations of BGFL is small marked by its outstanding loan portfolio of Rs.16.04 crore apart from the assigned loan portfolio (off balance sheet) of Rs.1.40 crore and total on B/s asset size of Rs.19.55 crore as on March 31, 2013. During FY13, the company's total income increased by 17.37% to Rs.5 crore.

#### ***High proportion of unsecured advances in the loan portfolio***

The unsecured loans to small enterprises were higher at 48% of the outstanding on B/s loan portfolio and 44% of the total Assets under Management (AUM) of BGFL as on March 31, 2013, which exposes BGFL to a higher credit risk.

### ***Geographical concentration risk***

As on March 31, 2013, approximately 75% of BGFL's business was concentrated in Rajasthan and the rest in Mumbai. Region-wise, BGFL has high concentration in Jalore district, which alone comprised 43% of the outstanding loan portfolio as on March 31, 2013.

### ***Declining spreads and profitability parameters***

BGFL's interest spreads and Net Interest Margin (NIM) declined in FY13 as a sizeable portion of the increase in asset portfolio was financed through debt resulting in higher interest expenses. This also resulted in decline in the PAT margin, interest coverage and Return On Total Assets (ROTA) in FY13.

### ***Concentrated resource base***

Financing by MAS has been the major source of borrowings for BGFL. BGFL used to assign two-wheeler loan portfolio to MAS in lieu of cash consideration which post-introduction of new securitization/direct assignment norms by RBI has been discontinued by MAS from September 2012 onwards. Apart from this, the company also has cash credit facility of Rs.3.50 crore from SBI. During FY13, the company took term loans of Rs.1 crore from L&T Finance Ltd and Rs.0.30 crore from Kamal Autofinance Ltd (KAFL). The company also got additional loans of Rs.6 crore from MAS and Rs.0.50 crore from KAFL besides getting fresh loan of Rs.1 crore from AU Financiers Ltd and cash credit limit of Rs.1.75 crore from UCO Bank in the current year. Overall, the resource base of the company continues to be concentrated and finding alternate sourcing for funding would be crucial.

## Financial Performance

For the Year Ended On / As At	31-03-2011	31-03-2012	(Rs. Cr) 31-03-2013
	(12 m, A)	(12 m, A)	(12 m, A)
<b><u>Working Results</u></b>			
Interest income	3.21	4.16	4.91
Total Income	3.34	4.26	5.00
Operating expenses	1.78	2.24	2.50
Provisions & Write offs	0.06	0.09	0.06
Depreciation	0.09	0.13	0.15
Interest	0.62	0.96	1.40
PBT	0.79	0.84	0.89
PAT	0.52	0.56	0.62
<b><u>Financial Position</u></b>			
Tangible Net Worth	7.19	7.89	8.19
Total Debt	5.19	8.99	10.69
Loan Portfolio	10.16	14.21	16.04
AUM (including assigned portfolio)	11.09	16.83	17.44
Total Assets (on B/s)	13.31	17.57	19.55
<b><u>Key Ratios</u></b>			
<b><u>Solvency</u></b>			
Overall Gearing (times)	0.72	1.14	1.31
Interest coverage (times)	2.28	1.87	1.64
Capital Adequacy Ratio (%)	61.99	50.77	46.09
<b><u>Profitability (%)</u></b>			
Net Interest Margin	22.99	20.73	18.92
Operating Expenses/Average Total Assets	16.57	15.32	14.30
PAT / Total Income	15.55	13.09	12.39
Return on Total Assets	4.61	3.61	3.34
<b><u>Asset Quality (%)</u></b>			
Gross NPA Ratio	0.45	0.32	0.30
Net NPA Ratio	0.15	0.01	0.00
Net NPA to Net worth	0.22	0.02	0.00

A – Audited

Note: Ratios have been computed based on average of annual opening and closing balances  
NIM has been calculated as net interest income/ average annual total assets

### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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## Annexure II

### Brief Rationale

#### **CARE reaffirms the rating assigned to the Bank Facilities of Bazaari Global Finance Ltd**

#### **Rating**

<b>Facilities</b>	<b>Amount (Rs. crore)</b>	<b>Rating<sup>1</sup></b>	<b>Remarks</b>
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BGFL reported a total income of Rs.5 crore with a PAT of Rs.0.62 crore in FY13 as against a total income of Rs.4.26 crore with a PAT of Rs.0.56 crore in FY12. Furthermore as per the provisional results for H1FY14, BGFL reported a total income of Rs.2.37 crore with a PBT of Rs.0.30 crore.

*Harsh*  
**Analyst Contact**

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