TruCap Finance Limited

June 02, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	750.00 (Enhanced from 450.00)	CARE BBB; Stable	Reaffirmed
Non-convertible debentures	50.00	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating assigned to the various debt instruments and bank facilities of TruCap Finance Limited (TFL) continues to factor in its experienced management team, comfortable capital adequacy driven by capital infusion at regular intervals, improving earnings profile and improving scale of operations. However, the rating remains constrained by moderate asset quality metrics in the unsecured business loan, limited track record of the company, high operating expenses impacting profitability and moderate resource profile with major funding from non-banking finance companies (NBFCs).

The company's ability to scale up its loan book while maintaining asset quality, along with improvement in profitability will continue to remain a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could lead to positive rating action/upgrade:

- Scaling-up of loan book beyond ₹800 crore while maintaining asset quality with leverage within 3.5x.
- Improvement in profitability on a sustained basis while maintaining a healthy asset quality.

Negative factors: Factors that could lead to negative rating action/downgrade:

- Deterioration in asset quality with gross non-performing asset (GNPA) exceeding 3% on a sustained basis.
- Deterioration in profitability on a sustained basis with return on total assets (ROTA) below 1%.
- Increase in assets under management (AUM)/tangible net worth (TNW) ratio beyond 4.5x.

Analytical approach: CARE Ratings Limited (CARE Ratings) has analysed the standalone credit profile of the company.

Outlook: Stable

The stable outlook reflects expectation of continued operational and financial position with no further deterioration in profitability along with comfortable capitalisation levels.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key strengths

Experienced management team

The company has experienced board members and management with rich experience in the finance industry. The chairperson of the board is Rakesh Sethi who was the former Chairman and MD of Allahabad Bank. The other board members include Krishipal Raghuvanshi (Former Commissioner of Thane and current strategic security advisor to RBI), Nirmal Momaya (CA) and Rajiv Kapoor (former regional head and senior vice president cross border for Asia Pacific at Visa Inc.). In July 2021, Porter Collins, co-founder of Seawolf Capital, also joined TFL's board of directors. He was a partner in the FrontPoint Financial Services Fund, where he was featured in the Michael Lewis book and the movie 'The Big Short' for accurately predicting the Global Financial Crisis of 2008. Furthermore, in March 2022, Abha Kapoor joined TFL as an Independent Director. She has over 26 years of entrepreneur experience and is the founding partner of K&J Associates. In June 2022, Rushina Mehta also joined the company as a Non-executive Director. She is an entrepreneur and a Director in NRAM Regent Private Ltd. Geetu Gidwani Verma- Independent Director, has an experience of over 30 years as global management consultant in sales and distribution.

The board also consists of Rohanjeet Juneja, Managing Director & CEO (former investment banker and hedge fund manager), having 17+ years of experience in India and USA. Sanjay Kukreja is the CFO of the company and has more than 27 years of experience in the finance industry. Mahendra Servaiya is the credit head of TFL and was the former AGM at a leading public sector bank.

Improving earnings profile

Given the growth in AUM by 90% to ₹581 crore as on March 31, 2023, the total income of the company improved to ₹123 crore during FY23 from ₹70.05 crore in FY22. Geographically, the company expanded its presence from two branches in FY20 to 79 branches in FY23, which further stood at 89 branches as of May 31, 2023 of which 84 branches are for gold loans. Also, state wise, the presence has increased from one state in FY20 to nine states in FY23. The growing presence of the company resulted in substantial growth in the disbursements by the company. As on March 31, 2020, 100% of the portfolio was concentrated in the state of Maharashtra. As on March 31, 2023, the state-wise concentration is as follows: Maharashtra- 35.34%, MP-18.71%, Delhi-10.57%, Goa-7.10%, UP-6.93%, Haryana-3.98%, Gujarat-3.29%, Rajasthan-1.73%, and Kerala- 0.04%. However, on account of high opex and finance cost, the profit after tax (PAT) moderated to ₹5.54 crore in FY23 as against the PAT of ₹7.37 crore reported in FY22. Given the branch expansion and manpower hiring during FY23, the opex spiked up from 10.38% in FY22 to 11.80% in FY23. The increase in the interest rates across the economy, and around 76% of the total funds raised by the company being from the NBFCs, resulted in the finance cost to shoot up during FY23, impacting the profitability. The average cost of funds stood at 13.93% in FY23 from 13.29% in FY22. Consequently, ROTA dipped to 0.98% in FY23 as against 2.27% in FY22.

The company plans to further open up more branches as the co-lending volumes are expected to increase. For FY24, the operating expenses are expected to remain in line with FY23 given that the operating leverage of the existing branches will help to stabilise the opex going ahead. On the finance cost, the management is expecting some improvement as it plans to raise most of the funds from banks this year, which is expected to bring down the incremental cost of funds for the company.

Comfortable capital adequacy position driven by capital infusion at regular intervals

As on March 31, 2023, the CRAR of the company stood at 34.46%, well above the regulatory requirement of 15% with gearing at 2.12x. The gearing has increased from 1.69x as on March 31, 2022, on account of business expansion which led to increase in the on-book loan from ₹294 crore as on March 31, 2022, to ₹420 crore as on March 31, 2023.

The company has been raising funds in the form of equity at regular intervals. During FY21, the promoter infused funds worth ₹65 crore in the form of CCD and warrant conversion. Furthermore, during FY22, funds worth ₹68 crore were infused led by Aviator Emerging Market Fund. In FY23, the company raised equity worth ₹35.95 crore of which ₹7.50 crore was infused by the promoter and balance by the non-promoter. Also, during December 2022, the company had announced about the integration of the retail MSME book of Exclusive Leasing & Finance Pvt Ltd (EZ Capital; a Jalandhar-based lender) worth ₹23 crore with itself. The completion of this transaction is subject to regulatory approval, the timeline for which is not known. This transaction is expected to increase the net worth by ₹103 crore; ₹23 crore of net worth against the loan book and ₹80 crore of equity infusion by EZ Capital for a stake in the company. In addition to this, there is a warrant conversion of ₹27 crore due in the month of October 2023 which was issued in May 2022.

CARE Ratings expects the gearing of the company to remain in the range of 2.5x to 3x and will continue to remain a key monitorable.

Key weaknesses

Moderate asset quality

As on March 31, 2023, the GNPA of the company stood at 3.03% and net NPA (NNPA) stood at 2.55% as against the GNPA of 3.14% and NNPA of 2.10%, as on March 31, 2022. The improvement in the asset quality has been largely due to resolutions of NPAs in the loan against payment (LAP) and personal loan (PL) segments, which contributed 75% to the GNPAs of the company in FY22. Under LAP, which was the major contributor, the GNPA has come down from ₹5.10 crore as on March 31, 2022 to ₹3.89 crore as on March 31, 2023. In the month of May 2023, the entire ₹3.89 crore has been resolved by selling loans to ARC and some by organic resolution and GNPA under LAP stands NIL. However, under business loan, the GNPA has increased from 1.10% as on March 31, 2022, to 3.79% as on March 31, 2023. The asset quality under gold loans stands comfortable as GNPA stood NIL as on March 31, 2023. Since the inception of this product, the company has disbursed loans worth ₹1,212 crore of which only 0.33% has been auctioned where the company was able to recover 119% of principal and interest that were overdue.

Given the resolutions in LAP and PL as well as improved collections in business loan, the GNPA as on May 31, 2023, stands at 0.97% and NNPA stands at 0.49%.

The asset quality under business loan segment will remain a key monitorable given the unsecured nature of the book.

Moderate resource profile with major funding from NBFCs

As on March 31, 2023, the total debt of the company stood at ₹443 crore of which 26% is through banks. During FY23, total funds sanctioned to the company stood at ₹384 crore. Of this, 66% has been raised through NBFCs and balance from banks. Though the overall funding profile is well diversified between more than 30 lenders, most of them are NBFCs. New sanctions from the banks are down to 24% (of the total debt) in FY23 from 38% in FY22. This along with increase in the Repo Rate by RBI led to increase in the average cost of funds from 13.29% in FY22 to 13.96% in FY23.

As stated by the management, the cost of funds is expected to improve in FY24 as funding from the banks is expected to increase and will remain a key monitorable.

Limited track record of the company

The company started its operations in 2017 when only LAP loans were offered which had average tenor of 8 to 12 years. The company de-focused this segment and stopped disbursements due to witnessing stress in this segment. It has started lending under smaller ticket size business loan in 2019 with loan tenor of 2 to 4 years. Furthermore, during Q3FY21, the company also started with gold loans having average tenor of 1 year. Despite the economic challenges during COVID-19, the company has demonstrated its ability to grow with major chunk of the disbursements being done in FY22 and FY23.

The seasoning under gold loan and business loan has completed around 2.5 repayment cycles. However, given that majority of the disbursements took place in FY22 and FY23, more seasoning of the loan portfolio needs to be seen especially in the unsecured business loan segment to gauge the asset quality. Also, the company continues to remain a small player in the NBFC sector, with an AUM size of ₹581 crore as on March 31, 2023. Therefore, the company's ability to build its market share will remain a key rating sensitivity.

High operating expense

The profitability trend of the company has remained volatile in last 4 years on account of high operating expense and finance cost given that the company is in its growth phase. During FY23, opex increased to 11.80% as against 10.38% during FY22. The increase has been on account of new branch additions and manpower. Also, the primary product of the company is gold loan which requires high opex due to branch presence, security vault for keeping golds, etc.

As indicated by the management, FY24 opex will be down by 5% on account of operating leverage on existing branches as number of branches today stands at 94.

Liquidity: Adequate

As on March 31, 2023, the asset-liability management statement of the company had no negative cumulative mismatches in any of the short-term buckets. As on April 30, 2023, the company had unencumbered cash and bank balance of ₹54.24 crore along with liquid investments of ₹25.27 crore as against the debt repayment of ₹63 crore as on March 31, 2023, for next 3 months.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non-Banking Financial Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

TruCap Finance Ltd (formerly known as Dhanvarsha Finvest Limited) is an RBI-registered non-deposit accepting NBFC since 1998 and listed on NSE and BSE. The company was originally incorporated on November 9, 1994, in Gujarat. Earlier, the company was promoted by the Gujarat-based individual promoters and was carrying on the business of finance brokers, registrar to the issue and share transfer agent, issue houses or insurance agents / brokers and agents or underwriters, consultants, assessors, values surveyors, mortgage brokers and undertaking the provision of hire purchase and credit sale finance and of acting as factors and brokers. Currently, the company is being promoted by the Mumbai-headquartered Wilson Group, which took over as the parent in 2018 and has business interests spread across financing, real estate, sustainable infrastructure, agro commodities trading, advisory services and venture capital investing. As on March 31, 2023, the promoters held 57.10% stake, Aviator Emerging Market Fund held 6.07%, and the remaining stake is being held by various domestic and foreign shareholders. TFL provides financing options to the relatively under-banked Micro, Small & Medium Enterprises (MSME) and Low to Mid Income (LMI) groups of Society offering a range of secured and unsecured financing products that are tailored to suit each borrower's requirements.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)
Total income	70.05	124
PAT	7.37	5.54
CAR (%)	43.96	34.46
Total assets (net of intangible and deferred tax assets)	468	664
ROTA (%)	2.27	0.98

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Long Term Bank Facilities	-	-	-	-	412.21	CARE BBB; Stable
Long Term Bank Facilities (Proposed)	-	-	-	-	337.79	CARE BBB; Stable
Non-Convertible Debentures (Proposed)	-	-	-	-	50.00	CARE BBB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type *	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based-Long Term	LT	750.00	CARE BBB; Stable	-	1)CARE BBB; Stable (03-Jun-22)	1)CARE BBB; Stable (04-Jun-21) 2)CARE BBB; Stable (17-May-21)	-
2	Debentures-Market Linked Debentures	LT	-	-	-	1)Withdrawn (16-Mar-23) 2)CARE PP-MLD A (CE); Stable (13-Jun-22)	1)CARE PP-MLD A (CE); Stable (17-Jun-21) 2)Provisional CARE PP-MLD A (CE); Stable (03-Jun-21)	-
3	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB; Stable	-	1)CARE BBB; Stable (03-Jun-22)	1)CARE BBB; Stable (04-Jun-21)	-
4	Debentures-Market Linked Debentures	LT	-	-	1)Withdrawn (14-Apr-23)	1)CARE PP-MLD BBB; Stable (25-Aug-22)	1)CARE PP-MLD BBB; Stable (26-Aug-21) 2)Provisional CARE PP-MLD BBB; Stable (06-Aug-21)	-
5	Un Supported Rating	LT	-	-	-	1)Withdrawn (16-Mar-23) 2)CARE BBB (13-Jun-22)	-	-

*Long term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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