TruCap Finance Limited

December 01, 2023

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

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:

- 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:

- Deterioration in the asset quality, with gross non-performing assets (GNPA) exceeding 3% on a sustained basis.
- Deterioration in profitability on a sustained basis, with return on total assets (ROTA) below 1%.
- Increase in the 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:

Positive

The outlook has been revised to "Positive" from "Stable" on account of scale up in its operations, expected improvement in profitability and proposed equity infusion. With improving resource profile, the growth in AUM is expected to be sustained resulting in improvement in profitability indicators over the medium term. The outlook may be revised to stable if the company is not able to improve its profitability indicators and asset quality while increasing the scale of operations.

Detailed description of the key rating drivers

Key strengths

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

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 Managing Director of Allahabad Bank. The other board members include Krishipal Raghuvanshi (Former Commissioner of Thane and current strategic security advisor to the Reserve Bank of India [RBI]), Nirmal Momaya (CA), and Rajiv Kapoor (former regional head and senior vice president, head of cross border sales & marketing 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 Limited. Geetu Gidwani Verma, Independent Director, has an experience of over 30 years as a 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 over 17 years of experience in India and the US. 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 (PSB).

Improving earnings profile

During FY23, the company successfully disbursed loans worth ₹1,006 crore as against the disbursements of ₹431 crore during FY22, leading to 89% y-o-y growth in the AUM to ₹581 crore as on March 31, 2023. As a result, the total income of the company grew to ₹123 crore during FY23 from ₹70.05 crore in FY22. However, on account of the 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. The company expanded its reach from 41 branches during FY22 to 79 branches in FY23, which spiked up the operating expenses of the company during the year. Also, the company hired additional field staff, which added to this increase.

For H1FY24, the company disbursed ₹924 crore as against the disbursement of ₹406 crore during H1FY23, leading to y-o-y growth of 127% in disbursements. For H1FY24, the AUM stood at ₹780.29 crore. As a result, the total income of the company grew to ₹80.51 crore during H1FY24 from ₹56.61 crore in H1FY23. However, on account of the high opex and increase in finance cost, the PAT stood at ₹2.77 crore in H1FY24 as against the PAT of ₹3.80 crore in H1FY23. The company expanded its reach from 79 branches in FY23 to 122 branches in H1FY24, which spiked up the operating expenses of the company during H1FY24.

Given the increase in the interest rates across the economy and around 76% of the total funds raised by the company being from non-banking financial companies (NBFCs), the finance cost also shot up during FY23, impacting the profitability. The company has not raised the yields on existing loans and the burden of increased funding cost was passed on to new customers only. Consequently, ROTA dipped to 0.98% in FY23 as against 2.27% in FY22. For H1FY24, more than 50.46% of the funds were raised from NBFCs and 13.18% of the funds were raised from small finance banks (SFBs). As a result, the finance cost remained at a higher level, impacting the profitability of the company. The ROTA for H1FY24 stood at 0.90% as against the ROTA of 1.70% in H1FY23.

The company plans to further open up more branches, as the co-lending volumes are expected to increase. For the rest of FY24, the operating expenses are expected to remain in line with FY23 and H1FY24, 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 majority 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 September 30, 2023, the capital to risk assets ratio (CRAR) of the company stood at 33.05%, well above the regulatory requirement of 15%, with the gearing at 2.17x, increased from 1.66x as on September 30, 2022, on account of the business expansion, which led to an increase in the on-book loan from ₹361 crore as on September 30, 2022, to ₹473 crore as on September 30, 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 was 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 the balance by the non-promoter. The board has approved ₹168.25 crore equity raise in the form of warrants from Zeal Global Opportunities Fund of ₹100 crore and from a small family office and high net worth investors of ₹48.25 crore. The board has also approved to raise equity in the form of CCDs from Nova Global Opportunities Fund of ₹20 crore. The company expects an equity infusion of ₹60 crore (part of the overall raise of ₹168 crore) by January 2024.

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

Key weaknesses
Moderate asset quality

As on September 30, 2023, The GNPA of the company stood at 1.2% and net non-performing assets (NNPA) stood at 0.754% as against the GNPA of 2.79% and NNPA of 1.79% as on September 30, 2022. The improvement in asset quality has been largely due to the loan-against-property (LAP) and (PL) account resolutions, which contributed 75% to the GNPA of the company in FY22. Under LAP, which was the major contributor in the GNPA, it has come down from ₹3.89 crore as on March 31, 2023, to ₹0.25 crore as on September 30, 2023. Under business loan, the GNPA stood at 2.84% as on September 30, 2023, as against the GNPA of 2.15% as on September 30, 2022. The asset quality under gold loans stands comfortable, as the GNPA stood nil as on September 30, 2023. During FY23 and H1FY24, no restructuring of the loans was done. As on September 30, 2023, the total provisional coverage ratio (PCR) stood at 40%.

The asset quality under the 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 September 2023, the total debt (TD) of the company stood at ₹468 crore as against the TD of ₹332 crores as on September 2022. During H1FY24, of the TD raised, 50.46% was from NBFCs, 13.18% was from small finance banks, and the rest was from public-sector undertaking (PSU) banks and private banks. Although the overall funding profile is diversified between more than 30 lenders, most of them are NBFCs. The funding from private bank has increased from 7% as on March 31, 2023, to 19% as on September 30, 2023. The proportion of NBFC has declined from 63% as on March 31, 2023, to 50.46% as on September 30, 2023. On the other hand, the company has been successfully lending through (LAAS) with banking partners like Central Bank of India, Shivalik Small Finance Bank, and DCB Bank. From April-2023 end, the company has also entered into a co-lending agreement with HDFC Bank for both, the gold loan and business loan segments. The company has received approvals and sanctions at an average return on investment (RoI) of 10.45% as against incremental funding of 13.22% in FY23. The company's ability to raise funding from banks will remain a key monitorable.

Limited track record of the company

The company started its operations in 2017, when only LAP was offered, which had an average tenor of 8-12 years. With due consideration for both, the competitive intensity and the increasing need to match the (ALM), the company de-focused this segment and stopped disbursements because of the stress witnessed stress in this segment. It has started lending under smaller ticket size business loans in 2019 with a loan tenor of two to four years. Furthermore, during Q3FY21, the company also started with gold loans having an average tenor of one year. Despite the economic challenges during COVID-19, the company has demonstrated its ability to grow, with a major chunk of the disbursements being done in FY22 and FY23.

The seasoning under gold loan and business loan has completed around three repayment cycles. However, given that majority of the disbursements took place in FY22, FY23 and H1FY24, 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 non-banking financial company (NBFC) sector, with an AUM size of ₹780.29 crores as on September 30, 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 the past four years on account of the high operating expenses and the finance cost, given that the company is in its growth phase. During FY23, the opex increased to 11.80% (H1FY24: 12.44%) as against 10.38% (H1FY23: 13.02%) 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 the branch presence, security vault for keeping gold, etc.

The opex of the company is expected to come down to around 5% by FY25 on account of the operating leverage on the existing branches, as the number of branches as on September 30, 2023, stands at 122.

Liquidity: Adequate

As on September 30, 2023, the asset-liability management statement of the company had no negative cumulative mismatches in any of the short-term buckets. As on September 30, 2023, the company had an unencumbered cash and bank balance of ₹41.05 crore along with liquid investments of ₹0.05 crore as against the debt repayment of ₹62.67 crore as on September 30, 2023, for the next three months. This apart, the company also has utilised bank lines of ₹220 crore.

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)

TFL (formerly known as Dhanvarsha Finvest Limited) is a RBI-registered non-deposit accepting NBFC since 1998 and is listed on the NSE and BSE. The company was originally incorporated on November 9, 1994, in Gujarat. Earlier, the company was promoted by Gujarat-based individual promoters and was carrying on the business of financing brokers, registrar to the issue and share transfer agent, issuing houses or insurance agents or 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 September 30, 2023, the promoters held 50.77% stake, Aviator Emerging Market Fund held 5.13%, and the remaining stake is being held by various domestic and foreign shareholders. TFL provides financing options to the relatively under-banked micro, small and 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)	H1FY24(UA)
Total income	70.05	124	80
PAT	7.37	5.54	2.73
CAR (%)	43.96	34.46	32.70
Total assets (net of intangible and deferred tax assets)	468	664	692
ROTA (%)	2.27	0.98	0.90

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of the 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	-	-	-	-	403.70	CARE BBB; Positive
Long Term Bank Facilities (Proposed)	-	-	-	-	346.30	CARE BBB; Positive
Non-Convertible Debentures (Proposed)	-	-	-	-	50.00	CARE BBB; Positive

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; Positive	1)CARE BBB; Stable (02-Jun-23)	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; Positive	1)CARE BBB; Stable (02-Jun-23)	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	Unsupported rating	LT	-	-	-	1)Withdrawn (16-Mar-23) 2)CARE BBB (13-Jun-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the 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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