TruCap Finance Limited

January 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	750.00	CARE BBB; Positive	Reaffirmed
Non-Convertible Debentures	100.00	CARE BBB; Positive	Assigned
Non-Convertible Debentures	50.00	CARE BBB; Positive	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirming the rating assigned to debt instruments and bank facilities of TruCap Finance Limited (TFL) continues factoring 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 and improving profitability will continue to remain a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

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

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

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

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

Analytical approach:

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

Outlook: Positive

The "Positive" outlook is 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

Improving earnings profile

During FY23, the company successfully disbursed loans worth ₹1,006 crore as against ₹431 crore in FY22 leading to 89% Y-o-Y growth in AUM to ₹581 crore as on March 31, 2023. As a result, total income of the company grew to ₹123 crore in FY23 from ₹70.05 crore in FY22. However, due to high opex and finance cost, the PAT moderated to ₹5.54 crore in FY23 as against ₹7.37 crore reported in FY22. The company expanded its reach from 41 branches in FY22 to 79 in FY23, which spiked up operating expenses. The company hired additional field staff, adding to this increase. In H1FY24, the company disbursed ₹924 crores as against ₹406 crores in H1FY23, leading to Y-o-Y growth of 127% in disbursements. In H1 FY24, AUM stood at ₹774.52 crores. As a result, total income of the company grew to ₹80.22 crore in H1FY24 from ₹56.61 crore in H1FY23. However, due to high opex and increase in finance cost, PAT stood at ₹2.73 crores in H1FY24 as against the PAT of ₹3.80 crores in H1 FY23. The company expanded its reach from 79 branches in FY23 to 122 in H1FY24, spiking up operating expenses in H1FY24.

Given the increase in the interest rates across the economy and around 76% of the total fund raised by the company being from the NBFCs, the finance cost also shot up in FY23, impacting profitability. The company has not raised yields on existing loans and the burden of increased funding cost was passed on to new customers. Hence, ROTA dipped to 0.98% in FY23 as against 2.27% in FY22. In H1FY24, more than 50.46% funds were raised from NBFC and 13.18% funds were raised from small finance bank, as a result finance cost stayed higher, impacting profitability. ROTA for H1 FY24 stood at 0.90% as against 1.70% in H1FY23. The company plans to further open more branches, as co-lending volumes are expected to increase. For rest of FY24, operating expenses are expected to remain in line with FY23 and H1FY24, given that operating leverage of existing branches will help stabilize opex going ahead. On the finance cost, the management is expecting improvement, as it plans to raise majority funds from banks this year, which is expected to bring down 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 32.70%, well above the regulatory requirement of 15%, with gearing at 2.17x increased from 1.66x as on September 30, 2022 on account of business expansion which led to increase in the on-book loan from ₹361 crore as on September 30, 2022 to ₹469 crore as on September 30, 2023. The company has been raising funds from equity at regular intervals. In FY21, the promoter infused funds worth ₹65 crore through compulsory convertible debenture (CCD) and warrant conversion. In FY22, funds worths ₹68 crore were infused 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 non-promoter. The board has approved an ₹168.25 crore equity as warrants from Zeal Global Opportunities Fund of ₹100 crores and from small family office and high net worth investors of ₹48.25 crores and CCD's of ₹20 crores from Nova Global Opportunities Fund. The board has also approved to raise equity as CCDs worth ₹20 crore from Nova Global Opportunities Fund. The company expects an equity infusion of ₹60 crores (part of the overall raise of ₹168 crore) by Q4 of FY24.
CARE Ratings expects gearing of the company to stay between 2.5x-3x and will continue to remain a key monitorable.

Experienced management team

The company has experienced board members and management with rich experience in the finance industry. Rakesh Sethi, Chairperson, was 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. In March 2022, Abha Kapoor joined TFL as an Independent Director. She has more than 26 years of entrepreneur experience and is the founding partner of K&J Associates. In June 2022, Rushina Mehta 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 experience of more than 30 years as global management consultant in sales and distribution.

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

Key weaknesses

Moderate asset quality

As on September 30, 2023, Gross NPA of the company stood at 1.2% and Net NPA stood at 0.754% as against 2.79% and 1.79% respectively, as on September 30, 2022. Improving asset quality has been largely due to LAP and PL account resolutions, which contributed 75% to the Gross NPAs 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. As on September 30, 2023, under business loan, the GNPA stood at 3.29% as against 2.15% as on September 30, 2022. The asset quality under gold loans stands comfortable as Gross NPA stood NIL as on September 30, 2023. In FY23 and H1FY24, no restructuring of loans were undertaken. As on September 30, 2023, the total PCR stood at 40%.

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 September 2023, total debt of the company stood at ₹468 crores as against ₹332 crores as on September 2022. In H1FY24, of the total debt raised, 50.46% was from NBFC, 13.18% was from small finance bank and the balance was from PSU banks and private banks. Though the overall funding profile is diversified between more than 30 lenders, most of them are NBFCs. Funding from private bank has increased from 7% in March 2023 to 19% in September 2023. Proportion of NBFC has declined from 63% in March-23 to 50.46% in September-23. The company has been successfully lending through LAAS with banking partners including Central Bank of India, Shivalik Small Finance Bank and DCB Bank. From the end of April 2023, the company has also entered into co-lending agreement with HDFC Bank for gold loan and business loan segment. The company has received approvals/ sanctions at an average 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 loans were offered had average tenure of 8 to 12 years. With due consideration for competitive intensity and increasing need to match ALM, the company de-focused this segment and stopped disbursements. It has started lending under smaller ticket size business loan in 2019 with loan tenure of 2-4 years. In Q3FY21, the company also started with gold loans having average tenure of one year. Despite economic challenges during Covid-19, the company has demonstrated ability to grow with major chunk of the disbursements being done in FY22 and FY23.

Seasoning under gold loan and business loan has completed around three repayment cycles. Given that majority of the disbursements took place in FY22, FY23 and H1FY24, more seasoning of loan portfolio needs to be seen especially in the unsecured business loan segment to gauge asset quality. The company continues to remain a small player in the non-banking financial company sector, with an AUM size of ₹775 crore 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 last four years, considering high operating expense and finance cost, given that the company is in the growth phase. In FY23, opex increased to 11.80% (H1FY24 – 12.44%) as against 10.38%

(H1FY23 – 13.02%) in FY22. The increase has been due to new branch additions and manpower. The primary product of the company is gold loan, which requires high opex due to branch presence and security vault for keeping golds.
Opex of the company is expected to come down to ~5% by FY25 considering operating leverage on 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 short-term buckets. As on December 30, 2023, the company had unencumbered cash and bank balance of ₹43.59 crore as against debt repayment of ₹89.16 crore as on December 30, 2023, for next 3 months. The company also has undrawn sanctions of ₹3 crore and utilised bank lines of ₹212 crores.

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. Before registering as an NBFC, the company was promoted by Gujarat-based individual promoters in 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 promoted by 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 balance is 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 the society, offering a range of secured and unsecured financing products, tailored to suit borrower 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 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 to 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE615R07042	18/1/2024	13.50%	18/7/2025	9.99	CARE BBB; Positive
Debentures-Non-Convertible Debentures (Proposed)	-	-	-	-	40.01	CARE BBB; Positive
Fund-based-Long Term	-	-	-	-	750.00	CARE BBB; Positive
Debentures-Non-Convertible Debentures (Proposed)	-	-	-	-	100.00	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; Positive (01-Dec-23) 2)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; Positive (01-Dec-23) 2)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	Un Supported Rating	LT	-	-	-	1)Withdrawn (16-Mar-23) 2)CARE BBB (13-Jun-22)	-	-
6	Debentures-Non Convertible Debentures	LT	100.00	CARE BBB; Positive				

*Long term/Short 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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