Finova Capital Private Limited (Revised)

April 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,215.00 (Enhanced from 2,015.00)	CARE A; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating assigned to long-term bank facilities of Finova Capital Private Limited (FCPL) factors in continuation of growth momentum in the overall business complimented by healthy credit profile. The rating continues to factor in its experienced promoters, healthy resources raising ability, comfortable capital structure, well-managed systems, and processes. However, these rating strengths are partially offset by inherent asset quality risks emanating from company's exposure to relatively vulnerable borrower segment and moderate geographical concentration. While the company has low portfolio seasoning considering healthy portfolio growth over the last few years, it has demonstrated collection track record to avoid slippages of softer delinquencies into non-performing assets (NPAs) thereby maintaining comfortable asset quality metrics.

Going forward, the company's ability to demonstrate profitable growth and geographical diversification will be 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:

- Profitable scale-up in business growth with return on total assets (ROTA) above 4.5% on a sustained basis.
- Consistently attracting capital at competitive rates.

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

- Deteriorating asset quality leading with net NPA (NNPA) exceeding 2.5% levels on a sustained basis.
- Deteriorating capital metrics with increase in gearing above 3.5x on a sustained basis.
- Return on total assets (ROTA) reducing below 2% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook reflects the likely continuation of the stable credit profile supported by consistent business growth complemented by both healthy resources raising ability and internal accruals.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters

FCPL has a strong and experienced team, headed by Mohit Sahney, MD and CEO of the company. He has over 25 years of industry experience with institutions such as ICICI Bank. Sunita Sahney, Executive Director, has over 21 years of industry experience and was earlier associated with institutions such as Shyam Telelink and Tata Teleservices. Mohit Sahney and Sunita Sahney are the company's promoters with 18.13% of holding on a diluted basis. Of the balance stake, 72.75% is held by PE investors such as Peak XV (42%), Faering Capital India (12.95%), Norwest Capital LLC (12.40%), and Maj Invest Financial Fund (5.40%). The company has strong board with representatives including G V Ravishankar (from Peak XV), Ishaan Mittal (from Peak XV), and

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

Aditya Deepak Parekh (from Faering Capital [FC]), who are Nominee Directors on the board. Arjun Dan Ratnoo (an ex-banker/ ex Chief General Manager in NABARD) and Sathyan David (ex CGM, DNBS Head and RH of Rajasthan at RBI) are Independent Directors on the board. FCPL's board also has representatives from Norwest Capital LLC and Maj Invest Financial Fund as observers.

Ravi Sharma is the CFO with over 14 years of experience in raising funds for clients, including non-banking finance companies (NBFCs) and micro, small & medium enterprises (MSMEs). The senior management team of FCPL has largely remained stable.

Comfortable capital structure with demonstrated resources raising ability

Over the last few years, FCPL has demonstrated ability to attract funds from reputed private equity investors. FCPL has successfully concluded four rounds of such fund raising since inception aggregating to ₹850 crore. Supported by strong capital raising ability and adequate internal accruals (company is profitable since inception), return on net worth (RONW) stood around 10.89% as on December 31, 2023 [March 31, 2023: 9.28%]. On capitalisation front, capital adequacy ratio (CAR) and Tier-I CAR as on December 31, 2023, stood around 43.45% and 43.05%, respectively, as against 59.06% and 58.64% as on March 31, 2023. Gearing levels continued to remain comfortable at 1.52x as on December 31, 2023. In the medium term, gearing levels are expected to remain below 2x.

FCPL has significantly improved its resource profile since inception and had 52 lenders (including NBFCs) as on December 31, 2023. The company's resource mix comprised funding from private banks (59.38%), PSU banks (14.43%), NBFCs (13.65%), small finance banks (8.89%), and others (3.65%). Despite the rising interest rate scenario in the market, the company's cost of borrowings in FY23 and 9MFY24 was broadly rangebound within 9% – 10% (all inclusive), demonstrating the company's ability to raise funds at competitive interest rates in last few quarters. Top five lenders accounted for 37.94% of the total borrowings profile as on December 31, 2023 (March 31, 2023: 43.20%). Approximately 94% of FCPL's borrowings as on December 31, 2023, were at floating rate against 100% lending at fixed rates. Given the mismatch, the company's spreads are exposed to the movement in the interest rates.

CARE Ratings expects that FCPL will continue to have comfortable capital structure and funding resources even in the future.

Moderate asset quality metrics characterised by exposure to MSMEs

FCPL caters to the high-yield riskier product class of MSME segment, which accounted for 91% of portfolio as on December 31, 2023 [March 2023: 91%], which is highly vulnerable to the impact of economic downturn. However, over the last few years, it has demonstrated collection track record to avoid slippage of softer delinquencies into NPAs thereby maintaining comfortable asset quality metrics. As on December 31, 2023, on-time portfolio stood around 93.16% [March 31, 2023: 95.11%], while GNPA and NNPA stood around 1.98% and 0.50%, respectively (March 31, 2023: 0.97% and 0.32%, respectively). While the asset quality metrics in 9MFY24 have moderated as compared to March 31, 2023 levels, the same is due to write-offs done in FY23 amounting to ₹22.63 crore. Post COVID-19, the company conservatively wrote-off accounts which have been NPAs for more than 1 year compared to the write-off policy of 3 years with respect to overdue accounts. In 9MFY24, the company's recoveries from written-off accounts stood at ₹7.37 crore.

Considering the company's target segment, CARE Ratings expects GNPA levels to broadly remain below 3%. However, the company's demonstrated collections track record of and provision buffers provide comfort.

Improving profitability metrics

The company's disbursements increased from ₹482.74 crore for FY22 (P.Y.: ₹268.30 crore) to ₹897.33 crore for FY23, up 86% y-o-y. The company continued the growth momentum by disbursing around ₹849.49 crore in 9MFY24. Higher disbursements and broadly range-bound portfolio spreads have aided the company improve its net interest margins (NIM) to 13.55% as on March 31, 2023, as against 9.15% as on March 31, 2022, and further improved to 14.18% as on December 31, 2023. The operating

expense continued to remain high in FY23 at 6.13% [P.Y.: 5.48%], as the company has hired new employees and has continued with branch expansions into existing as well as newer geographies and further increased to 7.55% for 9MFY24. The company hired 1,249 and opened 114 branches in 9MFY24. However, the same is offset by range-bound credit cost of 1.59% as on December 31, 2023, as against 1.58% as on March 31, 2023. Owing to these factors, return on total assets (ROTA) stood at 4.85% as on March 31, 2023 [P.Y.: 2.27%] and further around 4.68% as on December 31, 2023 [P.Y.: 4.23%].
The company's ability to continue the growth momentum will be key monitorable.

Key weaknesses

Geographical and product segment concentration of operations, albeit improving

FCPL's loan portfolio is concentrated with MSME financing constituting majority chunk at around 91% as on December 31, 2023, with the balance being housing loans – 8% and personal loans – 1%.
FCPL's operations are majorly concentrated in Rajasthan with the state accounting for 67% of the total loan portfolio as on December 31, 2023 [March 31, 2023: 74%], although this share has been declining Y-o-Y. Top three states, Rajasthan, Madhya Pradesh, and Chhattisgarh, accounted around 83.81% of the outstanding portfolio as on December 31, 2023 (March 31, 2023: 89%). Over the last nine months, the company has been expanding into newer states of Karnataka, Andra Pradesh, Telangana, and Himachal Pradesh. However, Rajasthan is expected to continue to have a dominant share in its overall portfolio. The company intends to limit total disbursements in new states in the first year of operations to limit frauds and understand the dynamics of the state better.
CARE Ratings expects the profitable growth momentum to continue as the company expands its geographic reach with the share of portfolio concentrated in Rajasthan expected to gradually decline over the long term.

Short track record of operations with modest size, although growing

Given FCPL's moderate track record and scale of operations, its portfolio has witnessed limited seasoning across business cycles. As on December 31, 2023, FCPL's loan portfolio stood at ₹2,256.90 crore. Since inception, the company has disbursed loans aggregating to ₹2,988 crore, of which approximately 74% have been disbursed over the last two and half years. Given that FCPL's loans have an average tenor of 84 months, its portfolio is moderately seasoned. While the company continues to scale up in both existing and newer geographies, CARE Ratings will continue to monitor its overall portfolio performance going forward.

Liquidity: Adequate

As on December 31, 2023, FCPL's liquidity has remained adequate with positive cumulative mismatches across all the time buckets. For the next 1 year, the company has debt obligations (including interest repayments) of ₹635.46 crore compared to the inflows from loan portfolio of ₹1,036.23 crore. FCPL had cash and cash equivalents of ₹539.98 crore, and undrawn sanction lines to the tune of ₹240 crore, which provides additional comfort.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default]
[Rating Outlook and Rating Watch]
[Financial Ratios - Financial Sector]
[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)

FCPL is a systematically important non-deposit taking NBFC incorporated in Rajasthan in 2015. It is primarily engaged in the financing of secured MSME loans (mortgage loans to small enterprises) and housing loans. The company provides loans to micro-entrepreneurs and semi-skilled professionals who have limited or no access to lending from formal financing institutions. Consequently, FCPL has adopted a business model where credit appraisal is done based on a cash flow analysis of borrower instead of credit history.

FCPL has private equity (PE)/venture capital (VC) investors on board, such as FC, Peak XV, Norwest Capital and Maj Invest. FCPL's loan book stood at ₹2,256.90 crore as on December 31, 2023, compared with ₹1,421.71 crore as on December 31, 2022. FCPL operates through 326 branches in across 15 states and is currently serving 67,304 customers. The company has been profitable since its first year of operations.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	125.04	183.31	332.58	368.85
PAT	16.50	29.01	88.37	84.86
Total assets*	976.43	1,581.47	2,060.84	2,771.77
Net NPA (%)	0.40	1.08	0.32	0.50
ROTA (%)	2.27	2.27	4.85	4.68**

A: Audited UA: Unaudited; Note: 'these are latest financial results available'
*Net of deferred tax assets and intangible assets
**Annualised

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
Fund-based - LT-Term Loan		-	-	24/05/2029	2215.00	CARE A; 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	2215.00	CARE A; Stable	1)CARE A; Stable (03-Apr-24)	1)CARE A-; Positive (03-Jan-24) 2)CARE A-; Positive (12-Sep-23)	1)CARE A-; Stable (15-Dec-22) 2)CARE A-; Stable (19-Sep-22) 3)CARE A-; Stable (01-Aug-22)	1)CARE BBB+; Positive (01-Dec-21)
2	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (01-Aug-22)	1)CARE BBB+; Positive (01-Dec-21)

LT: 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	Fund-based - LT-Term Loan	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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Gaurav Dixit Director **CARE Ratings Limited** Phone: 91-120-4452002 E-mail: gaurav.dixit@careedge.in
Relationship Contact Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 91 44 2850 1001 E-mail: pradeep.kumar@careedge.in	Geeta Chainani Associate Director **CARE Ratings Limited** Phone: 912267543447 E-mail: Geeta.Chainani@careedge.in Shivam Katkar Rating Analyst **CARE Ratings Limited** E-mail: Shivam.Katkar@careedge.in

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