

## Cars24 Financial Services Private Limited (Revised)

September 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term / Short-term bank facilities	350.00	CARE BBB+; Stable / CARE A2	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to the long-term/short-term bank facilities of Cars24 Financial Services Private Limited (CFSP) factors in growing asset under management (AUM) and established track record of support from the parent, Cars24 Services Private Limited (CSPL) in the form of capital infusion and availability of healthy liquidity at the group level. The rating is further strengthened with the strong interlinkage of operations between CFSP and CSPL.

However, rating strengths are offset by nascent stage of operations, moderate profitability with the company breaking even in FY23, and moderate asset quality.

### Rating sensitivities: Factors likely to lead to rating actions

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

- Significantly growing scale of operations while improving profitability.
- Sizeable equity infusion with gearing remaining less than 2x on a sustained basis.
- Parent, CSPL's, becoming net profitable at consolidated level.

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

- Further deteriorating asset quality with net non-performing assets (NNPA) ratio rising above 1.85%.
- Moderating AUM/net worth ratio to above 7x.
- Significant or higher-than-envisaged level of net losses reported by the parent, CSPL.

### Analytical approach:

Standalone, factoring linkage with parent CSPL

### Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects AUM to continue to grow while improving profitability and asset quality. CARE Ratings also expects CFSP to continue to leverage the linkage with its parent, CSPL.

### Detailed description of key rating drivers:

#### Key strengths

**Increasing scale of operations:** CFSP provides finance for used car to retail customers and dealers through three lending models-own book, first loss default guarantee (FLDG) based onward lending model with CARE AAA; Stable rated NBFC and business correspondence (BC) lending model with another CARE AAA; Stable rated NBFC.

CFSP has reached to AUM of ₹ 2,266 crore as on June 30, 2024, up by 5% YTD from ₹ 2,162 crore as on March 31, 2024, growing at three years compounded annual growth rate (CAGR) of 120% till FY24 and at a yearly growth of 65% in FY24. AUM as on March 31, 2024, comprises of own book accounting for 56% (including 31% under onward lending agreement with the NBFC), and off book accounting for 44% which is BC with the NBFC. CARE Ratings notes that the onward lending agreement with the NBFC ended in April 2024, and thereby, this book will be run down, going forward. CFSP's 99% of the AUM is towards retail segment through direct retail loan (DRL) product segment and balance is towards dealer business through direct business loan (DBL) product segment, as on March 31, 2024.

CARE Ratings expects CFSP's AUM will continue to grow its AUM with major reliance on BC book model with the NBFC.

### Continued support and strong interlinkage with parent

CFSP is the wholly owned subsidiary of CSPL and CSPL is the wholly owned subsidiary of Global Car Group (GCG). All the three entities are founded by Vikram Chopra, Mehul Agarwal, Ruchit Agarwal, and Gajendra Jangid. Vikram Chopra is the Chief Executive

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

Officer (CEO) for the group, Mehul Agarwal is the Chief Operating Officer for the group, Ruchit Agarwal is the Chief Financial Officer for the group and CEO of CFSPL and Gajendra Jangid is the Chief Marketing Officer for the group. For CFSPL, Ruchit Agarwal, Gajendra Jangid are present on the board as directors. DST Global held the majority stake in GCG with 19%, followed by the founders who held 11% together, KCK with 10% and Kingsway Capital Partners Limited with 10%, among many other private equity and venture capital firms as on March 31, 2024.

CFSPL has strong linkage with its parent, CSPL as majority (80%) of CFSPL's business sourced from CSPL's digital platform. The customers can directly request for loan through CSPL's app. With this, CFSPL incurs lower sourcing costs. Technology enabled operations, dealer network of over 50,000 across India, in-house valuation and CSPL's inventory system helps CFSPL in liquidation. Also, CSPL's refurbishment facility helps CFSPL in easy selling of repossessed cars.

In terms of capital infusion, GCG raises equity at its level from investors, which is of ₹ 7,933 crore till FY21. Following this, GCG infused equity in CSPL since CSPL's inception totaling to ₹ 3,851 crore up to FY24. Further, in FY25 (till August 2024), GCG infused ₹ 835 crore in CSPL. In turn, CSPL further infused equity in CFSPL amounting to ₹ 405 from the time it was founded until FY24. Additionally, GCG has available liquid fund of ~₹ 2,500 crore. Of this, ~₹ 1,500 crore is available for CSPL and CFSPL. Also, CFSPL has availability of ₹ 200 crore funding from CSPL. Furthermore, CFSPL engages in securitisation to facilitate capital raising.

Capital adequacy ratio is well above the regulatory benchmark of 15%. Although, with rising own loan book, ratio has moderated as on March 31, 2024, to 51% from 91% as on March 31, 2023. CARE Ratings note that with reliance on off book for the growth in AUM, AUM/net worth ratio increased to 5.85x as on March 31, 2024, from 5.00x as on March 31, 2023.

CARE Ratings expects the interlinkage to continue in future, which will impetus the growth in CFSPL's operations.

### **Key weaknesses**

#### **Nascent stage of operations, leading to moderate asset quality**

Having started operations since 2019, and with average tenure of the loan book being four years, CFSPL's asset quality is yet to be established. Till FY20, there was nil gross NPA (GNPA) ratio. With rising slippages, GNPA ratio increased to 2.11% as on June 30, 2024, from 1.80% as on March 31, 2024, and 1.21% as on March 31, 2023. Although, the company has been increasing its provision coverage ratio (PCR) to 46% as on March 31, 2024, from 35% as on March 31, 2023.

With seasoning impact, CARE Ratings expects the asset quality to moderate in the medium term.

#### **Moderate profitability**

CFSPL started its operations in 2019 and had been reporting net losses till FY22. In FY23, it reached its break-even point with profit after tax (PAT) of ₹ 2 crore, which increased to ₹ 18 crore in FY24. The sharp rise in PAT in FY24 is attributed to a rise in scale of operations and partially attributed to the deferred tax credit of ₹ 11 crore. In Q1FY25, the company reported PAT of ₹ 3 crore.

CFSPL's lending rate is ~16% for DRL and ~30% for DBL. The company currently raises debt at ~8.75-10.75% in FY24, which has reduced from 11-12% raised in previous years. CARE Ratings notes that given the nascent stage of operations, CFSPL has been able to build lender relationships while raising debt at competitive rates. With the reduction in cost of funds and regular infusions, reflected from reduced gearing levels as on March 31, 2024, net interest margin (NIM) increased to 7.1% in FY24 from 6.2% in FY23. In Q1FY25, NIM remained similar with 7.0%.

With the rise in fees and other income from the rising off balance sheet transactions, ratio has increased to 7.7% in FY24 from 3.6% in FY23. In Q1FY25, ratio further increased to 9.9%. With rising operations and upgradations in IT infrastructure, operating expenses (opex) ratio has increased to 11% in FY24 from 8% in FY23 and further increased to 13% in Q1FY25. As the company has increased its PCR and provision against standard assets, credit costs ratio has increased to 3.2% in FY24 from 2.0% in FY23. In Q1FY25, credit cost ratio mutely reduced to 2.7%.

With the rise in NIM and fee and other income ratio, return on total assets (ROTA) increased to 1.5% in FY24 from 0.2% in FY23 and with rise in opex ratio in Q1FY25, ROTA moderated to 0.7%.

With more reliance on BC book, which attracts more fees and other income, CARE Ratings expects the profitability to improve going forward.

#### **Liquidity: Adequate**

Per ALM statement as on March 31, 2024, there are no negative cumulative mismatches across time buckets. CFSPL has cash and bank balance of ₹ 239 as on March 31, 2024. Furthermore, it has access to its group's liquid balance. GCG has available liquid fund of ~₹ 2,500 crore, of which ₹ 1,500 crore is available for CSPL and CFSPL.

## Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Short Term Instruments](#)

[Non Banking Financial Companies](#)

## About the company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Non-banking financial company (NBFC)

CFSP is a non-deposit taking, investment and credit company – non-banking finance company (NBFC-ND-ICC) categorised as middle layered, registered with Reserve Bank of India (RBI). The company was incorporated on September 17, 2018, while the operations started in August 2019. It is a wholly owned subsidiary of CSPL, which is a wholly owned subsidiary of GCG. CFSP is lending arm of tech startup, CSPL. CFSP, set up as a forward integration strategy, is engaged in providing finance for used vehicles to retail and dealers.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	152.93	283.43	83.23
PAT	1.52	18.41	2.53
Interest coverage (times)	1.02	1.11	1.17
Total Assets	1,060.74	1,477.75	1,341.38
Net NPA (%)	0.80	0.94	1.16
ROTA (%)	0.17	1.45	0.72

A: Audited UA: Unaudited; Note: these are latest available financial results

### Status of non-cooperation with previous CRA:

Not applicable

### Any other information:

Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based - LT/ ST-Term loan	-	-	-	16-Oct-26	350.00	CARE BBB+; Stable / CARE A2

**Annexure-2: Rating history for 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/ ST-Term loan	LT/ST	350.00	CARE BBB+; Stable / CARE A2				

LT/ST: Long term/Short term

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

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Term loan	Simple

**Annexure-5: Lender details**

To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

### Contact us

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### About us:

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