TruCap Finance Limited (Revised)

January 6, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	750.00	CARE BBB-; Stable	Downgraded from CARE BBB; Positive
Non-convertible debentures	100.00	CARE BBB-; Stable	Downgraded from CARE BBB; Positive
Non-convertible debentures	50.00	CARE BBB-; Stable	Downgraded from CARE BBB; Positive

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings downgrade for debt instruments and bank facilities of TruCap Finance Limited (TFL) factor in lower-than-expected equity raising by the company in the current fiscal year (Rs. 22.06 crore infused so far against envisaged infusion of Rs. 168.25 crore), which resulted in leverage (assets under management to tangible net worth [AUM/TNW]) increasing to 5.65x as on September 30, 2024. Additionally, the company's profitability weakened in FY24 and H1FY25, with return on total assets (ROTA) falling to 0.55% in H1FY25. CARE Ratings Limited (CARE Ratings) also takes into account steady dilution in promoters' shareholding to 36.86% as on September 30, 2024, from 58.45% as on March 31, 2023. Ratings remain constrained by limited operational track record, asset quality challenges in the unsecured business loan segment, and a moderate resource profile.

Ratings factor in TFL's experienced management team and improvement in scale of operations, with AUM rising to ₹1,215 crore as of September 30, 2024, marking a 56% year-on-year increase from ₹780 crore as of September 30, 2023.

The company's ability to shore up its capital base in the near term, while improving profitability, will continue to remain key rating sensitivities.

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, while improving profitability on a sustained basis.

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

- Deteriorating asset quality and profitability with gross non-performing asset (GNPA) exceeding 3.5% on a sustained basis.
- Assets under management (AUM)/tangible net worth (TNW) ratio remaining above 5.5x on a sustained basis.

Analytical approach:

CARE Ratings has analysed standalone credit profile of the company.

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

Outlook: Stable

Stable outlook on the long-term rating reflects CARE Ratings' expectation that TFL will strengthen its capital structure and financial performance, while improving asset quality in the near-to-medium term.

Detailed description of key rating drivers:

Key strengths

Experienced management team

The company has experienced board members and management with rich experience in the finance industry. 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 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 joined the company as a Non-executive Director. She is an entrepreneur and a Director in NRAM Regent Private Limited.

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 over 29+ years of experience in the finance industry. Mahendra Servaiya, credit head was the former AGM at a leading public sector bank.

Improvement in scale of operations

TFL has grown its scale of operations, with its Assets Under Management (AUM) increasing by 56% year-on-year to ₹1,215 crore as on September 30, 2024, from ₹780 crore a year ago. The company operates across Maharashtra, Delhi-NCR, Haryana, Madhya Pradesh, Rajasthan, Gujarat, Uttar Pradesh, and Goa, with a strong network of 128 branches as of September 30, 2024 (against 79 as on March 31, 2023), offering products such as gold loans, unsecured business loans, and three-wheeler EV financing.

In FY24, the company disbursed loans worth ₹2,100 crore (own book and co-lending), nearly doubling its disbursements from ₹1,006 crore in FY23, leading to a 77% year-on-year growth in AUM (disbursements in H1FY25 stood at ₹1,294 crore). However, major disbursements have happened in the last four years.

CARE Ratings believes that sustained growth in AUM, and improvements in profitability and asset quality, will remain key monitorable.

Key weaknesses

Weakened profitability

TFL's total income grew significantly to ₹182.01 crore in FY24 from ₹123.96 crore in FY23, driven primarily by an increase in other income, which rose from ₹2.20 crore in FY23, to ₹24.01 crore in FY24. This increase in other income was due to the rise in miscellaneous income, including gains from forfeiture of share application money of ₹9 crore and reversal of interest income on incremental borrowing of corporate guarantee of ₹11.55 crore.

The company's operating expenses remained high due to branch expansion from 79 branches in FY23 to 128 in FY24. The profitability has been volatile in the last few years. While profit after taxes (PAT) grew to ₹11.71 crore in FY24 against ₹5.54 crore reported in FY23, it was largely supported by non-recurring other income. Excluding the impact of other income, the company would have incurred a loss for FY24. In H1FY25, company reported PBT of ₹4.89 crore compared to ₹4.39 for H1FY24.

Going forward, focus on improving core profitability with further increase in scale of operation will be critical for TFL's credit profile.

Moderate asset quality with stress in unsecured business segment

As on September 30, 2024, TFL reported GNPA of 2.59% and a Net NPA (NNPA) of 1.87%, compared to levels of 1.12% and 0.68% reported respectively, as on September 30, 2023 (GNPA: 1.33% and NNPA: 0.83% as of March 31, 2024).

The company is experiencing increased stress among microfinance customers, particularly in the Delhi-NCR region and certain parts of Gujarat, which could further impact asset quality in the near term. GNPA under the unsecured business loan (contributing 34.37% of AUM) segment rose sharply to 6.77% as of September 30, 2024, compared to 3.45% as on March 31, 2024. Asset quality in the gold loan segment remained better, with a GNPA of 0.53% as of September 30, 2024.

The company did not report any loan write-offs in H1FY25, and total provision coverage ratio (PCR) stood at 27.88%. Given the unsecured nature of business loan segment, maintaining good asset quality in this portfolio will remain key monitorable.

High gearing

In Q4FY24 and H1FY25, TFL raised ₹22.06 crore in equity, significantly lower-than-projected infusion of ₹168.25 crore. This shortfall in raising envisaged equity contributed to an increase in the company's leverage, with the AUM/TNW ratio rising to 5.65x as of September 30, 2024 (5.14x as of March 31, 2024), from 3.63x as of September 30, 2023. While the company has indicated to raise additional equity in the immediate term, its quantum and timeliness would remain critical for meeting TFL's growth plans, and hence, would remain a key rating monitorable.

CARE Ratings notes a decline in promoter shareholding, which reduced to 36.86% as of September 30, 2024, from 58.45% as of March 31, 2023, and notes demise of Mr. Mehta, the promoter, in November 2024. Additionally, the company's TNW decreased to ₹200.56 crore in FY24 from ₹208.74 crore in the previous year, despite reporting a profit in the period. This decline is primarily due to adjustment of ₹18.99 crore in other equity, stemming from a change in accounting treatment of corporate guarantees by the promoter entity, Wilson Holdings, which ceased recognising notional fee income due to potential GST applicability.

As on September 30, 2024, the company's total debt stood at ₹639 crore (₹593 crore as on March 31, 2024) against ₹469 crore as on September 30, 2023. Of the total borrowings, 55% was sourced from NBFC and ~45% was funded by a mix of private banks, small finance banks and PSU banks. Despite its funding diversification, the company's average cost of borrowing remains high, increasing from 13.93% as of March 31, 2023, to 14.91% as of September 30, 2024.

Limited track record of the company

The company began operations in 2017, initially offering Loan Against Property (LAP) loans with an average tenure of 8-12 years. In 2019, it expanded into smaller ticket size business loans with tenures of 2-4 years, and by Q3FY21, it had introduced gold loans with an average tenure of one year. The company strategically shifted focus away from LAP and personal loans, which as on September 30, 2024 account for less than 1% of its AUM, and increased its lending to the gold and unsecured business loan segment, which constitutes 67% and 33% of its total AUM respectively. Additionally, it has ventured into three-wheeler electric vehicle financing under its Green Financing initiatives during FY25.

Majority of the disbursements have happened in last 2 years with its AUM growing significantly to ₹1,215 crore as of September 30, 2024 (up from ₹306 crore as of March 31, 2022), more seasoning of loan portfolio needs to be seen across cycles to gauge asset quality.

Liquidity: Adequate

As on September 30, 2024, the asset-liability management (ALM) statement of the company had no negative cumulative mismatches up to five years bucket. As on December 20, 2024, the company had unencumbered cash and bank balance of ₹77.76 crore, including liquid investments against debt repayment of ₹104.56 crore, for the next three months leading to LCR ratio of 74%.

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

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

TFL (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 who were 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 provision of hire purchase and credit sale finance and of acting as factors and brokers. Currently, the company is 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, 2024, promoters and promoter group held 36.86% stake, Aviator Emerging Market Fund held 4.37%, 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)	FY23 (A)	FY24 (A)	H1FY25(UA)
Total income	124	182	110.58
PAT	5.54	11.71	2.60
CAR (%)	34.46	24.54	25.32
Total assets (net of intangible and deferred tax assets)	664	909.60	969.62
ROTA (%)	0.98	1.49	0.55

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: Please refer to Annexure-2

Detailed explanation of covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in 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 along with Rating Outlook
Debentures-Non-Convertible Debentures	INE615R07042	18/01/2024	13.50%	18/07/2025	9.99	CARE BBB-; Stable
Debentures-Non-Convertible Debentures	INE615R07067	24/01/2024	13.40%	22/01/2027	40.00	CARE BBB-; Stable
Debentures-Non-Convertible Debentures	INE615R07091	28/03/2024	13.10%	28/09/2029	8.00	CARE BBB-; Stable
Debentures-Non-Convertible Debentures	INE615R07083	28/03/2024	13.00%	28/03/2027	8.00	CARE BBB-; Stable
Debentures-Non-Convertible Debentures	INE615R07109	07/05/2024	13.00%	07/05/2027	25.00	CARE BBB-; Stable
Debentures-Non-Convertible Debentures	INE615R07117	06/06/2024	13.00%	06/12/2025	15.00	CARE BBB-; Stable
Debentures-Non-Convertible Debentures	INE615R07125	04/07/2024	13.00%	30/06/2027	23.50	CARE BBB-; Stable
Debentures-Non-Convertible Debentures (Proposed)	-	-	-	-	20.51	CARE BBB-; Stable
Fund-based-Long Term	-	-	-	-	750.00	CARE BBB-; Stable

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-Long Term	LT	750.00	CARE BBB-; Stable	-	1)CARE BBB; Positive (24-Jan-24) 2)CARE BBB; Positive (01-Dec-23) 3)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-; Stable	-	1)CARE BBB; Positive (24-Jan-24) 2)CARE BBB; Positive (01-Dec-23) 3)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-; Stable	-	1)CARE BBB; Positive (24-Jan-24)	-	-

LT-Long 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	Debentures-Non-Convertible Debentures	Simple
2	Fund-based-Long Term	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 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	Priyesh Ruparelia Director **CARE Ratings Limited** Phone: +91 22 6754 1593 E-mail: priyesh.ruparelia@careedge.in
Relationship Contact Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 91 44 2850 1001 E-mail: pradeep.kumar@careedge.in	Sudam Shrikrushna Shingade Associate Director **CARE Ratings Limited** Phone: +91-22-6754-3453 E-mail: sudam.shingade@careedge.in Sehdev Pahwa Analyst **CARE Ratings Limited** E-mail: sehdev.pahwa@careedge.in

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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