TruCap Finance Limited

February 28, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-Term-Bank-Facilities	750.00	CARE BBB- (RWD)	Reaffirmed; Placed on Rating Watch with Developing Implications
Non-Convertible Debentures	50.00	CARE BBB- (RWD)	Reaffirmed; Placed on Rating Watch with Developing Implications
Non-Convertible Debentures	100.00	CARE BBB- (RWD)	Reaffirmed; Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the debt instruments and bank facilities of TruCap Finance Limited (TFL) have been placed on 'Rating watch with developing implications' following the company's announcement on the stock exchange regarding the slump sale of its gold loan business to Incred Financial Services Ltd (Incred). CARE Ratings notes that the slump sale is subject to approvals, fulfilment of certain conditions and execution of necessary documents. Upon consummation of the transaction, the company is expected to use the proceeds to repay around 50% of the debt, while its AUM (with gold loans comprising 60.87% of AUM as of December 31, 2024), gearing levels, and overall leverage (AUM/Tangible Net Worth) are expected to decline. The divestment is also expected to lead to a reduction in operational costs. However, asset quality may weaken in the short term due to the relatively higher delinquencies in the balance portfolio of unsecured business loans. Going forward, the company is expected to focus on its MSME and green financing segments, with an emphasis on increasing the share of secured green financing.

Nevertheless, CARE Ratings also notes that there was breach of covenants with some of its lenders and a few lenders have also granted waivers against the same. Its profitability continued to remain weak for 9MFY25. Additionally, the ratings remain constrained by steady dilution in promoters' shareholding to 37.21% as on December 31, 2024, from 58.45% as on March 31, 2023, limited operational track record, asset quality challenges in the unsecured business loan segment, and its moderate resource profile.

CARE Ratings will continue to monitor the progress of the slump sale transaction and its impact on the business and financial profile of TFL and will resolve the watch upon receiving adequate clarity on the same.

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 and asset quality 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.

Outlook: Not applicable.

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

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.

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. Further, profitability remains weak for 9MFY25, with the company reporting a PAT of ₹3.83 crore on a total income of ₹163.21 crore, compared to a PAT of ₹5.85 crore on a total income of ₹129.27 crore during the same period last year. Going forward, with gold loans no longer in the portfolio the profitability is expected to improve as Gold Loan currently contributes 36% of total revenue with around 72% of total operational expenses in FY24. However, due to the unsecured nature of the business loan segment, credit costs are expected to rise substantially in shorter duration until the Green Finance book scales up.

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 December 31, 2024, TFL reported GNPA and NNPA of 2.80% and 1.94% respectively, compared to levels of 1.34% and 0.82% reported, as on December 31, 2023 (GNPA: 1.32% and NNPA: 0.83% as of March 31, 2024).

The company is experiencing increased stress among microfinance customers, which could further impact asset quality in the near term. GNPA under the unsecured business loan (contributing 38.56% of AUM) segment was at 5.15% as of December 31, 2024, down from 6.1% in September 2024 (3.45% as on March 31, 2024). Asset quality in the gold loan segment remained relatively better, with a GNPA of 1.17% as of December 31, 2024.

Given the unsecured nature of business loan segment, maintaining good asset quality in this portfolio will remain key monitorable.

High gearing
In Q4FY24 and 9MFY25, 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 5.33x as of December 31, 2024 (5.14x as of March 31, 2024), from 2.78x as of March 31, 2023. Upon conclusion of the slump sale of Gold Loan book to Incred Financial Services Limited, which is expected by April-May 2025, while its AUM (with gold loans comprising 60.87% of AUM as of December 31, 2024), gearing levels, and overall leverage (AUM/Tangible Net Worth) are expected to decline and would remain a key rating monitorable.

CARE Ratings notes a decline in promoter shareholding, which reduced to 37.21% as of December 31, 2024, from 58.45% as of March 31, 2023, and notes demise of Mr. Mehta, member of the promoter family, in late 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 December 31, 2024, the company's total debt stood at ₹600.9 crore (₹593 crore as on March 31, 2024) against ₹488.6 crore as on December 31, 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 16.15% as of December 31, 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 December 31, 2024 account for less than 1% of its AUM, and increased its lending to the gold and unsecured business loan segment, which constitutes 65% and 34% of its total AUM respectively as on March 31, 2024. Additionally, it has ventured into three-wheeler electric vehicle financing under its Green Financing initiatives during FY25. Post Slump sale, moving forward the company will focus on its MSME and green financing segments, with an emphasis on increasing the share of secured green financing.

As majority of the disbursements have happened in last 2 years with its AUM growing significantly to ₹1,153.1 crore as on December 31, 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 January 31, 2025, the company had unencumbered cash and bank balance of ₹81.10 crore, including liquid investments against debt repayment of ₹110.8 crore, for the next three months leading to LCR ratio of 73%, which has weakened compared to 106% in the month of September 2024.

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 December 31, 2024, promoters and promoter group held 37.21% stake, 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)	9MFY25(UA)
Total income	124	182	142.46
PAT	5.54	11.71	3.83
CAR (%)	34.46	24.54	NA
Total assets (net of intangible and deferred tax assets)	664	909.60	872.91
ROTA (%)	0.98	1.49	0.57

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 along with Rating Outlook
Debentures-Non-Convertible Debentures	INE615R07042	18/01/2024	13.50%	18/07/2025	9.99	CARE BBB-; (RWD)
Debentures-Non-Convertible Debentures	INE615R07067	24/01/2024	13.40%	22/01/2027	40.00	CARE BBB-; (RWD)
Debentures-Non-Convertible Debentures	INE615R07091	28/03/2024	13.10%	28/09/2029	8.00	CARE BBB-; (RWD)
Debentures-Non-Convertible Debentures	INE615R07083	28/03/2024	13.00%	28/03/2027	8.00	CARE BBB-; (RWD)

Debentures-Non-Convertible Debentures	INE615R07109	07/05/2024	13.00%	07/05/2027	25.00	CARE BBB-; (RWD)
Debentures-Non-Convertible Debentures	INE615R07117	06/06/2024	13.00%	06/12/2025	15.00	CARE BBB-; (RWD)
Debentures-Non-Convertible Debentures	INE615R07125	04/07/2024	13.00%	30/06/2027	23.50	CARE BBB-; (RWD)
Debentures-Non-Convertible Debentures (Proposed)	-	-	-	-	20.51	CARE BBB-; (RWD)
Fund-based-Long Term	-	-	-	-	750.00	CARE BBB-; (RWD)

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- (RWD)	1)CARE BBB-; Stable (06-Jan-25)	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- (RWD)	1)CARE BBB-; Stable (06-Jan-25)	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- (RWD)	1)CARE BBB-; Stable (06-Jan-25)	1)CARE BBB; Positive (24-Jan-24)	-	-

LT: Long term; ST: Short term; 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	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 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 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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