

Infinity Fincorp Solutions Private Limited

March 28, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	450.00 (Enhanced from 300.00)	CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable/ A Two Plus)	Reaffirmed
Total Bank Facilities	450.00 (Rs. Four Hundred Fifty Core Only)		
Non-Convertible Debentures (Proposed)	50.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Long Term Instruments	50.00 (Rs. Fifty Core Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to reflect high expectations of support from Infinity Fincorp Solutions Private Limited (IFSPL)'s parent, True North Manager LLP (True North) and the benefits that flow in the form of management support, best practices and systems and capital support as exhibited over the last few years. IFSPL's credit profile also derives strength from its adequately experienced management team, comfortable capital position and healthy liquidity at present. The ratings however remain constrained on account of IFSPL's nascent stage of business operations coupled with a still-evolving business profile thereby translating into an unseasoned loan portfolio. Considerable product and geographical concentration in the loan book remains a rating constraint which has seen improvement during 9MFY22 (April 2021-December 2021) on account of penetration into southern India. The concentration in the resource profile also remains a key rating constraint. Going forward, continued support for IFSPL from its parent and ability to increase its operational scale while maintaining asset quality, capitalization and profitability on a sustained basis will remain critical parameters for its rating.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Continued support from its strategic investor as and when need arises
- Significant scale up in operations with improvement in earnings profile with company on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any material changes in the shareholding or moderation in expected support from the parent, True North
- Increase in leverage with overall gearing exceeding 4.5x
- Continuous deterioration in the asset quality

Detailed description of the key rating drivers

Key Rating Strengths

Strong Parental Support: Founded in 2016 by True North Managers LLP through the Indium IV fund, IFSPL is a 100% subsidiary of True North - a private equity fund investing in mid-sized, profitable, India-centric businesses. True North has successfully launched five separate investment funds, with a combined corpus of ~US\$ 2 billion. Over the last two decades, True North has invested in over 35 mid-sized profitable businesses. Looking ahead, True North's management is expected to remain committed towards its interests in growing IFSPL and subsequently provide equity infusion at required intervals in order to maintain a healthy capital structure as well as provide support towards loan book growth. Moreover, Care Edge Ratings also anticipates that benefits from the parent will also accrue in the form of strategy and management oversight as well as adoption of industry best practices. Going forward, continued support from the parent, if and when need arises would remain crucial from rating perspective.

Adequately Experienced Management Team: The management team comprises Mr. Shrikant Ravalkar, CEO, who has over two decades years of experience, previously being associated with some of the large housing finance companies. IFSPL also has Mr. Maninder Singh Juneja who is associated with True North since 2016 as the director. He is involved in building and managing businesses primarily in the financial services sector and has over 25 years of experience in the banking and financial services industry and 3 years in IFSPL. Mr. Juneja has also worked with ICICI Bank as Senior General Manager - Retail Business Head, responsible for Strategy, Products, Small Business Loans, Branch Banking and distribution channels. Also, IFSPL has various business segments which are headed by personnel with relevant experience in their respective fields. Mr. Kamlesh Kumar who leads Credit and Collection has more than 2 decades experience in Financial Services. Mr. Gunjan Jain who leads

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

Finance, Treasury, Secretarial, and Admin, has 10 years of experience in finance and accounts. Mr. Shibu Thomas leads Operations team also has more than 2 decades of experience in Operations in Financial Services.

Lower funding and provisioning costs drive moderate profitability: IFSPL's profitability is supported by its strong capital levels which translate into lower interest expenses on the back of low borrowings and well managed operating costs. As on December 31, 2021, Total Capital adequacy ratio (CAR) stood at 58% and Tier 1 CAR stood at 58% which is over and above the regulatory requirement of 15% and gearing stood at 1.09x. Moreover, the overall yield of the portfolio has increased with the composition of LAP steadily rising to 90% as on December 31, 2021 from 33% as on March 31, 2019. As a result, Net Interest Margin (NIM) remains high at 7.66% for 9MFY22 (refers to period from April 1, 2021 to December 31, 2021). Further, adoption of a cautious growth approach with focus on quality sourcing coupled with lower seasoning of its loan book define the lower-than-peers provisioning levels. Gross NPA stood at 1.42% as on December 31, 2021 (March 31, 2021: 0.88%) with provisioning costs of 0.54% (annualised) for 9MFY22 and 0.95% for FY21. The moderation was mainly on account of COVID-19 related disruptions in the MSME sector which was prevalent through the second wave witnessed during Q1FY22. For 9MFY22, profitability improved over FY21 led by its high yield-low funding costs business model with ROTA of 3.4% (annualised; FY21: 2.7%) and RONW of 6.7% (annualised; FY21: 5.1%). Going forward, sustained profitability as a result of expansion of operations with stable maintenance of cost and credit metrics will be closely monitored.

Adequate Risk and Credit Appraisal Mechanism: IFSPL has in place an adequate credit appraisal mechanism to assess the borrower which takes into account the credit, market, system as well as external risks. IFSPL has a centralised credit-appraisal and monitoring system. The company has defined the limits on exposure to be taken client-wise, commodity-wise, group-wise and margins vary depending on the commodity financed. Further on an ongoing basis, it also monitors the price volatility of the commodities financed and accordingly margin calls are made in the event of shortfall. The repayment schedule is also structured to have monthly interest payment and auto mailers are sent to the borrowers on week prior to due dates. Apart from the detailed analysis on the commodity financed, the credit team also undertakes due diligence of the borrower including credit history and field investigation.

Key Rating Weaknesses

Geographic and Product Concentration: IFSPL commenced lending operations from November 2017 onwards with the outstanding portfolio as on December 31, 2021 amounting to Rs. 237.9 crores. At the portfolio level, LAP now constitutes 90% of the total loan book as on December 31, 2021 (March 31, 2021: 76%; March 31, 2020: 78%; March 31, 2019: 33%). Moreover, the LAP portfolio is geographically concentrated with exposure to Rajasthan at 43% and Gujarat at 35% as on December 31, 2021 (March 31, 2021: Rajasthan- 43% and Gujarat: 45%). However, the company has expanded in the states of Andhra Pradesh, Telangana during 9MFY22 which has led to reduction in the geographic concentration. Going forward, the loan book will remain concentrated in terms of product mix in the near term as the company focusses largely on LAP. However, the geographic concentration is expected to improve with penetration into southern markets as envisaged by the company.

Business Profile still in evolving stages: Incorporated in November 2017, the company has been in operations for 5 years. Consequently, its loan book which commenced from 2018 onwards majorly consisting of commodity finance having average tenure of 1 year has witnessed seasoning however as the business evolved and focus shifted towards LAP book, around 90% of the total portfolio with an average maturity of 7 years remains largely unseasoned and has not been subject to various economic cycles as on December 31, 2021. This exposes the performance of the portfolio to a certain level of uncertainty risk. IFSPL has received steady capital infusions in the last few years which result in the growth being largely capital funded and consequently results in an overall improvement in credit metrics. Going forward, the ability of the company to sustain profitability, asset quality and balance sheet metrics as it steadily scales up will remain key monitorable.

Liquidity: Adequate

The liquidity stood adequate with cumulative positive mismatches across the time buckets as on December 31, 2021. The contractual debt obligations stood at Rs. 54.01 crore upto one year against which there were contractual inflow from advances of Rs. 49.25 crore upto one year. To take care of the mismatch, the company maintained liquidity to the tune of Rs. 59.85 crore as on December 31, 2021.

Analytical approach:

CARE has analyzed the standalone profile of IFSPL taking into consideration the parental support from True North.

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Methodology- Non-Banking Finance Companies](#)

[Criteria for Short term instruments](#)

About the Company

IFSPL was incorporated in November 2016 with seed capital from True North Fund Managers LLP as NBFC-ND-Non-SI. IFSPL provides secured MSME loans (Loan against property (LAP)) in the unbanked and under-banked areas of Tier 2 and Tier 3 cities

in India and commodity financing towards agri-products. IFSP is spread across 4 states namely Maharashtra, Gujarat, Madhya Pradesh, and Rajasthan with gradual expansion towards the southern region penetrating in Telangana, Andhra Pradesh and Tamil Nadu. As on December 31, 2021, loans outstanding stood at Rs. 237.89 crore consisting of MSME Loans of 81%, commodity financing of 12% and bill discounting and working capital loans consisting of 7% which are provided to True North group entities.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY2022 (UA)
Total operating income	32.79	31.87	27.26
PAT	4.68	6.61	6.82
Interest coverage (times)	1.41	1.91	1.84
Total Assets	252.23	236.99	302.91
Net NPA (%)	0.47	0.80	1.30
ROTA (%)	1.62	2.70	3.37

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer 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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	450.00	CARE A-; Stable / CARE A2+
Debentures-Non Convertible Debentures (Proposed)		-	-	-	50.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Rating history			
			Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	450.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (11-Feb-21)	1)CARE A-; Stable / CARE A2+ (13-Nov-19)	1)CARE A-; Stable / CARE A2+ (08-Oct-18)
2	Commercial Paper	ST	-	-	-	-	1)Withdrawn (18-Mar-20) 2)CARE A2+ (13-Nov-19)	1)CARE A2+ (08-Jun-18)
3	Debentures-Non Convertible Debentures	LT	50.00	CARE A-; Stable	-	1)CARE A-; Stable (11-Feb-21) 2)CARE A-; Stable (04-Jun-20)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	Simple

Sr. No	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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