JULY 21, 2016

CARE REVISES THE RATING ASSIGNED TO THE LONG-TERM BANK FACILITIES AND DEBT INSTRUMENTS OF EQUITAS FINANCE LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	600	**CARE A+ [Single A Plus]**	Revised from CARE A- [Single A Minus]
Sub-total	**600 (Rupees Six Hundred crore only)**		
Non-Convertible Debenture Issue – I	58	**CARE A+ [Single A Plus]**	Revised from CARE A- [Single A Minus]
Non-Convertible Debenture Issue – II	50	**CARE A+ [Single A Plus]**	Revised from CARE A- [Single A Minus]
Total instruments	**108 (Rupees One Hundred and Eight crore only)**		

Rating Rationale

Equitas Microfinance Limited (EMFL) along with Equitas Housing Finance Limited (EHFL) is being merged with Equitas Finance Limited (EFL). Subsequently EFL will be converted into Small Finance Bank. Hence, CARE has taken combined view of EMFL, EHFL and EFL while arriving at the ratings of EFL. The revision in the ratings assigned to the long term bank facilities and debt instruments of EFL factors in the fresh capital infusion in EMFL & EFL and the improvement in the business risk profile arising from product/portfolio diversification on account of merger of the three entities.

The ratings also factor in the experience of the founder and senior management team, demonstrated equity raising ability of the Equitas group, comfortable capital adequacy levels, comfortable asset quality and profitability levels. The ratings also take note of transition from NBFC to Small Finance Bank (SFB).

The ratings are constrained by the geographically concentrated portfolio, low seasoning of portfolio originated in the new business segments in EFL and moderately diversified funding profile. Going forward, ability of the company to diversify its portfolio across geographies, maintain asset quality in all segments and effectively manage transition from NBFC to SFB will be key rating sensitivities.

Background

Equitas Finance Limited (EFL) is a non-deposit taking systemically important Non- Banking Finance Company. The group was founded by Mr.P.N. Vasudevan. EFL is the wholly owned subsidiary of Equitas Holdings Limited (EHL). The other wholly owned subsidiaries of EHL include Equitas Micro Finance Limited (EMFL, rated 'CARE A+') engaged in Microfinance, Equitas Housing Finance Limited (EHFL) engaged in housing finance and Equitas Technologies Private Limited (ETPL) engaged in freight facilitation business.

EFL commenced vehicle finance business in June 2011 and is primarily into used Commercial Vehicle (CV) financing and lends predominantly to SRTOs (Small Road Transport Operators) and FTUs (First Time Users). The company has entered

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

into SME loans and Loan against property during FY14. EFL is currently operating in 136 branches spread across 14 states of India primarily concentrated in Tamil Nadu which accounts for 49% of AUM as on March 31, 2016. As on March 2016, the company had AUM of Rs.2,597 crore which primarily comprises vehicle finance (VF) of 58.14%, SME loans of 32.19% and Loan Against Property (LAP) of 9.66%.

In September 2015, Reserve Bank of India (RBI) granted in-principle license of a Small Finance Bank (SFB) to EHL. The in-principle license is valid for a period of 18 months. One of the conditions stipulated by RBI for conversion into SFB is merger of three of its subsidiaries namely, EMFL (Micro finance entity), EFL (Vehicle Finance entity) and EHFL (Housing Finance entity). As part of this EMFL and EHFL will be merged with EFL. Subsequently, EFL will be renamed to 'Equitas Small Finance Bank'. Respective boards, creditors and High Court of Madras have approved the merger. The effective date of merger would be one day prior to start of SFB banking operations. RBI has granted the final license to start SFB on June 30, 2016. The SFB operations are expected to start by Q3FY17.

During FY16, the company registered PAT of Rs.85 crore on a total income of Rs.476 crore as against PAT of Rs.34 crore and total income of Rs.296 crore during FY15.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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