

Press Release

Rajasthan Financial Corporation (RFC)

February 07, 2020



Rating Assigned

Total Bank Facilities Rated	Rs. 100.00 crore
Long Term Rating	ACUITE A (CE [^])/ Stable (Assigned)

*Refer annexure for details

[^]Credit Enhancement in the form of Guarantee from Government of Rajasthan

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE A (CE)**' (**read as ACUITE A (Credit Enhancement)**) on the Rs. 100.00 cr. bank facilities of Rajasthan Financial Corporation (RFC). The outlook is '**Stable**'.

About RFC:

Established in 1955 under the SFCs Act 1951, Rajasthan Financial Corporation (RFC) operates with an objective of promoting economic growth and rapid industrial development in the state of Rajasthan by extending financial assistance to Micro, Small and Medium Enterprises in manufacturing and service sector. RFC also acts as an agency for disbursal of state and Central Government incentives and subsidies.

Government of Rajasthan is the majority stakeholder with 79.83 percent holding as on March 31, 2019 and the balance is held by Small Industries Development Bank of India (SIDBI) and other domestic banks and institutions. The corporation operates wholly in Rajasthan with a network of 21 branches as on December 31, 2019.

Analytical Approach

To arrive at the rating, Acuité has considered the standalone business and financial risk profiles of RFC and notched up the rating by factoring in Credit Enhancement in the form of Guarantee extended by Rajasthan State Government for the rated borrowing.

Standalone (Unsupported) Rating: ACUITE BBB-

Key rating drivers:

Strengths:

• **Ownership and support from the Government of Rajasthan**

Rajasthan Financial Corporation (RFC) is a state finance corporation established under the SFC Act, 1951. The corporation was established with the objective of promoting economic growth and regional industrial development in the state of Rajasthan. RFC also acts as an agency for disbursal of various State/Central government subsidies and incentives. The board of directors comprise three directors appointed by the Government of Rajasthan (GoR) and others representing SIDBI, LIC and publically appointed directors. This indicates a strong level of managerial support from both prominent public sector enterprises and the Government of Rajasthan.

RFC's funding profile is supported by the State Government's moral obligation to support the capitalisation levels both on an ongoing basis and in the event of distress. The GoR is a 78.93 percent stakeholder in the corporation and is expected to support the corporation given its systemic importance to the state. RFC's capitalisation levels remained adequate at 42.79 percent as on March 31, 2019. RFC's funding mix comprises equity contribution from GoR, NCDs and deposits from local authorities which are RFC's commercial liabilities coming due towards their employees each year. Of the overall outstanding borrowings Rs. 419 Cr. as on March 31, 2019, NCDs comprise 72 percent and remaining 28 percent accounts for deposits which are RFC's commercial liabilities. The ownership by the GoR and the guarantee provided by them enables RFC to

borrow at fine pricing from various banks and institutions. GoR has also extended guarantees for the past bond issuances and for the bank loan facilities of the corporation. Given the linkages with the Rajasthan Government and its role in facilitating funding for MSMEs play an important role in the state economy.

RFC is a Nodal Agency for several policy initiatives by the State Government of Rajasthan and is responsible to implement the states policy initiatives announced in the annual state budget. The corporation is presently promoting Yuva Udyamita Protsahan Yojana (YUPY) scheme to support young entrepreneurs to put up their industries in the state where GoR provides interest subvention of 6 percent on loans upto Rs.1.5 Cr. and upto a total subvention of Rs.0.09 Cr. in a year.

Since the support from GoR is critical to the rating, the credit profile of Rajasthan state is of key importance. Rajasthan's fiscal deficit stood at 3.4 per cent of the GSDP for FY2018-19 (RE) (3.0 per cent during the previous year). The outstanding debt of Rajasthan state as a percentage of GSDP remained over 33 percent for 2018- 19 and 2017-18. The state's revenue deficit for 2018-19(RE) stood at 2.7 percent of GSDP (previous year 2.2 percent). While these levels are already elevated, further deterioration in the state metrics could impact the headroom of GoR to support such entities like RFC, for whom it is obligated to extend support on account of an explicit support arrangement with the lenders. Movement in the state's key fiscal metrics i.e. fiscal deficit to GSDP and Debt to GSDP will remain key monitorable.

Acuité believes that the corporation will continue to benefit from continued financial and managerial support from the State Government on an ongoing basis over the medium term.

Weaknesses:

- **Susceptibility of operating performance to the challenging scenario:**

RFC was set up with the objective of promoting economic growth and industrial development in the state of Rajasthan. The corporation's gross portfolio stood at Rs.868.47 Cr. as on March 31, 2019 as against Rs.788.59 Cr. as on March 31, 2018. As on December 31, 2019, gross portfolio of RFC has declined to Rs. 833.01 Cr from Rs. 868.47 Cr. as on March 31, 2019. RFC's disbursements have also shown signs of shrinkage with disbursements of Rs.128.92 Cr. for nine months ended December 31, 2019 vis. a. vis. Rs.264.11 Cr. for FY2019; this is primarily on account of challenging operating environment.

The corporation's asset quality continues to remain subdued with gross non-performing assets (GNPAs) at 23.20 percent as on March 31, 2019 (28.30 percent of previous year). While there have been no fresh slippages observed over the past three years, the asset quality remains subdued on account of significant hit from the legacy portfolio (portfolio prior to FY 2000). The corporation does not plan to write-off the legacy NPAs since the portfolio prior to FY 2000 was unsecured; instead RFC plans to continue to recover from these accounts in a phased manner. The corporation had restructured accounts of Rs.31.32 Cr. in FY2019 and Rs.35.38 Cr. in FY2018. The corporation's profitability metrics have declined with Net Interest Margins (NIMs) declining to 7.54 percent for FY2019 as against 10.35 percent for FY2018; this is primarily on account of revision in lending rates in FY2019. The corporation's Return on Average Assets (ROAA) stood at 1.18 percent for FY2019 as against 0.93 percent for FY2018; this is primarily on account of provisions written back in the same year.

Acuité believes that the corporation's ability to scale up its operations considering the challenging operating environment along with improving its asset quality will remain a key rating sensitivity factor.

Rating Sensitivities

- Credit profile of Rajasthan Government and timely support to RFC
- Movement in asset quality indicators
- Movement in profitability metrics

Material Covenants: None

Liquidity Position: Adequate

RFC had adequately matched asset liability profile as on March 31, 2019 with cumulative surplus in all maturity buckets. The corporation's total debt stood at Rs.419 Cr. as on March 31, 2019, of which NCDs accounted for 72 percent. Of the total NCDs outstanding, Rs.30.00 Cr. of partial principal is due for redemption in May 2020. RFC's liquidity position is further supported by sanctioned but un-availed bank lines of Rs.100.00 Cr. as on December 31, 2019. The corporation has maintained cash and cash equivalents of Rs. 49.11 Cr as on March 31, 2019.

Outlook: Stable

Acuité believes that RFC will maintain a 'Stable' credit profile over the near to medium term on the back of ongoing financial and managerial support from GoR. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its loan portfolio while maintaining profitability. The outlook may be revised to negative in case of deterioration in profitability metrics or asset quality or in case of events which may impinge on GoR's ability to provide financial and operational support to RFC.

About the Rated Entity – Key Financials

Parameters	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	878.15	876.49
Total Income*	Rs. Cr.	55.63	66.28
PAT	Rs. Cr.	10.39	7.99
Net Worth	Rs. Cr.	335.41	325.02
Return on Average Assets (RoAA)	(%)	1.18	0.93
Return on Average Net Worth(RoNW)	(%)	3.15	2.49
Total Debt/Tangible Net Worth (Gearing)	Times	1.25	1.28
Gross NPA	(%)	23.20	28.30
Net NPA	(%)	6.81	10.11

* Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-20.htm>
- Credit enhancement - <https://www.acuite.in/view-rating-criteria-49.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Rating/Outlook
Overdraft	NA	NA	NA	100.00	ACUITE A (CE ^A) /Stable (Assigned)

A credit enhancement in the form of guarantee from Government of Rajasthan

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About Acuité Ratings & Research:

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