

Press Release

Rajasthan Financial Corporation

May 04, 2021



Rating Downgraded

Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE A- (CE) [^] / Outlook: Stable (Downgraded from ACUITE A (CE) / Stable)

* Refer Annexure for details

[^] Credit Enhancement in the form of Guarantee extended by Rajasthan State Government

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE A- (CE)**' (**read as ACUITE A minus Credit Enhancement**) from '**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**'.

The rating revision takes into account the widening revenue and fiscal deficits of Government of Rajasthan (GoR). RFC's credit profile derives support from credit enhancement extended to it by GoR in the form of guarantees. By virtue of being a majority stakeholder, the GoR provides financial and managerial support to RFC. The rating also takes into cognisance the weakening credit profile of RFC amid rising credit costs and business slowdown on account of Covid-19 pandemic. RFC incurred losses of Rs.6.22 Cr. in FY2020 due to increase in credit provisions. Going forward, the credit profile of GoR and its financial support to RFC are key monitorables.

About RFC

RFC was established in 1955 under the SFCs Act 1951 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, 2020 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 March 31, 2020.

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**

RFC is a state finance corporation established under the SFC Act, 1951. Government of Rajasthan (GoR) is a 79.83 percent stakeholder in the corporation and is also expected to support the corporation given its systemic importance to the state. The corporation was established with the objective of promoting economic growth and regional industrial development in the state of Rajasthan. RFC also serves as disbursal agency 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 mix comprises equity contribution from GoR, NCDs and deposits from local authorities. Of the overall outstanding borrowings Rs. 413 Cr. as on March 31, 2020, NCDs comprised 73 percent and remaining 28 percent was through deposits. The ownership and the guarantee by the GoR enables RFC to borrow at fine pricing from various banks and institutions. GoR has also extended guarantees for the past bond issuances and bank loan facilities of the corporation. RFC's capitalisation levels remained adequate at 44.29 percent as on March 31, 2020. The corporation has maintained moderate gearing of 1.25 times for both FY2020 and FY2019.

Given the linkages with the Rajasthan State Government and RFC's role in facilitating funding for MSMEs, the corporation plays 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 6.12% per cent of the GSDP for FY2020-21 (RE) (3.77 per cent during the previous year). The outstanding debt of Rajasthan state as a percentage of GSDP remained over 42.7 percent for 2019- 20 (RE) against 35.3 per cent for 2018-19 (Actual). The state's revenue deficit for 2020-21 (RE) stood at 4.36 per cent of GSDP against 3.64 per cent of GSDP for 2019-20 (Actual). While these levels are already elevated, further deterioration in the state metrics could impact the headroom of GoR to support such entities like RFC. 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 business support from the State Government on an ongoing basis over the medium term.

Weaknesses

- Susceptibility of operating performance coupled with weakening asset quality and financial performance**

RFC was set up with the objective of promoting economic growth and industrial development in the state of Rajasthan. The Covid-19 pandemic and resultant lockdowns have impacted several sectors like hospitality and real estate. RFC's loan portfolio is mostly skewed towards hospitality and Construction Real Estate (CRE) segment. As a result, the corporation's loan portfolio has witnessed de-growth of 5 percent in FY 2020 over FY2019. As on March 31, 2020, the total portfolio stood at Rs. 828.20 crores (Rs.868.47 crores as on March 31, 2019). The portfolio is likely to futher decline to around Rs.800 Cr. as on March 31, 2021 as RFCs major focus was on the collections (Rs.230 Cr.) than disbursals (Rs.139 Cr.) in FY2021.

RFC's recovery happens on quarterly basis and some of the borrowers failed to pay in March-2020. This, in turn, caused significant asset quality pressures due to which GNPA increased to 30.57% as on March 31, 2020 as against 23.20% as on March 31, 2019. This is primarily on account of challenging operating environment. The corporation has made significant provisions against the sub-standard assets ~Rs.7.22 Cr. in FY 2020 due to which it incurred loss of Rs.6.22 Cr. in FY2020. RFC is having provision cover of 63% as on March 31, 2020 as against 76% as on March 31, 2019.

Asset quality was already 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.4.34 Cr. in FY2020 as against Rs.31.32 Cr. in FY2019 and Rs.35.38 Cr. in FY2018. The corporation's profitability metrics have weakened; NIM and ROAA declined to 6.32 per cent and negative 0.71 per cent in FY2020 from 7.54 per cent and 1.18 per cent in FY2019.

The current operating environment resulted by second wave of Covid-19 is likely to disrupt hospitality and CRE sectors over the near to medium term, thereby impacting the credit profiles of the borrowers. Thus, 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.

Liquidity Position: Adequate

RFC had adequately matched asset liability profile as on March 31, 2020 with cumulative surplus in all maturity buckets. The corporation's total debt stood at Rs.413 Cr. as on March 31, 2020, of which NCDs accounted for 73 percent. Of the total NCDs outstanding, Rs.90.00 Cr. of principal due for redemption in FY2021. The corporation has maintained cash and cash equivalents of Rs. 84.24 Cr as on March 31,

2020. RFC's liquidity position is further supported by un-utilized sanctioned bank lines of Rs.100.00 Cr. as on March 31, 2021.

Key rating sensitivities

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

Assessment for Adequacy of Credit Enhancement

RFC has established track record and its adequate capital position. Thus, even after considering risks such as delinquency in asset quality and deterioration in financial performance in FY2020, Acuité believes that the CE will stand adequate in all scenarios and in the event of any requirement, GoR will provide the necessary support.

Material Covenants

None

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

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	865.62	878.15
Total Income (Net of Interest expense)	Rs. Cr.	48.13	55.63
PAT	Rs. Cr.	-6.22	10.39
Net worth	Rs. Cr.	329.20	335.41

Ratios

Return on Average Assets (RoAA)	(%)	-0.71	1.18
Return on Average Net worth (RoNW)	(%)	-1.87	3.15
Total Debt/Tangible Net Worth	Times	1.25	1.25
Gross NPA	(%)	30.57%	23.20%
Net NPA	(%)	13.95%	6.81%

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

None

Any other information

None

Applicable Criteria

- Credit Enhancement - <https://www.acuite.in/view-rating-criteria-49.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Feb-2020	Secured Overdraft	Long Term	100.00	ACUITE A (CE) / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A- (CE) / Stable (Downgraded from ACUITE A (CE) / Stable)

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About Acuité Ratings & Research:

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