

Press Release

Rajasthan Financial Corporation

August 02, 2022



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE BBB+ Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating on the Rs. 100.00 Cr. bank facilities of Rajasthan Financial Corporation (RFC) to **'ACUITE BBB+' (read as ACUITE triple B plus)** from **'Acuite A-(CE), (read as Acuite A minus (Credit Enhancement))'**. The outlook is **'Stable'**.

The team has removed CE rating as per the latest notification from RBI on usage of CE for BLR instruments. The team continues to take in to account the support from the Government of Rajasthan in the form of financial guarantee.

Reason for Downgrade

The rating revision factors in 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 downgrade also factors in the weakening credit profile of RFC amid rising credit costs, declining asset quality and business slowdown. RFC incurred losses of Rs.0.12 Cr. in FY2021. The GNPA levels stood at 35.59 percent as on March 31, 2021. Going forward, the credit profile of GoR and its financial support to RFC and operational metrics of RFC are key monitorables.

About the company

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 disbursement of state and Central Government incentives and subsidies. Government of Rajasthan is the majority stakeholder with 79.83 percent holding as on March 31, 2021 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, 2021.

Analytical Approach

To arrive at the rating, Acuite 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 BB+

Key Rating Drivers

Strength

- **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 publicly 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. 361.43 Cr. as on March 31, 2021. The ownership and the guarantee by the GoR enable 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 45.94 percent as on March 31, 2021. The corporation has maintained moderate gearing of 1.10 times for FY2021 as compared to 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 up to Rs.1.5 Cr. and up to 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 6.1 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 42.6 percent for 2020- 21 (RE) against 35.4 per cent for 2019-20 (Actual). The state's revenue deficit for 2020-21 (RE) stood at 4.4 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.

Weakness

- **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. The corporation's loan portfolio has witnessed marginal decline of 0.3 percent in FY 2021 over FY2020. As on March 31, 2021, the total portfolio stood at Rs. 825.90 crores (Rs.828.20 crores as on March 31, 2020).

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 trend continued in

FY2021 also due to which the GNPA levels increased to 35.59 percent as on March 31, 2021. This is primarily on account of challenging operating environment. The corporation has made provisions against the sub-standard assets at ~Rs.11.27 Cr. in FY 2021. RFC is having provision cover of 58.26% as on March 31, 2021 as against 63% as on March 31, 2020.

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.2.91 Cr. in FY2021 as against Rs.4.34 Cr. in FY2020. The corporation's profitability metrics are moderate; NIM and ROAA improved to 7.74 per cent and negative 0.01 per cent in FY2021 from 6.32 per cent and negative 0.71 per cent in FY2020.

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.

Rating Sensitivity

- Credit profile of Rajasthan State Government and financial 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, 2021 with cumulative surplus in all maturity buckets. The corporation's total debt stood at Rs. 361.43 Cr. as on March 31, 2021, of which NCDs accounted for 73 percent. Of the total NCDs outstanding, Rs.120 Cr. of principal due for redemption in FY2022. The corporation has maintained cash and cash equivalents of Rs. 55.34 Cr as on March 31, 2021. RFC's liquidity position is further supported by un-utilized sanctioned bank lines of Rs.100.00 Cr. as on March 31, 2021.

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 supported 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.

Key Financials - Standalone / Originator Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	815.46	865.62
Total Income (Net of Interest expense)	Rs. Cr.	55.19	48.13
PAT	Rs. Cr.	-0.12	-6.22
Net worth	Rs. Cr.	329.08	329.20

Ratios

Return on Average Assets (RoAA)	(%)	-0.01	-0.71
Return on Average Net worth (RoNW)	(%)	-0.03	-1.87
Total Debt/Tangible Worth	Net Times	1.10	1.25
Gross NPA	(%)	35.59%	30.57%
Net NPA	(%)	14.85%	13.95%

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

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 May 2021	Secured Overdraft	Long Term	100.00	ACUITE A-(CE) Stable (Downgraded from ACUITE A (CE) Stable)
07 Feb 2020	Secured Overdraft	Long Term	100.00	ACUITE A (CE) Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE BBB+ Stable Downgraded (from ACUITE A-CE)

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About Acuité Ratings & Research

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