



Press Release
Rajasthan Financial Corporation
October 19, 2023
Rating Reaffirmed

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

Rating Rationale

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

Rationale for rating reaffirmation

The rating reaffirmation continues to factor in the ownership of Government of Rajasthan and the corporation's strategic importance for financing of MSME's for the state. The rating also factors in the improvement in profitability and recoveries made by the corporation. The improvement in profit is largely driven by the decreased interest expenses led by repayment of its existing debt obligations. The profit after tax of the corporation stood at Rs. 24.86 crore for FY23 as against Rs. 11.14 crore and (0.12) for FY22 and FY21 respectively.

The rating however remains constrained by the decline in the corporation's scale of operations and asset quality. The AUM of the company deteriorated at Rs. 636.32 crore as on March 31, 2023 as against Rs. 722.83 crore and Rs. 825.90 crore as on March 31, 2022 and March 31, 2021 respectively. The asset quality of the company also remains weak marked by subdued GNPA at 41.34 percent and NNPA at 20.98 percent as on March 31, 2023. Going forward the ability of the corporation to scale up its operations while improving its asset quality will remain a key rating monitorable.

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, 2023 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.

Standalone (Unsupported) Rating

Acuite BB+/Stable

Analytical Approach

Acuite has taken a standalone approach to arrive at rating of RFC and has factored in the

operational and managerial support it receives from Government of Rajasthan (GOR) by virtue of being subsidiary of the GoR.

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. The overall outstanding borrowings of the corporation stood at Rs. 112.09 as on March 31, 2023. 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 70.54 percent as on March 31, 2023. The corporation has maintained moderate gearing of 0.30 times as on March 31, 2023 as compared to 0.82 times as on March 31, 2022. 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. 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

Deteriorating scale of operations and asset quality albeit improving profitability

RFC was set up with the objective of promoting economic growth and industrial development in the state of Rajasthan. The corporation's AUM has seen a sequential decline since 2021. The AUM of the corporation stood at Rs. 636.32 crore as on March 31, 2023 as against Rs. 722.83 crore and Rs. 825.90 crore as on March 31, 2022 and March 31, 2021 respectively. Such deterioration in its AUM is on account of decline in the corporation's disbursement levels. The disbursement made by the corporation for FY23 stood at Rs. 101.12 crore as against Rs. 114.13 crore and Rs. 139.07 crore for FY22 and FY23 respectively. The asset quality of the company also continue to remain 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 GNPA stood at 41.34 percent as on March 31, 2023 as against 39.18 percent as on March 31, 2022. The corporation has made provisions against the sub-standard assets at ~Rs.163 Cr. for FY23 translating to a provision cover of 62.33% as on March 31, 2023 as against 60.77% as on March 31, 2022.

While the corporation's scale of operations witnessed a decline its profitability metrics has seen improvement led by declining interest expenses on account of repayment of existing debt obligations. The total debt of the company reduced at Rs. 112.09 crore as on March 31, 2023 as against Rs. 277.75 crore and Rs. 361.43 crore as on March 31, 2022 and March 31, 2021. Accordingly, the profit after tax of the company improved to Rs. 24.86 crore for FY23 as

against Rs. 11.14 crore for FY22 and Rs. (0.12) crore for FY21. The RoAA of the corporation improved to 3.75 percent for FY23 as against 1.45 percent for FY22.

Going forward, the ability of the corporation to scale up its operations while containing asset quality pressures will remain a key rating sensitivity.

Rating Sensitivity

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

All Covenants

None

Liquidity Position

Adequate

RFC had adequately matched asset liability profile as on March 31, 2023 with cumulative surplus in all maturity buckets. The corporation's total debt stood at Rs. 112.09 Cr. as on March 31, 2023. The corporation has maintained cash and cash equivalents of Rs. 37.44 Cr as on March 31, 2023. RFC's liquidity position is further supported by un-utilized sanctioned bank lines of Rs.61.73 Cr. as on March 31, 2023.

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 further deterioration in the scale of operations, 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.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets	Rs. Cr.	601.16	725.59
Total Income*	Rs. Cr.	66.09	51.88
PAT	Rs. Cr.	24.86	11.14
Net Worth	Rs. Cr.	369.87	340.22
Return on Average Assets (RoAA)	(%)	3.75	1.45
Return on Average Net Worth (RoNW)	(%)	7.00	3.33
Debt/Equity	Times	0.30	0.82
Gross NPA	(%)	41.37	39.18
Net NPA	(%)	20.98	20.17

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

none

Any other information

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>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Aug 2022	Secured Overdraft	Long Term	100.00	ACUITE BBB+ Stable (Downgraded from ACUITE A-(CE) Stable)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE BBB+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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