

Press Release

Finova Capital Private Limited

February 17, 2020

Rating Assigned



Total Bank Facilities Rated	Rs. 275.00 crore
Long Term Rating	ACUITE BBB+/ Stable (Assigned)

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) to the Rs. 275.00 crore bank facilities of Finova Capital Private Limited (FCPL). The outlook is '**Stable**'.

About FCPL:

Incorporated in 2015, Finova Capital Private Limited (FCPL) is a Jaipur based NBFC promoted by Mr. Mohit Sahney who has over two decades of experience in retail banking and financial services. The company is engaged in extending MSME loans (secured against property) and Home loans.

FCPL operates through a network of 81 branches spread across states of Rajasthan, Madhya Pradesh and Delhi and has a borrower base of 7,464 borrowers as on November 30, 2019.

Analytical Approach

Acuite has considered standalone business and financial risk profile of FCPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and support of marquee investors**

FCPL commenced its lending operations since March 2016. The company was founded by Mr. Mohit Sahney (MD & CEO) and Mrs. Sunita Sahney (Director). Mr. Mohit Sahney has an experience spanning over two decades in retail banking and financial services. He was previously associated with ICICI bank and served in various capacities in different segments. With his business acumen Mr. Sahney was able to bring on board marquee institutional investors like Sequoia Capital India Investment and Faering Capital.

Sequoia Capital India Investment and Faering Capital have board representation and FCPL benefits from their expertise. Mr. G.V Ravishankar (MD), and Mr. Ishaan Mittal (Vice-President) of Sequoia Capital India and Mr. Aditya Deepak Parekh, Co-founder of Faering Capital are on board.

FCPL has been able to obtain funding from these investors to the tune of ~Rs. 140 crore as on November 30, 2019 through compulsory convertible cumulative preference capital. This has supported their capitalization levels. The company has also been able to obtain long tenure loans from banks, NBFC's and financial institutions, with total debt of Rs. 271.2 crore outstanding as on November 30, 2019.

Acuite believes that the company's growth prospects will be supported by the promoter's experience in the industry along with their demonstrated track record of resource raising ability.

- **Increasing scale of operations**

FCPL is primarily focused on MSME loans (secured against property). The company's outstanding portfolio stood at Rs. 343.9 crore as on November 30, 2019 as compared to Rs. 245.1 crore as on March 31, 2019 and Rs. 94.7 crore as on March 31, 2018. FCPL has demonstrated growth in its scale of operations by expanding its network of branches and cementing their strong foothold in the state of Rajasthan while also venturing into new states of Madhya Pradesh and Delhi. FCPL has expanded its network to 81 branches as on November 30, 2019 from 54 branches as on March 31, 2019. With this, the company has increased its presence in Madhya Pradesh with 9 new branches and 17 new branches in Rajasthan and 1 in New Delhi. This has resulted in granularity in district-wise contribution towards portfolio of FCPL with top 3 branches contributing 21.7 percent of the total outstanding portfolio as on November 30, 2019 as against 31 percent as on March 31, 2019. FCPL disbursed loans amounting to Rs. 173.7 crore in FY 2019 and Rs. 126.4 crore in 8 months ended FY 2020.

Acuite expects FCPL to maintain the growth momentum in a sustainable manner while diversifying its geographical reach.

- **Healthy financial risk profile**

FCPL's financial risk profile is healthy marked by Net Interest Margin (NIM) which stood at 9.9 percent as on November 30, 2019 (annualized) and at 9.2 percent as on March 31, 2019. The company's Return on Average Assets (RoAA) have declined to 2.8 percent as on November 30, 2019 and 2.9 percent as on March 31, 2019. The low level of RoAA was on account of operating expenses incurred in the expansion of its network branches. Operating Expense to Earning Assets stood at 7.5 percent as on November 30, 2019 (annualized) as against 6.1 percent as on March 31, 2019. The company's leverage indicators are healthy at 1.6 times as on November 30, 2019, supported by infusion from marquee investors. FCPL reported a healthy capital adequacy ratio (CAR) of 45.9 percent as on November 30, 2019 comprising Tier 1 capital.

Acuite believes that the company's comfortable capitalization levels will support its growth plans over the medium term.

Weaknesses

- **Susceptibility of asset quality to seasoning and concentration risk**

FCPL commenced its lending operation in March, 2016 extending MSME loans (secured against property) having an average tenure of upto 6-7 years. The company's loan book of Rs. 343.9 crore as on November 30, 2019 has grown significantly from Rs. 245.1 crore as on March 31, 2019 and from Rs. 94.7 crore as on March 31, 2018. Due to substantial growth in loan book in the last couple of years, ~79 percent of the overall portfolio has a seasoning of less than two years. The company has maintained its asset quality with a GNPA at 0.8 percent as on November 30, 2019 which increased from 0.4 percent as on March 31, 2019. The collection efficiency stood at an average of 88 percent for 12 month period ended November 30, 2019.

Further, the company's operations are concentrated in Rajasthan with 96.33 percent of the overall outstanding portfolio as on November 30, 2019. FCPL has started to diversify its geographical presence by operating branches in Madhya Pradesh and Delhi. Occurrence of events such as slowdown in economic activity or shifting of activity to other geographies could impact the cash flows of the borrowers, thereby impacting credit profile of FCPL.

Acuite believes that the company's ability to maintain its asset quality given the low seasoned loan book and increased presence in the newer geographies will remain a key rating monitorable.

Rating Sensitivity

- Diversification in geographical profile while maintaining asset quality
- Sustainable and healthy growth in profitability metrics
- Significant deterioration in asset quality

Material Covenants

The lenders have stipulated asset quality and leverage indicators. Acuite observes that the company has adhered to such stipulated conditions based on their position as on November 30, 2019.

Liquidity: Adequate

FCPL's overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term as per ALM dated November 30, 2019. The company's liquidity is supported by recent capital infusion by investors. The company had liquid investment in the form of mutual fund units of Rs. 87.12 crore and fixed deposits worth Rs. 27.00 crore along with cash and bank balances of Rs. 1.4 crore as on November 30, 2019.

Acuite believes that the company's liquidity profile will continue to benefit from funding support from its investors.

Outlook: Stable

Acuite believes that FCPL will maintain a 'Stable' outlook over the near to medium owing to established track record of promoters and their resource raising ability along with demonstrated growth in loan portfolio while maintaining asset quality and profitability metrics. The outlook may be revised to 'Positive' in case of higher than envisaged growth in loan portfolio while maintaining profitability and asset quality metrics. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in asset quality or profitability metrics or in case of headwinds faced by promoters in raising resources in a timely and profitable manner.

About the Rated Entity - Key Financials

Particulars	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	359.24	123.80
Total Income*	Rs. Cr.	27.85	10.72
PAT	Rs. Cr.	7.02	3.66
Networth	Rs. Cr.	159.76	52.43
Return on Average Assets (RoAA)	(%)	2.90	4.96
Return on Net Worth (RoNW)	(%)	6.61	11.47
Total Debt/Tangible Net Worth (Gearing)	Times	1.18	1.05
Gross NPA's	(%)	0.36	0.19
Net NPA's	(%)	0.28	0.14

* Total income equals to Net interest income plus other income

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

None

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB+/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	260.00	ACUITE BBB+/ Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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