Press Release

Finova Capital Private Limited

August 13, 2020

Rating Reaffirmed & Assigned

Total Facilities Rated*	Rs. 325.00 crore
Total Bank Facilities Rated	Rs. 275.00 crore
Long Term Rating	ACUITE BBB+/ Stable (Reaffirmed)
Proposed NCD	Rs. 50.00 crore
Long Term Rating	ACUITE BBB+/ Stable (Assigned)

*Refer annexure for details

Rating Rationale

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

Further, Acuité has assigned the long term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** on the Rs. 50.00 crore proposed non-convertible debentures 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 104 branches spread across states of Rajasthan, Madhya Pradesh, Uttar Pradesh and Delhi and has a borrower base of 9,045 borrowers as on March 31, 2020.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established presence in MSME segment; demonstrated support from marquee investors**

  FCPL commenced its lending operations since March 2016 and extends MSME loans (secured against property) and Home loans. FCPL's borrower profile comprise MSME units providing services, small traders, retailers, businessmen and other local small business operators primarily engaged in providing essential services. 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 earlier associated with ICICI bank and served in various capacities in different segments. Mr. Sahney has been 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 the board of FCPL. FCPL has been able to obtain funding from these investors to the tune of ~Rs. 140 crore through compulsory convertible cumulative preference capital in two rounds of funding held in FY2018 and FY2019. The company is in talks with investors for an additional round of funding.

The company's outstanding loan portfolio stood at ~Rs. 397 crore as on March 31, 2020 (~Rs. 245 crore as on March 31, 2019 and Rs. ~95 crore as on March 31, 2018). FCPL has demonstrated growth in its scale of operations by expanding its network to 104 branches across states of Rajasthan, Madhya Pradesh, Uttar Pradesh and Delhi. Rajasthan still constitutes for the major portion of the company's portfolio with 79 branches and accounting for ~93 percent of the outstanding portfolio as on March 31, 2020. However, within Rajasthan, the portfolio is spread across 28 districts.

Acuité believes that the company's growth prospects will be supported by the promoter's extensive experience in the financial services sector fortified by support from marquee investors like Sequoia Capital and Faering Capital.

- **Healthy financial risk profile**

FCPL's networth stood at Rs. 171.04 crore as on March 31, 2020 and reported a healthy capital adequacy ratio (CAR) of 40.03 percent comprising Tier 1 capital. The company's leverage indicators are healthy at 1.82 times as on March 31, 2020. The company has a diversified lender profile comprising Banks and NBFC/FI's, with total debt of Rs. 312.08 crore outstanding as on March 31, 2020. Recently the company has been able to raise funds under TLTRO from PSU's like Punjab National Bank and Bank of Baroda.

FCPL's profitability indicators are also healthy marked by Net Interest Margin (NIM) which stood at 13.27 percent as on March 31, 2020 which improved from 9.22 percent as on March 31, 2019. The company's Return on Average Assets (RoAA) has declined marginally to 2.63 percent as on March 31, 2020 from 2.90 percent as on March 31, 2019. The marginal decline in RoAA was on account of operating expenses incurred in the rapid expansion of its network branches which are yet to fructify. Operating Expense to Earning Assets stood at 8.21 percent as on March 31, 2020 as against 6.14 percent as on March 31, 2019. The experience of the top management and their active focus on maintaining robust collections has supported the company's performance in this turbulent environment.

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

Weaknesses

- **Relatively low seasoned portfolio; likelihood of elevated stress in asset quality**

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. 396.84 crore as on March 31, 2020 has grown significantly from Rs. 245.10 crore as on March 31, 2019 and from Rs. 94.67 crore as on March 31, 2018. Due to substantial growth in loan book in the last couple of years, ~49 percent of the overall portfolio has a seasoning of fewer than two years.

Around 93 percent of FCPL's portfolio of Rs. 396.84 crore as on March 31, 2020 accounts for MSME loans (secured against property) and ~7 percent towards Home loans. FCPL's overall credit profile is susceptible to concentration towards MSME loans (secured against property) which in turn are facing their own inherent risks and challenges. Further, since MSME loans are extended to self-employed individuals for business purposes, the serviceability of these loans is directly dependent on the level of economic activity in the region. Majority of the FCPL's MSME borrowers comprise services providers, small traders, retailers, businessmen and other local small business operators. While the activities of most of these small MSME units have been impacted because of the on-going lockdown and restrictions on the movement of men and material, collections of FCPL indicate resilience since most of its borrowers are primarily engaged in providing essential services. However, the magnitude of impairment will be known with certainty only over the next one or two quarters. The company's operations are concentrated in Rajasthan with ~93 percent of the overall outstanding portfolio as on March 31, 2020. FCPL has started to diversify its geographical presence by operating branches in Madhya Pradesh, Uttar Pradesh and Delhi. The occurrence of events such as the slowdown in economic activity or shifting of activity to other geographies could impact the cash flows of the borrowers, thereby impacting the credit profile of FCPL.

The company has maintained its asset quality with a GNPA (at PAR 180+ days past due) at 0.18 percent as on March 31, 2020 as compared to 0.36 percent as on March 31, 2019. The collection efficiency stood at an average of ~87 percent for 12 month period ended March 31, 2020. Relatively low seasoning of the portfolio with a concentration in Rajasthan is expected result in increased asset quality pressures due to the current operating environment.

Acuité 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

- Impact of natural calamities like Covid-19 on on-going operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metric
- Changes in the regulatory environment

Material Covenants

FCPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others. As per confirmation received from client vide mail dated July 27, 2020 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity: Adequate

FCPL's overall liquidity profile remains adequate with no negative cumulative mismatches in near to medium term as per ALM dated March 31, 2020. FCPL has not availed any moratorium from its lenders and has been serving its dues. FCPL's collections during April, May and June 2020 were Rs. 5.96 crore, Rs. 8.43 crore and Rs. 10.07 crore respectively i.e. ~56 percent of scheduled collections for April, ~79 percent of scheduled collections for May and ~94 percent of scheduled collections for June. FCPL extends MSME loans (secured against property) with a focus on borrowers providing services, small traders, retailers, businessmen and other local small business operators, which are primarily engaged in providing essential services. The focus on such borrowers, specially in current Covid situation has enabled the company to maintain high collection efficiency. The company has unencumbered cash and cash equivalents of Rs. 76.51 crore as on March 31, 2020 which comprises cash and bank balances of Rs. 69.43 crore and investments in liquid funds amounting to Rs. 7.08 crore. Further, FCPL is in talks with various lenders to raise long term debt under the TLTRO route and through the special liquidity facility. The company is also in talks with private investors to raise additional capital; however, the timing and extent of the infusion are uncertain.

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

Outlook: Stable

Acuité believes that FCPL will maintain a 'Stable' outlook over the near to medium owing to an 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.

About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	497.29	359.24
Total Income*	Rs. Cr.	59.55	27.85
PAT	Rs. Cr.	11.28	7.02
Networth	Rs. Cr.	171.04	159.76
Return on Average Assets (RoAA)	(%)	2.63	2.90
Return on Net Worth (RoNW)	(%)	6.82	6.61
Total Debt/Tangible Net Worth (Gearing)	Times	1.82	1.18
Gross NPA's	(%)	0.18	0.36
Net NPA's	(%)	0.15	0.28

** 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-52.htm
- 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
17-Feb-2020	Term Loan	Long Term	15.00	ACUITE BBB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	260.00	ACUITE BBB+/Stable (Assigned)

*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 Available	Not Applicable	Not Available	15.00	ACUITE BBB+/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	260.00	ACUITE BBB+/ Stable (Reaffirmed)
Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB+/ Stable (Assigned)

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About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,000 credit 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 Mumbai.