

Press Release

Finova Capital Private Limited

December 31, 2020

Rating Reaffirmed



Total Facilities Rated*	Rs. 405.00 cr.
Total Bank Facilities Rated	Rs. 275.00 cr.
Long Term Rating	ACUITE A-/ Stable (Reaffirmed)
Non-Convertible Debentures	Rs. 50.00 cr.
Long Term Rating	ACUITE A-/ Stable (Reaffirmed)
Non-Convertible Debentures	Rs. 50.00 cr.
Long Term Rating	ACUITE Provisional A/ Stable (Reaffirmed)
Non-Convertible Debentures	Rs. 30.00 cr.
Long Term Rating	ACUITE PP-MLD A-/ Stable (Assigned – Converted from Provisional to Final)

*Refer annexure for details

Rating Rationale

Acuite has converted the provisional rating on the Rs. 30 cr. proposed Principal Protected Market Linked Debentures (PP-MLD) of Finova Capital Private Limited to final rating of **'ACUITE PP-MLD A-' (read as ACUITE Principal Protected Market Linked Debentures A minus)**. The outlook is **'Stable'**. The conversion from provisional rating to the final rating reflects the fulfillment of the conditions laid out in the press release dated December 18, 2020.

Acuite has reaffirmed the long term rating of **'ACUITE A-' (read as ACUITE A minus)** on Rs. 275.00 cr. bank facilities of Finova Capital Private Limited (FCPL). The outlook is **'Stable'**.

Acuite has reaffirmed the long term rating of **'ACUITE A-' (read as ACUITE A minus)** on Rs. 50.00 cr. non-convertible debentures of Finova Capital Private Limited (FCPL). The outlook is **'Stable'**.

Acuite has reaffirmed the long term rating of **'ACUITE Provisional A' (read as ACUITE Provisional A)** on Rs. 50.00 cr. proposed non-convertible debentures of Finova Capital Private Limited (FCPL). The outlook is **'Stable'**.

The rating on the Rs. 50 cr. proposed NCD issue of FCPL is provisional and the final rating is subject to:

- Appointment of SEBI registered debenture trustee
- Execution of signing of Trust Deed with the proposed Structured Payment Mechanism (SPM) duly incorporated
- Receipt of final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions of term sheet.

Rating rationale for the proposed NCD of Rs. 50 cr.:

The difference in rating is taken due to the presence of Debt Service Reserve Account (DSRA) and t minus structure present in the proposed NCD of Rs. 50 cr. DSRA is to be maintained at a minimum of 10 percent of the outstanding principal amount. DSRA needs to be maintained in the form of bank fixed deposit, "AAA" rated debt securities, sovereign debt securities, bank guarantee, in any combination, for the duration of the NCDs and should help in partly mitigating the risk arising out of the liquidity mismatches to meet the coupon repayments.

The rating takes into account the capital infusion of Rs. 260 cr. in October 2020 from its existing investors Sequoia Capital India Investments (Rs. 216 cr.) and Faering Capital (Rs. 44 cr.). The rating reflects the healthy capitalization and capital buffers reflected through Capital Adequacy Ratio (CAR) of ~89.58 percent and leverage of 0.93 times as on October 31, 2020. The rating also factors in the significant traction shown in disbursements and collections which were subdued in Q1 of FY21 as a result of outbreak of pandemic. The disbursements levels are growing up every month and were inching close to the pre-covid levels. In a similar manner improvement in collections is seen with collection efficiency in the range of 90 to 96 percent in last three months. The rating continues to factor in FCPL's experienced management along with efficient risk management systems and collection process adopted by the company reflected in its on-time asset quality at ~91.09 percent and GNPA of 0.62 percent as on September 30, 2020 (provisional).

The rating is constrained by the modest scale of operations and geographically concentration of loan portfolio (~91 percent in Rajasthan) and low seasoned portfolio with ~56 percent of outstanding portfolio with a seasoning less than 2 years. The rating is also constrained by inherent risks associated with lending in this segment.

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

Acuite has considered 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. 400 cr. through compulsory convertible cumulative preference capital in three rounds of funding held in FY2018, FY2019 and FY2021. Recently, in the month of October 2020, FCPL raised Rs. 260 cr. in its third round of funding from these investors.

The company's outstanding loan portfolio stood at ~Rs. 397 cr. as on March 31, 2020 (~Rs. 245 cr. as on March 31, 2019 and Rs. ~95 cr. as on March 31, 2018). The portfolio further increased to Rs. 445.12 cr. as on September 30, 2020. 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 major portion of the company's portfolio with 79 branches and accounting for ~91 percent of the outstanding portfolio as on September 30, 2020. However, within Rajasthan, the portfolio is spread across 28 districts.

Acuite 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 investor like Sequoia Capital and Faering Capital.

• **Healthy financial risk profile**

FCPL's networth stood at Rs. 171.04 cr. 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 cr. 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. The financial risk profile further improved with recent capital infusion of Rs. 260 cr. in the month of October 2020. The networth improved to Rs. 436.72 cr. with a gearing of 0.93 times as on October 31, 2020.

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) have 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.

Acuite 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 cr. as on March 31, 2020 has grown significantly from Rs. 245.10 cr. as on March 31, 2019 and from Rs. 94.67 cr. as on March 31, 2018. The outstanding loan portfolio stood at Rs. 445.12 cr. as on September 30, 2020. Due to substantial growth in loan book in the last couple of years, ~56 percent of the overall portfolio has a seasoning of less than two years as on September 30, 2020.

Around 93 percent of FCPL's portfolio of Rs. 445.12 cr. as on September 30, 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 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 ~91 percent of the overall outstanding portfolio as on September 30, 2020. FCPL has started to diversify its geographical presence by operating branches in Madhya Pradesh, Uttar 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.

The company has maintained its asset quality with a GNPA (at PAR 90+ days past due) at 0.62 percent and NNPA of 0.47 percent as on September 30, 2020 (provisional). The collection efficiency stood at an average of ~87 percent for 12 month period ended March 31, 2020. Relatively low seasoning of portfolio with concentration in Rajasthan is expected result in increased asset quality pressures due to current operating environment.

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

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metric
- Changes in 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 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 mis-matches 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. The company has unencumbered cash and cash equivalents of Rs. 296.18 cr. as on September 30, 2020 which comprises cash and bank balances of Rs. 206.18 cr. and fixed deposits of Rs. 90 cr. FCPL also has investments in liquid funds amounting to Rs. 25.87 cr. FCPL's collections during August, September and October 2020 were Rs. 10.36 cr., Rs. 10.14 cr. and Rs. 10.35 cr. respectively, i.e. ~96 percent of scheduled collections for August, ~89 percent of scheduled collections for September and ~94 percent of scheduled collections for October. 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. Further, FCPL recently raised long term debt under the TLTRO route and through additional capital infusion from its existing investors.

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 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
18-Dec-2020	Term Loan	Long Term	15.00	ACUITE A-/Stable (Upgraded from ACUITE BBB+)
	Proposed Bank Facility	Long Term	260.00	ACUITE A-/Stable (Upgraded from ACUITE BBB+)
	Secured Redeemable NCD	Long Term	15.00	ACUITE A-/Stable (Upgraded from ACUITE BBB+)
	Secured Redeemable NCD	Long Term	10.00	ACUITE A-/Stable (Upgraded from ACUITE BBB+)
	Secured Redeemable NCD	Long Term	25.00	ACUITE A-/Stable (Upgraded from ACUITE BBB+)
	Proposed Secured Redeemable NCD	Long Term	50.00	ACUITE Provisional A/ Stable (Upgraded from ACUITE Provisional A-)
	Proposed PP-MLD NCD	Long Term	30.00	ACUITE Provisional PP-MLD A-/ Stable (Assigned)
04-Sep-2020	Term Loan	Long Term	15.00	ACUITE BBB+/ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	250.00	ACUITE BBB+/ Stable (Reaffirmed)
	Secured Redeemable Non-Convertible Debentures	Long Term	15.00	ACUITE BBB+/ Stable (Reaffirmed)
	Proposed Non-Convertible Debentures	Long Term	35.00	ACUITE BBB+/ Stable (Reaffirmed)
	Proposed Non-Convertible Debentures	Long Term	50.00	ACUITE Provisional A-/ Stable (Assigned)
13-Aug-2020	Term Loan	Long Term	15.00	ACUITE BBB+/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	260.00	ACUITE BBB+/Stable (Reaffirmed)
	Proposed Non-Convertible Debentures	Long Term	50.00	ACUITE BBB+/Stable (Assigned)
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**

ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outlook
-	Term Loan	01-09-2019	11.50%	30-08-2026	15.00	ACUITE A-/Stable (Reaffirmed)
-	Term Loan	05-10-2020	11.50%	07-10-2025	12.00	ACUITE A-/Stable (Reaffirmed)
-	Term Loan	26-Nov-2020	10.95%	30-11-2023	15.00	ACUITE A-/Stable (Reaffirmed)
-	Term Loan	26-09-2020	11.50%	24-09-2026	15.00	ACUITE A-/Stable (Reaffirmed)
-	Term Loan	28-09-2020	9.50%	28-01-2025	35.00	ACUITE A-/Stable (Reaffirmed)
-	Term Loan	27-10-2020	11.25%	30-11-2024	15.00	ACUITE A-/Stable (Reaffirmed)
-	Term Loan	24-12-2020	12.00%	24-11-2023	10.00	ACUITE A-/Stable (Reaffirmed)
-	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	158.00	ACUITE A-/Stable (Reaffirmed)
INE0DT007012	Secured Redeemable NCD	18-08-2020	10.86%	18-08-2023	15.00	ACUITE A-/Stable (Reaffirmed)
INE0DT007020	Secured Redeemable NCD	18-09-2020	10.86%	21-04-2023	10.00	ACUITE A-/Stable (Reaffirmed)
INE0DT007038	Secured Redeemable NCD	28-10-2020	11.50%	28-10-2024	25.00	ACUITE A-/Stable (Reaffirmed)
-	Proposed Secured Redeemable NCD	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE Provisional A-/Stable (Reaffirmed)
INE0DT007079	PP-MLD NCD	24-12-2020	Not Applicable	23-06-2023	10.00	ACUITE PP-MLD A-/Stable (Assigned – Converted from Provisional to Final)
INE0DT007061	PP-MLD NCD	24-12-2020	Not Applicable	24-02-2022	10.00	ACUITE PP-MLD A-/Stable (Assigned – Converted from Provisional to Final)
INE0DT007053	PP-MLD NCD	24-12-2020	Not Applicable	24-12-2024	10.00	ACUITE PP-MLD A-/Stable (Assigned – Converted from Provisional to Final)

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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.

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