

Press Release

Finova Capital Private Limited

September 30, 2021



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 (Reaffirmed)

*Refer annexure for details

Rating Rationale

Acuité 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**'.

Acuité 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**'.

Acuité has reaffirmed the long term rating of '**ACUITE PP-MLD A-**' (read as **ACUITE Principal Protected Market Linked Debentures A minus**) on Rs. 30.00 cr. principal protected market linked debentures of Finova Capital Private Limited (FCPL). The outlook is '**Stable**'.

Acuité 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 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 factors in FCPL's experienced management, support from marquee investors, diversified and strong resource raising ability. The rating reflects the healthy capitalization as reflected through Capital Adequacy Ratio (CAR) of 62.60 percent and leverage of 1.19 times as on March 31, 2021. As on June 30,

2021 CAR stood at ~66.28 percent and gearing at 1.12 times. The rating takes into account the capital infusion via CCPS of Rs. 260 Cr. in FY2021 from its existing investors Sequoia Capital India Investments (Rs. 216 Cr.) and Faering Capital (Rs. 44 Cr.). The rating continues to factor in FCPL's efficient risk management systems and collection processes as reflected in its on-time portfolio of ~87.70 percent as on August 31, 2021 (provisional) and rebound in collections. While Acuite takes cognizance of subdued business volumes during Q1FY22 on account of pandemic, the company's disbursals and collections have shown traction since July 2021. The rating also considers FCPL's healthy financial risk profile.

The rating is constrained by the modest scale of operations, geographically concentration of loan portfolio (~83 percent in Rajasthan) and low seasoning (~56 percent of outstanding portfolio with a seasoning less than 2 years). Further, the inherent risks of lending in this segment have been exacerbated by localised lockdowns and economic disruptions in the wake of second wave of Covid-19. Going forward, the ability of the company to scale up its operations while maintaining profitability will be key credit monitorable.

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 132 branches spread across states of Rajasthan, Madhya Pradesh, Uttar Pradesh, Delhi, Chhattisgarh, Haryana and Jharkhand and has a borrower base of 15,251 borrowers as on March 31, 2021.

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. 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. 590 Cr. as on March 31, 2021 (~Rs. 397 Cr. as on March 31, 2020 and ~Rs. 245 Cr. as on March 31, 2019). The portfolio further increased to Rs. 651.82 Cr. as on August 31, 2021. FCPL has demonstrated growth in its scale of operations by expanding its network to 135 branches across states of Rajasthan, Madhya Pradesh, Uttar Pradesh, Delhi, Chhattisgarh, Haryana and Jharkhand. Rajasthan still constitutes for major portion of the company's portfolio with 79 branches and accounting for ~83 percent of the outstanding portfolio as on August 31, 2021. 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 investor like Sequoia Capital and Faering Capital.

- Healthy financial risk profile**

FCPL's networth stood at Rs. 441.90 Cr. as on March 31, 2021 and reported a healthy capital adequacy ratio (CAR) of 62.60 percent mostly comprising Tier 1 capital (62.11 percent). The company's leverage indicators are healthy at 1.19 times as on March 31, 2021. The company has a diversified lender profile comprising Banks and NBFC/FI's, with total debt of Rs. 523.59 Cr. outstanding as on March 31, 2021. FCPL was able to raise funds under TLTRO from PSB's like Punjab National Bank and Bank of Baroda. The financial risk profile further improved with capital infusion of Rs. 260 Cr. in FY2021. The networth stood at Rs. 445.55 Cr. with a gearing of 1.12 times as on June 30, 2021.

FCPL's profitability indicators are also healthy marked by Net Interest Margin (NIM) which stood at 13.16 percent as on March 31, 2021 (P.Y 13.27 percent). The company's Return on Average Assets (RoAA) have declined marginally to 2.23 percent as on March 31, 2021 from 2.63 percent as on March 31, 2020. 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 6.97 percent as on March 31, 2021.

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. 590.36 Cr. as on March 31, 2021 has grown significantly from Rs. 396.84 Cr. as on March 31, 2020 and from Rs. 245.10 Cr. as on March 31, 2019. The outstanding loan portfolio stood at Rs. 651.81 Cr. as on August 31, 2021. 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 92 percent of FCPL's portfolio of Rs. 651.81 Cr. as on August 31, 2021 accounts for MSME loans (secured against property) and ~8 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 lockdowns 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. The company's operations are concentrated in Rajasthan with ~83 percent of the overall outstanding portfolio as on August 31, 2021. FCPL has started to diversify its geographical presence by operating branches in Chhattisgarh, Haryana and Jharkhand. 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 saw an increase in delinquencies in asset quality with a GNPA (at PAR 90+ days past due) at 3.69 percent and NNPA of 1.74 percent as on August 31, 2021 (provisional) as compared to GNPA of 0.68 percent and NNPA of 0.40 percent as on March 31, 2021. The overall collection efficiency stood at an average of ~76 percent for 6 months period ended August 31, 2021. Relatively low seasoning of portfolio with concentration in Rajasthan is expected result in increased asset quality pressures due to 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

- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metrics
- 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, 2021. The company has unencumbered cash and cash equivalents of Rs. 158 Cr. as on March 31, 2021 which comprises cash and bank balances of Rs. 7.30 Cr. and fixed deposits of Rs. 150.89 Cr. FCPL also has investments in liquid funds amounting to Rs. 105.63 Cr. FCPL's collections during July and August 2021 were ~91 percent of the scheduled collections. 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 its collection efficiency. Further, FCPL has been able to obtain funding through long term debt and through additional capital infusion from its existing investors.

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 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	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	980.15	497.29
Total Income*	Rs. Cr.	77.53	59.55
PAT	Rs. Cr.	16.50	11.28
Networth	Rs. Cr.	441.90	171.04
Return on Average Assets (RoAA)	(%)	2.23	2.63
Return on Net Worth (RoNW)	(%)	5.38	6.82
Total Debt/Tangible Net Worth (Gearing)	Times	1.19	1.82
Gross NPA's	(%)	0.68	0.18
Net NPA's	(%)	0.40	0.15

* Total income equals to Net interest income plus other income

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

Not Applicable

Any other information

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUITE A-/ Stable

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

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
31-Dec-2021	Term Loan	Long Term	15.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	12.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	35.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE A-/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	158.00	ACUITE A-/Stable (Reaffirmed)
	Secured Redeemable NCD	Long Term	15.00	ACUITE A-/Stable (Reaffirmed)
	Secured Redeemable NCD	Long Term	10.00	ACUITE A-/Stable (Reaffirmed)
	Secured Redeemable NCD	Long Term	25.00	ACUITE A-/Stable (Reaffirmed)
	Proposed Secured Redeemable NCD	Long Term	50.00	ACUITE Provisional A/ Stable (Reaffirmed)
	PP-MLD NCD	Long Term	10.00	ACUITE PP-MLD A-/ Stable (Assigned – Converted from Provisional to Final)
	PP-MLD NCD	Long Term	10.00	ACUITE PP-MLD A-/ Stable (Assigned – Converted from Provisional to Final)
	PP-MLD NCD	Long Term	10.00	ACUITE PP-MLD A-/ Stable (Assigned – Converted from Provisional to Final)

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**

Lender's Name	ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outlook
Punjab National Bank	-	Term Loan	01-09-2019	11.50%	30-08-2026	11.49	ACUITE A-/Stable (Reaffirmed)
Hinduja Leyland Finance	-	Term Loan	05-10-2020	11.50%	07-10-2025	10.19	ACUITE A-/Stable (Reaffirmed)

Nabsamruddhi Finance	-	Term Loan	26-11-2020	10.95%	30-11-2023	11.70	ACUITE A-/Stable (Reaffirmed)
State Bank of India	-	Term Loan	28-09-2020	9.50%	28-01-2025	29.41	ACUITE A-/Stable (Reaffirmed)
Ujjivan Small Finance Bank	-	Term Loan	27-10-2020	11.25%	30-11-2024	12.19	ACUITE A-/Stable (Reaffirmed)
Maanaveeya Development & Finance	-	Term Loan	24-12-2020	12.00%	24-11-2023	8.48	ACUITE A-/Stable (Reaffirmed)
HDFC Bank	-	Term Loan	31-12-2020	8.50%	31-12-2025	21.67	ACUITE A-/Stable (Reaffirmed)
The Catholic Syrian Bank Ltd	-	Term Loan	30-03-2021	10.25%	31-03-2026	13.75	ACUITE A-/Stable (Reaffirmed)
Kotak Mahindra Bank	-	Term Loan	30-03-2021	8.90%	31-03-2026	9.17	ACUITE A-/Stable (Reaffirmed)
Tata Capital Financial Services Limited	-	Term Loan	21.06.2021	10.65%	01-07-2027	14.79	ACUITE A-/Stable (Reaffirmed)
Yes Bank Limited	-	Term Loan	23.06.2021	9.25%	23-06-2026	15.00	ACUITE A-/Stable (Reaffirmed)
Bajaj Finance Limited	-	Term Loan	31.05.2021	10.00%	31-05-2026	11.40	ACUITE A-/Stable (Reaffirmed)
Federal Bank	-	Term Loan	30.06.2021	9.00%	30-06-2026	14.48	ACUITE A-/Stable (Reaffirmed)
Capital Small Finance Bank	-	Term Loan	22.06.2021	11.00%	31-05-2028	9.87	ACUITE A-/Stable (Reaffirmed)
DCB	-	Term Loan	Not Available	Not Available	Not Available	10.00	ACUITE A-/Stable (Reaffirmed)
South Indian Bank	-	Term Loan	Not Available	Not Available	Not Available	10.00	ACUITE A-/Stable (Reaffirmed)
Kotak Mahindra Bank	-	Term Loan	Not Available	Not Available	Not Available	25.00	ACUITE A-/Stable (Reaffirmed)
SIDBI	-	Term Loan	Not Available	Not Available	Not Available	28.00	ACUITE A-/Stable (Reaffirmed)
-	-	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.41	ACUITE A-/Stable (Reaffirmed)
-	INE0DTO 07012	Secured Redeemable NCD	18-08-2020	10.86%	18-08-2023	15.00	ACUITE A-/Stable (Reaffirmed)
-	INE0DTO 07020	Secured Redeemable NCD	18-09-2020	10.86%	21-04-2023	10.00	ACUITE A-/Stable (Reaffirmed)
-	INE0DTO 07038	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)
-	INE0DTO 07079	PP-MLD NCD	24-12-2020	Not Applicable	23-06-2023	10.00	ACUITE PP-MLD A-/ Stable (Reaffirmed)

-	INE0DTO 07061	PP-MLD NCD	24-12-2020	Not Applicable	24-02-2022	10.00	ACUITE PP-MLD A-/ Stable (Reaffirmed)
-	INE0DTO 07053	PP-MLD NCD	24-12-2020	Not Applicable	24-12-2024	10.00	ACUITE PP-MLD A-/ Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President Tel: 022-49294000 mohit.jain@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 - 49294011 rating.desk@acuite.in
Shreyans Mehta Senior Analyst - Rating Operations Tel: 022-49294062 shreyans.mehta@acuite.in	

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 8,850 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 KanjurMarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.