Acuité RATINGS & RESEARCH

# Press Release

**Capsave Finance Private Limited**

July 28, 2021

**Rating Upgraded**

| **Total Proposed Facilities Rated*** | Rs. 20.00 Cr |
|---|---|
| **Long Term Rating** | ACUITE A/ Stable<br>(Upgraded from ACUITE A-/ Stable) |

**Refer Annexure for details*

***Erratum:*** *In the original PR dated July 26, 2021, there was proposed non-convertible debentures in the 'Annexure - Details of Instruments rated' section which has now been non-convertible debentures in this version.*

## Rating Rationale

Acuité has upgraded the long term rating to **'ACUITE A' (read as ACUITE A)** from **'ACUITE A-' (read as ACUITE A minus)** on the Rs.20.00 Cr. of Non-Convertible Debentures of Capsave Finance Private Limited (CFPL). The outlook is **'Stable'**.

The rating takes into consideration the better than the envisaged performance reflected in the AUM growth and marked improvement in the profitability. The AUM registered the growth of 75% and stood at Rs.579.45 Cr. as on March 31, 2021 over Rs. 331.18 Cr. as on March 31, 2020. Since the pandemic gave rise to 'work from home' scenario, this led to a higher demand of IT assets which in turn act as a growth driver for CFPL. The company also forayed into Supply Chain Financing, which contributes ~24% to the total AUM as on March 31, 2021. The rating also factors in the comfortable capital structure and low adjusted gearing of 0.64 times as on March 31, 2021. The capitalization was supported by the capital infusion of Rs.25 Cr. by the parent, Rent Alpha Private Limited. The company also continues to display superior financial flexibility through its ability to raise funds from the external lenders at competitive rates. Given the strong collection mechanism, the company does not have any NPA in its portfolio so far. The rating continues to derive comfort from the strong parent support of Rent Alpha Private limited.

The rating is however constrained by the relatively moderate scale of operations and limited seasoning. Acuité has observed some delinquencies within the softer bucket i.e. 31-60dpd stood at 1.3% as on March 31, 2021as against 0.2% as on March 31, 2020. Given the disbursements have gradually picked up over the past two years, the ability to maintain optimal asset quality in the growth phase across cycles is yet to be demonstrated. Going forward, continued parent support as well as the ability of company to scale up its loan book while maintaining asset quality and operating metrics will be key monitorables.

## About Capsave Finance Private Limited (CFPL)

Mumbai based, CFPL was incorporated in 1992 as a Non-deposit taking Non-Banking Finance Company (ND-NBFC). Company is promoted by Mr. Jinesh Jain (MD) and Mr. Praveen Chauhan(ED). CFPL commenced its operations in 2016. The company is engaged in offering equipment leasing under operating and finance lease, bill discounting facility (majorly for RAPL). CFPL is also recently ventured into supply chain financing. The equipment like IT products (laptops, Apple phones etc.), Plant & Machinery, ATM machines and Furniture and Fit Outs. CFPL has its assets deployed on a pan India level and operates through 6 offices across Mumbai (headquarters), Pune, Delhi, Hyderabad, Chennai and Bangalore, as on March 31, 2021.

Rent Alpha Private Limited (RAPL) is a holding company of CFPL and operates as a residuary asset management company operating since 2014. RAPL's business model focusses on offering leasing products with a back to back 'sell down arrangement' of these lease receivables to banks and NBFCs. The transaction is non- recourse in nature and the lessee makes the payment directly to the banks and NBFCs.
Around 77% of the shareholding in RAPL is held by Bravia Capital (USA), an alternative investment firm specialising in transportation and logistics and asset finance and leasing of aircrafts, trailers and containers among others. The balance ~23% shareholding is held by Indian promoters i.e. Mr. Jinesh Jain (MD of CFPL) and Mr. Praveen Chauhan (Executive Director of CFPL).

## Analytical Approach

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

## Strengths

- **Comfortable capitalization supported by resourceful promoter coupled with healthy financial risk profile**

CFPL commenced its operations in 2016. The promoters of CFPL, Mr. Jinesh Jain and Mr. Praveen Chauhan were initially associated with Rent Works India Limited, an Indian arm of an Australian based MNC, Rent Works Limited which specialised in leasing and financing business. Rent Works Limited is a global leasing and financing group which gradually prune down its operations in India. Pursuant to that, Mr. Jain and Mr. Praveen started Rent Alpha Private Limited (RAPL), wherein the business model was of leasing equipment with a back to back 'sell down arrangement'. Under RAPL, the focus of the promoters was on residual management and the value to be derived from the redeployment of the assets or the terminal value of the assets at the end of the lease term. As a natural extension of this leasing activity, the promoters started Capsave Finance Private Limited (CFPL), a ND-NBFC for offering leasing solutions to clients with the intent of retaining the exposure on their books (as opposed to a sell down in case of Rent Alpha Private Limited).

Mr. Jain and Mr. Chauhan are supported by team of seasoned professionals in key functional areas. The promoters have been able to leverage on the relationships with various leading corporates, both Indian and Multinationals, during their stint with Rent Works India Limited. The group derives its strength from the established track record of the promoters in structuring competitive financing solutions for their clients, keeping in mind the regulatory and tax considerations. RAPL (parent company of CFPL) is supported by funding from Bravia Capital (USA) which holds ~77 percent stake.

As per the business model of RAPL (parent company of CFPL) does not require significant funding requirements since most of its transactions are back to back down sold to banks and NBFCs. Hence, any surplus available with RAPL can be made available to CFPL, thereby improving CFPL's financial flexibility.

Acuité has observed the track record of continuous support received in the form of periodic capital infusion from the promoter group. Rent Alpha Private Limited invested Rs.25 Cr. in FY2021, Rs.34.00 Cr. in FY2020, and Rs.21 Cr. in FY2019, further also expected to support the growth plans as and when required. Presently, 42% of the total borrowings of Rs.291.93 Cr. as on March 31, 2021 are the ICDs extended by the parent. Company's ability to raise funds at competitive rates from the external borrowers are likely to support the future growth plans. Despite of decline, CFPL's capital adequacy ratio stood healthy at 39.09 percent as on March 31, 2021 as against 51.88 percent as on March 31, 2020. Its net worth stood at Rs.261.92 Cr. as on March 31, 2021 as against Rs.200.31 Cr. as on March 31, 2020. CFPL's adjusted gearing (excluding loan from parent company, treated as neither debt nor equity) stood at ~0.64 times as on March 31, 2021. The company's loan portfolio increased to Rs.579.45 Cr. as on March 31, 2021 as against Rs.331.18 Cr. as on March 31, 2020. CFPL had disbursed ~Rs.432 Cr. in FY2021 against Rs.231 Cr. in FY2020, indicating the strength of the underlying business model. CFPL's clients include reputed corporates like Tata Consultancy Services Limited, Mahindra & Mahindra Financial Services Limited, The Tata Power Company Limited, PricewaterhouseCoopers Service Delivery Centre (Kolkata) Private Limited among others.

Acuité believes that CFPL will continue to maintain healthy capitalisation levels along with financial risk profile backed by support from the promoters.

**Healthy financial performance; albeit moderated**

CFPL maintained its healthy financial performance marked by growth in operating income to Rs.Rs.99.75 Cr. in FY2021 as against Rs.75.13 cr. in FY2020. Net Interest Margin and ROAA moderated to 11.09% and 6.65% for FY2021 as against 13.70% and 6.96% for FY2020, respectively. This moderation is on the account of addition of. Supply Chain Financing segment wherein yields are 150-200 bps lower than leasing segment. Going forward, the ability of CFPL to profitably scale-up operations while maintaining its profitability metrics will be key rating sensitivity.

## Weakness

- **Modest scale of operations**

Given the networth and asset size of Rs. 261.92 Cr. and Rs. 703.79 Cr. respectively as on March 31, 2021, the company has modest scale of operations. While Acuite takes cognisance of the healthy assets growth witnessed during FY21, continuous track record of profitable scalability is yet to be established.

- **Limited portfolio seasoning coupled with susceptibility to counterparty risk**

CFPL is operating since 2016. CFPL started with operating and finance lease of equipment across a range of corporates, including private equity, venture capital and start-ups. These equipment are in the nature of IT products, Plant and Machinery, Furniture and Fit Outs which contributed about 59% of the total portfolio as on March 31, 2021. CFPL also provides bill discounting facility to its parent, RAPL, which contributed ~17% to the total AUM as on March 31, 2021. Subsequently in FY2021, CFPL ventured into supply chain financing under which the company provides financing to vendors of manufacturing companies (also called anchors). This segment contributed around 24% of the total AUM as on March 31, 2021. Given that supply chain financing is a new segment for the company, the performance of this portfolio is yet to be demonstrated. Further, the company has been scaling up its portfolio over the last two years. Considering an average portfolio tenure of 3-4 years, the company's portfolio is yet to witness business cycles.

Though the company's asset quality continues to be comfortable, Acuité has observed some delinquencies within the softer bucket i.e. 31-60dpd stood at 1.3% as on March 31, 2021 as against 0.2% as on March 31, 2020. However, given the strong collection mechanism of CFPL, GNPA and NNPA stood nil for the period under study. Although the disbursements for FY2021 increased to Rs.431.60 Cr. from Rs.230.78 Cr. for FY2020, the ability of CFPL to maintain optimal collection efficiency across cycles and product segments will be key rating sensitivities.

While the company's counterparties mainly comprise of better rated corporates which may not face significant cash flows disruptions, some of lower tier of corporate entities could face challenges. Given the intermittent nature of economic activities and prolonged nature of Covid-19 impact, liquidity stress has started emerging which may lead to credit stress in the near to medium term.

Acuité believes that CFPL's ability to scale up its operations while maintaining healthy asset quality and profitability over the near term, will be a key monitorable.

## Rating Sensitivity

- Continued support from the parent, RAPL
- Movement in collection efficiency and asset quality metrics
- Movement in profitability parameters

## Liquidity: Adequate

As per the ALM statement as on March 31, 2021, there are no negative cumulative mismatches in any buckets upto one year. The liquidity profile remains adequate over the near to medium term on account of lower debt obligations. CFPL's borrowings of ~Rs.291.93 Cr. as on March 31, 2021 comprise ~Rs.123.10 Cr. of borrowings from RAPL (parent company) and balance comprise NBFCs and bank borrowings. CFPL's adjusted gearing (adjusted for loan from parent company, treated as neither debt nor equity) was ~0.64 times as on March 31, 2021. As per the liquidity statement shared by CFPL, the company has ~Rs.35.11 Cr. of liquidity buffers available as on March 31, 2021.

## Material Covenants

None

## Outlook: Stable

Acuité believes that CFPL will benefit from its strong capitalisation levels and expected continuous support from its promoters. The outlook may be revised to 'Positive' if the company is able to maintain profitability parameters while scaling up its operations. Conversely, the outlook will be revised to negative in case, the company faces headwinds in containing its asset quality pressures and maintaining its profitability parameters due to high credit costs while significantly scaling up its operations.

## About the Rated Entity - Financials

| | Unit | FY21 (Actual) | FY20 (Actual) |
|---|---|---|---|
| Total Assets | Rs. Cr. | 703.79 | 396.67 |
| Total Income* | Rs. Cr. | 99.65 | 75.13 |
| PAT | Rs. Cr. | 36.60 | 24.58 |
| Net-worth | Rs. Cr. | 261.92 | 200.31 |
| Return on Average Assets (RoAA) | (%) | 6.65 | 6.96 |
| Return on Net Worth (RoNW) | (%) | 15.84 | 14.41 |

| | | | |
|---|---|---|---|
| Adjusted Debt/Tangible Net Worth (Adjusted Gearing)^ | Times | 0.64 | 0.34 |
| Gross NPA's | (%) | 0.00 | 0.00 |
| Net NPA's | (%) | 0.00 | 0.00 |

*Total income equals to Net interest income plus other income
^adjusted for loan from parent company, treated as neither debt nor equity

**Status of non-cooperation with previous CRA (if applicable)**
None

**Any other information**
Not Applicable

**Applicable Criteria**
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Rating of 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 |
|---|---|---|---|---|
| 03-Aug-2020 | Proposed Non-Convertible Debentures | Long Term | 20.00 | ACUITE A- / 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 |
|---|---|---|---|---|---|---|
| INE0DBJ07044 | Non-Convertible Debentures | 18-Aug-2020 | 9.18% | 20-Aug-2023 | 20.00 | ACUITE A/ Stable (Upgraded from ACUITE A-/ Stable) |

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**About Acuité Ratings & Research:**

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