

Press Release

Capsave Finance Private Limited

January 30, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	20.00	ACUITE A Reaffirmed Rating Watch with Developing Implications	-
Total Outstanding Quantum (Rs. Cr)	20.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating to '**ACUITE A' (read as ACUITE A)** on the Rs.20.00 Cr. of Non-Convertible Debentures of Capsave Finance Private Limited (CFPL). The rating has been placed under Watch with Developing Implications.

Rationale for the rating

On January 18, 2023, the shareholders of Rent Alpha Private Limited (Rent Alpha) parent company of Capsave Finance Private Limited has entered into definitive agreements for the transaction involving the sale of 51 percent stake of Rent Alpha, by the existing shareholders of Rent Alpha to Mizuho Leasing Company Limited. Subject to regulatory approvals, Mizuho Leasing will hold 51 percent of stake in Rent Alpha while the existing shareholders Bravia Capital and other Indian promoters will collectively hold 49 percent of shareholding.

The rating has been placed under Watch with Developing Implications to evaluate the impact of this transaction on the business profile and financial flexibility on Capsave Finance. Acuite will further track the regulatory developments regarding the transaction and will endeavour to resolve the rating watch at the earliest.

Mizuho Leasing is a Japan based company in the leasing business of Mizuho Financial Group, Inc and is one of major general leasing firms.

The rating takes into account healthy capitalization levels, resource raising ability and significant growth in AUM during FY2022. The rating factors in healthy growth in AUM which grew to Rs. 1144.99 Cr. as on March 31, 2022 from Rs. 579.44 Cr. as on March 31, 2021. The company had forayed into Supply Chain Financing in FY2021, which contributes ~33 percent to the total AUM as on March 31, 2022. The rating also factors in the comfortable capital structure and gearing levels of 1.90 times as on March 31, 2022. The capitalization was supported by the capital infusion of Rs. 49.50 Cr. by the parent, Rent Alpha Private Limited during FY2022. The company also continues to display superior financial flexibility through its ability to raise funds from the external lenders at competitive rates. 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 seasoning of the loan portfolio. Although, CFPL has maintained its asset quality marked by on-time portfolio of 92.56 percent as on March 31, 2022. Acuite has observed some delinquencies within the softer bucket i.e. upto 30dpd which stood at 6.27 percent as on March 31, 2022. Given the disbursements

which have picked up during FY2022, the ability of CFPL 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 the company

Mumbai based, CFPL was incorporated in 1992 as a Non-deposit taking Non-Banking Finance Company (NDNBFC). 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 majorly operates through its head office based out of Mumbai.

Standalone (Unsupported) Rating

ACUITE A

Analytical Approach

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

Key Rating Drivers

Strength

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. 49.50 Cr. in FY2022, Rs. 25 Cr. in FY2021, Rs. 34.00 Cr. in FY2020, and Rs. 21 Cr. in FY2019 and is also further expected to support the growth plans as and when required. Presently, 16 percent of the total borrowings of Rs. 694.55 Cr. as on March 31, 2022 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 28.42 percent as on March 31, 2022 as against 37.64 percent as on March 31, 2021. Its net worth stood at Rs. 365.64 Cr. as on March 31, 2022 as against Rs. 261.92 Cr. as on March 31, 2021. CFPL's adjusted gearing (excluding loan from parent company, treated as neither debt nor equity) stood at ~1.59 times as on March 31, 2022. The company's loan portfolio increased to Rs. 1,144.99 Cr. as on March 31, 2022 as against Rs. 579.44 Cr. as on March 31, 2021. CFPL had disbursed Rs.785.12 Cr. in FY2022 against Rs. 431.60 Cr. in FY2021, 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. 121.73 Cr. in FY2022 as against Rs. 99.75 cr. in FY2021. Net Interest Margin and ROAA moderated to 9.21 percent and 5.40 percent for FY2022 as against 11.09 percent and 6.65 percent for FY2021, respectively on account of major disbursements taking place in Q4 FY2022. This moderation is also 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

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 54 percent of the total portfolio as on March 31, 2022. CFPL also provides bill discounting facility to its parent, RAPL, which contributed ~8 percent to the total AUM as on March 31, 2022. 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 33 percent of the total AUM as on March 31, 2022. Given that the growth in supply chain financing which is relatively 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 and considering an average portfolio tenure of 3-4 years, the 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. upto 30 dpd stood at 6.27 percent as on March 31, 2022. GNPA levels stood at 0.12 percent as on March 31, 2022 from Nil for FY2021. Although the disbursements for FY2022 increased to Rs. 785.12 Cr. from Rs.431.60 Cr. for FY2021, 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 any liquidity stress might 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.

ESG Factors Relevant for Rating

Capsave Finance Private Limited (CFPL) belongs to the Non-Banking Financial Companies (NBFC) sector which complements bank lending in India. Some of the material governance issues for the sector are policies and practices with regards to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit

committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, sustainable financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. While CFPL has expanded its borrower base and has been focusing on Supply Chain Finance loans. The company's board comprises of a total of 5 directors which includes Mr. Jinesh Jain (CEO and Managing Director). The group companies maintains adequate disclosures with respect to the various board level committees mainly audit committee, nomination and remuneration committee along with stakeholder management committee. The group companies also maintains adequate level of transparency with regards to business ethics issues like related party transactions, investors grievances, litigations, and regulatory penalties for the group, if relevant. In terms of its social impact, CFPL is actively engaged in community development programmes through its CSR activities.

Rating Sensitivity

- Movement in collection efficiency and asset quality metrics
- Movement in profitability parameters

Material Covenants

None

Liquidity Position Adequate

As per the ALM statement as on March 31, 2022, 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. 694.55 Cr. as on March 31, 2022 comprise ~Rs. 114 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 ~1.59 times as on March 31, 2021. As per the liquidity statement shared by CFPL, the company has ~Rs. 93 Cr. of liquidity buffers available as on March 31, 2022.

Outlook:

Not Applicable

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	1302.36	703.79
Total Income*	Rs. Cr.	121.73	99.65
PAT	Rs. Cr.	54.13	36.60
Net Worth	Rs. Cr.	365.64	261.92
Return on Average Assets (RoAA)	(%)	5.40	6.65
Return on Average Net Worth (RoNW)	(%)	17.25	15.84
Debt/Equity^	Times	1.59	0.64
Gross NPA	(%)	0.12	-
Net NPA	(%)	0.11	-

*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

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
26 Jul 2022	Non Convertible Debentures	Long Term	20.00	ACUITE A Stable (Reaffirmed)
26 Jul 2021	Proposed Non Convertible Debentures	Long Term	20.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
03 Aug 2020	Proposed Non Convertible Debentures	Long Term	20.00	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE0DBJ07044	Non-Convertible Debentures (NCD)	18 Aug 2020	9.18	20 Aug 2023	Simple / Complex	20.00	ACUITE A Reaffirmed Rating Watch with Developing Implications

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Shreyans Mehta Manager-Rating Operations Tel: 022-49294065 shreyans.mehta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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. Ratings assigned by Acuité 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. Ratings assigned by Acuité 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.