

Press Release
Finstars Capital Limited

August 08, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	25.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	25.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 25.00 Cr. proposed non-convertible debentures of Finstars Capital Limited (FCL). The outlook is '**Stable**'.

Finstar capital limited is group company of Sunrise Group. The rating takes into account Sunrise Group's promoter experience in Debt Markets, institutional client base and adequate liquidity buffers which has enabled the company to scale up its transactional volume on year-on-year basis. The group's transactional volume stood at Rs. 21606.72 Cr. in FY 2022 as against Rs. 22970.40 Cr. in FY2021. The total operating income of the group increased to Rs. 25.27 Cr. as on March 31, 2022 as against Rs. 22.9 Cr. as on March 31, 2021, and PAT at Rs. 13.9 Cr. as on March 31, 2022, as compared to Rs. 14.10 Cr. as on March 31, 2021. The rating further factors in low gearing levels and group's foray into lending business which has an outstanding portfolio of Rs. 27.43 Cr. as on March 31, 2022, as against Rs. 15.31 Cr. as on March 31, 2021. The rating further factors in comfortable capitalization levels of FCL marked by CRAR of 46.81 percent as on March 31, 2022 and a gearing of 1.26 times. FCL's total operating income improved to Rs. 7.8 Cr in FY 2022 from Rs. 6.16 Cr. in FY 2021, and PAT stood at Rs. 2.84 in FY 2022 as against Rs. 3.06 in FY 2021.

The rating is however, constrained by company's small scale of NBFC operations, income volatility on account of dependence on debt market volumes, low margin and highly competitive scenario in debt markets industry. While the company's trading volumes are mainly intraday, it is exposed to some price risk in its investment and treasury portfolio. Going forward, the company's ability to profitably scale up its Debt Markets and NBFC operations are key rating sensitivities.

About the company

Finstars Capital Limited (FCL) was incorporated in 1989, as Gopalka Motor Finance limited and was involved in providing Motor Finance. In 2017, the promoters of Sunrise Group took over control of the company and changed the name of Finstars Capital Limited. FCL is a registered NBFC with RBI. The objective of promoters to engage in lending activities was to diversify Sunrise Group's revenue stream. FCL is engaged in providing secured credit to SME's. FCL has two business segments, trading in Securities (which contributes around 65% of FCL's total revenue) and NBFC operations (which contributes around 35% of FCL's total revenue). FCL has in-house credit and business development team.

Analytical Approach

Acuité has adopted a standalone approach on FCL's business and financial risk profile for arriving at the rating.

Key Rating Drivers

Strength

- **Established presence of the promoters and improvement in financial and operational risk profile**

FCL was incorporated in 2017 and is an RBI Registered NBFC. FCL basically acts as a market maker and book runner for G-Secs, SDL's, Government guaranteed debt and highly rated corporate bonds on matched principle basis. It benefits from Sunrise Group's established presence of the promoters in Indian capital markets and long-standing relationships with various clients. FCL functions as an intermediary for its clients to buy and sell debt securities, both Government and private. Its network and market intelligence enable it to offer solutions to its clients which mostly comprise Central & State Government Undertakings, Private & Nationalized Banks, and Financial Institutions & Private Sector Corporates which includes banks, mutual funds, insurance companies, provident and pension funds as well as semi-institutional clients like wealth management companies, corporates, family offices.

The established presence of Sunrise group in the Indian capital markets, long-standing relationships with various clients and trade based on matched principle basis has enabled FCL to scale up its transactional volume year-on-year basis. FCL's transactional value of sale and purchase of securities traded increased to Rs. 866 Cr. in FY2022 from Rs. 370 Cr. in FY2021 (including intra-day transaction which comprise around 70-80 percent of total volumes). FCL also reported improvement in its earning profile with improvement in total income which stood at Rs. 7.8 Cr. in FY2022 as compared to Rs. 6.16 Cr. in FY2021. Net Income from sale and purchase of bonds remains the major revenue source of FCL's revenue structure which increased to Rs. 4.03 Cr. in FY2022 from Rs. 3.96 Cr. in FY2021. Income from lending activities remained modest with Net Interest Income at Rs. 2.96 Cr. in FY2022 from Rs. 1.73 Cr. in FY2021. FCL commenced its lending operations in FY2019. FCL extends secured loans majorly to SME borrowers with a tenure ranging between 3-5 years. The loans are secured with an LTV of around 35-40 percent. FCL's loan portfolio although modest, improved to Rs. 27.43 Cr. as on March 31, 2022, from Rs. 15.31 Cr. as on March 31, 2020.

Acuité believes that despite improvement in Sunrise Group's earning profile, its business operations would remain susceptible to inherent risks in capital market and overall economic environment.

Weakness

- **Susceptibility of performance to optimal management of credit and market risks**

Sunrise Group's business performance is linked to the level of activity in the bond markets which in turn is linked to the overall economic activity. The volumes in the debt capital market are influenced by economic cyclicalities and other macroeconomic factors such as GDP, growth rate, inflation, movement in interest rates and policy actions adopted by RBI. Sunrise Group generally engages into buy and sell transactions on behalf of its clients which comprise Central & State Government Undertakings, Private & Nationalized Banks, and Financial Institutions & Private Sector Corporates including provident and pension funds, mutual funds, banks, family offices etc. Most of the purchases of the securities are simultaneously sold to its clients. As a prudent strategy, Sunrise Group prefers to minimize the holding period in respect of any securities which significantly mitigates the associated credit risk and market risk. However, since a complete matching and synchronization of purchase and sale orders may always not be feasible, Sunrise Group will always be required to maintain certain inventory at any point of time. This exposes the company to certain credit and market risk. The risk assumed by the group depends on nature of the security, volatility in the price of

the security and the period of the holding. The timely churning of the portfolio also becomes important. Occurrence of significant credit events such as credit cliffs i.e. sharp deterioration in credit quality, may often result in a material decline in the bond prices and impact the liquidity of the counter. Such events could also trigger demands for accelerated payments by lenders in case of pledge-based borrowings.

Since the investments held by the company are offered as collateral in this structure of pledge-based borrowings, the continued acceptability of the investments and margin requirements also have a bearing on the financial flexibility of the company. Besides market related factors, changes in bank's policies regarding the investments offered as collateral can also impact the performance and financial flexibility of the company.

Acuité believes that the ability to manage the tradeoff between various risks such as credit risk, market risk and operational risk and the returns is critical to the maintenance of a stable credit risk profile.

• Modest scale of NBFC operations

Sunrise Group's NBFC business activity carried out under Finstars Capital Limited commenced its lending operations in FY2019. FCL extends loans majorly to SME borrowers with a tenure ranging between 3 -5 years. The loans are secured with an LTV of around 35 – 40 percent. FCL's loan portfolio stood at Rs. 27.43 crore as on March 31, 2022, increasing from Rs. 15.31 crore as on March 31, 2021. Sunrise Group's lending operations are majorly concentrated in the state of Gujarat with around 99 percent of the outstanding portfolio as on March 31, 2022. Besides geography, the company's performance in its lending segment is expected to remain exposed to competitive landscape.

Rating Sensitivity

- Credit cliff in respect of any major security held by the company.
- Level of unencumbered liquid investments vis-à-vis borrowings.
- Any changes in the credit quality of any bonds in the security investment portfolio.

Material Covenants

None

Liquidity Position

Adequate

Currently Finstars Capital Limited has term loan facility from Eclear Leasing & Finance Ltd and inter corporate loan from All trade Consultants Pvt limited. FCL has Cash and cash equivalents of Rs. 0.12 Cr. as on March 31, 2022.

Outlook:

Acuité believes that Finstar Capital Limited will maintain 'Stable' credit risk profile over the medium term supported by its well-established position in the capital markets and experienced management. The outlook may be revised to 'Positive' in case of major capital infusion resulting in significant and sustainable increase in unencumbered security investment portfolio. Conversely, the outlook may be revised to 'Negative' in case of sharp deterioration in credit quality of investment or in case of higher than expected increase in debt levels.

Key Financials - Standalone / Originator

Particulars	Unit	FY22(Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	30.28	17.21
Total Income*	Rs. Cr.	7.80	6.16
PAT	Rs. Cr.	2.84	3.06
Networth	Rs. Cr.	12.70	9.86
Return on Average Assets (RoAA)	(%)	11.96	24.46

Return on Net Worth (RoNW)	(%)	25.18	36.73
Total Debt/Tangible Net Worth (Gearing)	Times	1.26	0.52
Gross NPA	(%)	-	-
Net NPA	(%)	-	-

*Total income equals to Net interest income plus other income

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

Not Applicable

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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB- Stable Assigned

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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.

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