



Press Release
Finstars Capital Limited
August 08, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	25.00	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	25.00	-	-

Rating Rationale

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

Reason for Revision in Outlook:

The revision in outlook is on account of decline in profitability metrics, moderate scale of operations and elevated operating costs for the company. The profitability remained subdued in FY2023 due to high operating expenses as the company increased their overall branch and employee count during the same period. The opex to earning assets averaged over 13 percent for FY2022 and FY2023. FCL's Profit After Tax (PAT) stood moderate at Rs. 2.36 Cr in FY2023 as compared to Rs. 2.84 Cr in FY2022. The company's loan book stood at Rs. 51.69 Cr. as on March 31, 2023 as against Rs. 27.43 Cr. as on March 31, 2022.

Finstar capital limited is group company of Sunrise Group. The rating continues to take into account Sunrise Group's promoter experience in Debt Markets, institutional client base and adequate liquidity buffers. The group's transactional volume declined to Rs. 17,331.18 Cr. in FY 2023 as against Rs. 21,171.58 Cr. in FY2022. The total operating income of the group increased to Rs. 27.96 Cr. as on March 31, 2023 as against Rs. 25.61 Cr. as on March 31, 2022, and during the same period the PAT moderated to Rs. 9.19 Cr. in FY2023 as against Rs. 13.89 Cr in FY2022. The rating further factors in group's foray into lending business which has an outstanding portfolio of Rs.51.69 Cr. as on March 31, 2023, as against Rs. 27.43 Cr. as on March 31, 2022. The rating further factors in comfortable capitalization levels of FCL marked by CRAR of 29.12 percent as on March 31, 2023 and a gearing of 2.72 times. FCLs total operating income improved to Rs. 9.93 Cr in FY 2023 from Rs. 7.80 Cr. in FY 2022, and PAT stood at Rs. 2.36 Cr. in FY 2023 as against Rs. 2.84 Cr. in FY 2022.

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 and NBFC operations.

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, SDLs, 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 declined to Rs. 535.66 Cr. in FY2023 from Rs. 866 Cr. in FY2022 (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. 9.93 Cr. in FY2023 as compared to Rs. 7.80 Cr. in FY2022. Net Income from sale and purchase of bonds remains the major revenue source of FCL's revenue structure which marginally increased to Rs. 4.13 Cr. in FY2023 from Rs. 4.03 Cr. in FY2022. Income from lending activities witnessed an improvement with Net Interest Income at Rs. 4.62 Cr. in FY2023 from Rs. 2.96 Cr. in FY2022. 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. 51.69 Cr. as on March 31, 2023, from Rs. 27.43 Cr. as on March 31, 2022.

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. 51.69 crore as on March 31, 2023, increasing from Rs. 27.43 crore as on March 31, 2022. 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, 2023. 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.
- Movement in profitability and asset quality metrics.
- Significant and sustained increase in AUM

Material Covenants

FCL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others

Liquidity Position Adequate

FCL has Cash and bank balance of Rs. 3.85 Cr. as on March 31, 2023. As per ALM statement as on March 31, 2022, FCL has no negative cumulative mismatches in near to long term buckets.

Outlook - Negative

Acuité believes that FCL will maintain 'Negative' outlook over the near to medium term on account of weakened earnings profile. The outlook may be revised to 'Stable' in case FCL demonstrates sustainable growth in its profitability along with timely infusion of capital. The rating may be downgraded if in case of any further decline in profitability, increase in debt levels and higher than expected deterioration in asset quality.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY23 (Actual)	FY22 (Actual)

Total Assets	Rs. Cr.	58.39	29.30
Total Income*	Rs. Cr.	9.93	7.80
PAT	Rs. Cr.	2.36	2.84
Net Worth	Rs. Cr.	15.06	12.70
Return on Average Assets (RoAA)	(%)	5.38	12.20
Return on Average Net Worth (RoNW)	(%)	17.00	25.16
Debt/Equity	Times	2.72	1.26
Gross NPA	(%)	1.50	1.64
Net NPA	(%)	0.77	1.02

*Total income equals to Net Interest Income plus other income.

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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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
08 Aug 2022	Proposed Non Convertible Debentures	Long Term	25.00	ACUITE BBB- 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	INE08XA07011	Non-Convertible Debentures (NCD)	13 Oct 2022	12.06	13 Oct 2025	Simple	10.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Not Applicable	INE08XA07029	Non-Convertible Debentures (NCD)	13 Oct 2022	12.06	13 Oct 2027	Simple	15.00	ACUITE BBB- Negative Reaffirmed Stable to Negative

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Nitin Chavan Analyst-Rating Operations Tel: 022-49294065 nitin.chavan@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.