



RATING RATIONALE

Finova Capital Pvt Ltd

14 Oct 2020

Brickwork Ratings assigns Provisional 'BWR A- (CE)'/Stable ratings for the Term Loan Facility with a Partial Credit Enhancement of Finova Capital Pvt Ltd.

Particulars:

Facility**	Amount (in Rs Cr)	Tenure	Rating*
Term Loan Facility with Partial Credit Enhancement (PCE)	12	Long Term	Provisional BWR A- (CE) Stable (Assigned)
Total	12	INR Twelve Crore only	

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

**Details of the loans facility are provide in Annexure - I

RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) assigns Provisional 'BWR A- (CE)'/Stable for the loan facility under a partial credit enhancement (PCE) of Finova Capital Pvt Ltd (FCPL or the company), as tabulated above. The provisional rating will be affirmed on the receipt of all executed transaction documents conforming to the information already received by BWR.

BWR does not have an outstanding rating for FCPL and has arrived at a standalone rating (without explicit credit enhancement) of 'BWR BBB+' /Stable solely for the purpose of the PCE transaction.

Rationale/Description of Key Rating Drivers/Rating Sensitivities:

BWR has principally relied on audited financials up to FY20, the provisional financials of Q1FY21, publicly available information and information/clarifications provided by the company.

The standalone rating, inter alia, factors in the strong sponsor profile and experienced management, comfortable capitalisation, asset quality, earnings profile and liquidity. The ratings are, however, constrained by the inherent risk of the MSME finance portfolio and geographic concentration risk.

The enhanced rating of the aforesaid loan facility factors in the PCE provided in the form of a guarantee by Vivriti Capital Pvt Limited (VCPL), covering 15.00% of the initial principal amount, and is capped at 18.00% of the outstanding principal of the facility as the loan amortises.



Description of Key Rating Drivers

Credit Strengths:

- **Partial credit enhancement:** The transaction involves a partial credit enhancement in the form of an unconditional, irrevocable, payable-on-demand guarantee by VCPL, covering 15.00% of the initial principal amount under the facility. The guarantee percentage (ratio of the outstanding guarantee to aggregate outstanding principal of the facility) is capped at 18.00% as the loan amortises. In the event of FCPL failing to make interest or principal payments, the lender shall invoke the guarantee, and VCPL would make the payments. The guarantee amounts to Rs. 1.80 Crs., i.e., 15% of the initial facility amount of Rs. 12 Crs. The structure also has a security cover of hypothecated receivables equal to the value of 1.10 times the outstanding facility amount.
- **Strong sponsor profile and experienced management team:** FCPL is promoted by Mr. Mohit Sahney and Mrs. Sunita Sahney, with an objective of providing financing solutions to small and medium enterprises in the semi-urban and rural geographies of India. The promoters have over two decades of experience in banking and business operations. The company is backed by leading private equity investors, namely Sequoia Capital and Faering Capital, together having an ~55.1% shareholding as of 30 June 2020. The company has a strong six-member board of directors, including two promoter directors, three nominee directors and one independent director, consisting of professionals with expertise across banking, finance, business operations and private equity. The company's senior management team is also well-experienced, with relevant experience of over 13 years on average. FCPL is expected to benefit from the backing of strong sponsors, a high level of involvement and expertise of its principal promoters, and an experienced management team.
- **Comfortable capitalisation:** The capital adequacy position of FCPL is comfortable, with the capital to risk weighted assets ratio (CRAR) at ~39.2% as of 30 June 2020, compared with the minimum regulatory requirement of 15%. The company's net worth has consistently improved due to regular capital infusion and profit retention, thus placing the net worth at Rs 173.1 Cr as of 30 June 2020. This was further augmented by an equity infusion by existing investors of ~Rs 260 Cr in September 2020. The leverage of the company was at 1.9x as of Q1FY21 and has improved further due to the equity infusion. Furthermore, the net worth coverage for net non-performing assets (NPAs) was comfortable, at ~577 times, as of 30 June 2020. BWR believes FCPL's capital position is comfortable to augment growth and to also cover for any asset-side risks over the medium term.
- **Comfortable asset quality and earnings profile:** FCPL has a comfortable asset quality with the gross NPA at 0.4% in first quarter of FY21, compared with 0.2% in FY20 (at 0.4% in FY19). Although collections had slowed down due to COVID-19, repayment trends were on an improving trajectory since May. The overall collection efficiency was at ~96% as of August 2020. The company's earnings profile was comfortable, with the return on assets (ROA) at 2.6%



in FY20, compared with 2.9% in FY19. The net interest margin (NIM) improved during the period to 11.9% in FY20 from 9.5% in the previous financial year. Revenue from operations and the profit after tax (PAT) reported were at Rs 83.3 Cr and Rs 11.3 Cr, respectively, for FY20 (at Rs 40.7 Cr and Rs 7 Cr for FY19). The provision coverage ratio (PCR) was healthy at ~80% as of 30 June 2020. The company's collections and recovery performance, and impact on the asset quality and earnings profile due to the COVID-19 pandemic will be key monitorable over the near term.

Credit Risks:

- **Inherent risk of MSME finance portfolio and geographic concentration risk:** FCPL being an NBFC with a ~93% portfolio concentration of MSME loans as of 31 March 2020, is exposed to inherent risks such as socio and political interference, the operational challenges of NBFCs and the inherent riskiness of the borrower profile. As of 31 March 2020, the company had an asset under management (AUM) of Rs 396.8 Cr, spread across 5 states, and 102 branches. The portfolio is primarily concentrated in Rajasthan (at ~93% of portfolio), followed by Madhya Pradesh (at 4.5% of the portfolio), Uttar Pradesh (at 1.9% of the portfolio) and Delhi (1% of the portfolio), thus displaying a moderate geographic concentration risk. However, over the period, the company has been reducing this geographic concentration risk through geographic expansion and deeper penetration in non-home states. The company's ability to reduce the geographic concentration risk would be a key monitorable.
- **Short track record of operations with low seasoning of portfolio:** FCPL has a moderate scale of operations, with an AUM of Rs 396.8 Cr, spread across 5 states, and 102 branches as of FY20, and has a relatively short track record of ~5 years in the industry. The tenure of the products offered is average, at ~60 months and max at ~84 months. Furthermore, the company has shown portfolio growth trends of ~1.9 times average year-on-year over the last three fiscals, indicating the majority of portfolio disbursements in recent years, limiting the seasoning of the portfolio. The company's ability to maintain asset quality and build the portfolio through different economic cycles and geographies would be monitorable.

Analytical Approach

For arriving at its ratings, BWR has considered the standalone performance of FCPL. The CE rating is considering the PCE in the form of a guarantee under the loan transaction. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

ADEQUACY OF CREDIT ENHANCEMENT STRUCTURE

The PCE, favouring the lender, shall be in the form of an unconditional, irrevocable, payable-on-demand guarantee that covers 15% of the initial facility amount. The guarantee amounts to Rs. 1.80 Crs. (15% of initial facility amount of Rs. 12.00 Crs.). This guarantee amount fully covers the next seven months'



EMIs and ~57% of the next twelve months' EMIs under the PCE transaction. As the facility amortises, the guarantee will be capped at 18% of the outstanding principal of the facility. The PCE shall be enforceable, in tranches, to meet overdue amounts under the facility. The lender shall invoke the PCE on T-1 business days, if the borrower does not make payments of interest and principal amounts due, along with all other obligations (if any) on T-1 business days. In the event that the borrower fails to make the payments, the Credit Enhancer shall make the payment (i.e., the interest or principal repayment due) by 4 pm on T business days.

Furthermore, the facility and all interest and all other present and future obligations and liabilities shall be secured by a first and exclusive charge by way of hypothecation over identified receivables such that the security cover of 1.10 times the outstanding amounts of the facility is met.

RATING SENSITIVITIES

Going forward, the company's ability to reduce geographic concentration risk, while maintaining the asset quality, earnings profile, portfolio growth, capitalisation and liquidity will be key rating sensitivities.

Positive: The company's ability to substantially scale-up business while reducing the geographic concentration risk and maintain the asset quality, earnings profile, capitalisation and liquidity are key rating positives.

Negative: The weakening of the asset quality and earnings profile and/or a deterioration in liquidity are key rating negatives.

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organization (WHO), has become a full-blown crisis globally, including in India. COVID-19 has impacted the domestic economy of India, as the nation had gone into lockdown 24 March 2020 onwards (later converted to partial lockdown in various states). As per BWR, financial institutions, mainly those lending to retail low-income borrower segments, could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India, on interest and principal on bank debt, has provided some cushion to the lending community to realign its collection mechanism and operations during this period. However, lenders' ability to ensure credit discipline among borrowers, to collect accumulated interest and principal dues on a timely basis will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact of its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

LIQUIDITY POSITION: ADEQUATE

As per the ALM dated 30 June 2020, FCPL had no negative cumulative mismatches. The company had cash and cash equivalents of Rs 155 Cr apart from the equity raise amount of Rs 260 Cr as of 1 October 2020, compared with total debt repayments and operational expenses of ~Rs 96.3 Cr for a 6-month period. Although collections have slowed down in Q1FY21 due to COVID-19-related lockdown restrictions and due to moratorium sanctions as per RBI guidelines, collections have shown an improving



trajectory since May 2020. Furthermore, the company continues to show strong debt raising capability, at competitive rates. Hence, based on cash and cash equivalents, monthly collections and the strong funding pipeline, FCPL has an adequate liquidity buffer for its debt repayments and other operational expenses on an ongoing basis.

About the Company

Finova Capital Pvt Ltd, incorporated in September 2015, is an RBI-registered non-deposit taking non-banking finance company (NBFC-ND) headquartered at Jaipur, Rajasthan. The company received its NBFC license in March 2016. FCPL is promoted by Mr. Mohit Sahney and Mrs. Sunita Sahney, with an objective of providing financing solutions to small and medium enterprises. The products offered are primarily MSME finance (100% secured with residential/ commercial mortgages) and affordable home finance. The targeted geographic profile includes the semi-urban and rural areas of Rajasthan, Madhya Pradesh, Uttar Pradesh and New Delhi. As of first quarter of FY21, the company had an AUM of Rs 402.3 Cr, with operations spread across five states and 102 branches. The AUM was at Rs 396.8 Cr in FY20 (at Rs 248.9 Cr in FY19). As of FY20, Rajasthan contributed to ~92.7% of the portfolio, followed by Madhya Pradesh (at 4.5% of the portfolio), Uttar Pradesh (at 1.9% of the portfolio) and Delhi (1% of the portfolio). MSME loans contribute to ~93% of the portfolio, followed by home finance at ~7%.

Financial Performance

Particulars	Units	FY18	FY19	FY 20
		Audited	Audited	Audited
Net worth	Rs. Crores	52.4	159.8	171
PAT	Rs. Crores	3.7	7.0	11.3
AUM	Rs. Crores	94.7	248.9	396.8
CRAR	%	50.7	61.8	39.4
GNPA	%	0.2	0.4	0.2
Gearing	Times	1.1	1.2	1.8
ROA	%	4.9	2.9	2.6

About the Credit Enhancer

Vivriti Capital Private Limited (VCPL) is a systemically important non-deposit-taking NBFC (SI-ND-NBFC) incorporated on 22 June 2017 as a private company, which subsequently obtained an NBFC license from the RBI on 5 January 2018. VCPL's business operations can be broadly divided into two segments, viz., the lending business and arranger business, through CredAvenue Marketplace. The



company's total portfolio stood at Rs. 1013.90 Crs. and net worth was at Rs 662.14 Cr as on 31 March 2020.

VCPL was founded by Mr. Gaurav Kumar and Mr. Vineet Sukumar, both having vast experience in credit lending and capital markets. The company also has a strong management team of qualified professionals having rich experience of over 10 years mainly in the financial services space. VCPL has an experienced board representation consisting of two founder-directors, two independent directors and two nominee directors on behalf of Creation Investments India III, LLC, the company's largest shareholder.

VCPL has an outstanding rating of "BWR A"/Stable as on 17 June 2020

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

- Borrower shall make payments of interest and principal amounts due, along with all other obligations (if any), under the transaction documents by 4 PM IST on T-1 business days.
- In the event of failure of the Borrower to comply with above, the Lender/ Trustee to invoke guarantee and send one Business Days' notice to Credit Enhancer to make the payments.
- The Credit Enhancer shall make the payment (i.e. the interest or principal repayment due) by 4 pm on T Business Days.

Financial Covenants of the Borrower

- The ratio of Portfolio at Risk > 90 days and write-offs (including managed portfolio) in a financial year to Adjusted Tangible Net-Worth not to exceed 20% (Portfolio at Risk > 90 days is defined as the outstanding principal value of loan receivables overdue for 90 days or more).
- The ratio of Portfolio at Risk > 90 days and write-offs (including managed portfolio) in a financial year to the outstanding principal value of the total loan receivables (AUM) to not exceed 4%
- Minimum capital ratio of Tier I Capital and Tier II Capital to aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items shall not be less than 15% (Fifteen per cent) or as per the regulatory minimum prescribed by the Reserve Bank of India under the NBFC Master Directions, whichever is higher.
- Minimum long-term rating of BBB CARE & BBB+ Acuite

Financial Covenants of the Credit Enhancer

- Minimum Capital Adequacy Ratio of 15.0% or as prescribed by RBI, whichever is higher.
- Minimum long-term rating of A-

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Facility/Instrument	Current Rating			Rating History		
	(October 2020)			2019	2018	2017
	Type	Amount (Rs Cr)	Rating			
Loan Facility with PCE	Long Term	12	Provisional BWR A- (CE) /Stable (Assigned)	NA	NA	NA
Total		12	INR Twelve Crore only			

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)
- [Basel III Compliant Instruments](#)

For any other criteria obtain hyperlinks from website



Analytical Contacts	Media & Investor Contact
<p>Abin Rasheed Senior Analyst +91 80 40409940 Extn 364 abin.r@brickworkratings.com</p> <p>Vydianathan Ramaswamy +91 022 67456660 Director & Head – Financial Sector Ratings vydianathan.r@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com</p>
<p>Phone: 1-860-425-2742</p>	

ANNEXURE I

Details of Facilities rated by BWR

Sl. No.	Name of the Lender	Type of Facility	Long Term (₹ Cr)	Total (₹ Cr)
1	Hinduja Leyland Finance Limited	Term Loan	12.00	12.00
TOTAL				12.00

Total Rupees Twelve Crores only.



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