FINOVA CAPITAL
FINANCING DREAMS

December 05, 2020

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai-400001 Maharashtra India

Dear Sir/Madam,

Subject: Intimation for Revision in Credit Ratings by CARE Ratings Limited

Pursuant to the Regulation 51 read with Part B of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), we wish to inform you that Care Ratings Limited ("CARE"), the Credit Rating Agency has assigned revised Ratings to Long-Term Bank Facilities and Non-Convertible Debentures.

Please find below the details of the revision in Ratings of the Company:

Name of the Company	FINOVA CAPITAL PRIVATE LIMITED	
Credit Rating Agency	CARE	
Instrument	**Long Term Bank Facilities**	**Non-Convertible Debentures**
Existing Rate	CARE BBB; Stable (Triple B; Outlook: Stable)	CARE BBB; Stable (Triple B; Outlook: Stable)
Revised Rate	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Amount (Rs. Crore)	Rs. 365.00/- (Rupees Three Hundred and Sixty-Five Crores Only)	Rs. 15.00/- (Rupees Fifteen Crores Only)
Reason	The revision in the Ratings assigned to the Long-Term Bank Facilities and Debt Instruments is on account of recent fund infusion of around Rs.260 crore by existing private equity (PE) investors in the form of Compulsorily Convertible Cumulative Preference Shares (CCCPS) leading to significant improvement in its capitalization levels and comfortable capital adequacy.	

We request you to kindly take on record the aforesaid information.

Thanking You,
For Finova Capital Private Limited
For Finova Capital Pvt. Ltd.

Director

Mrs. Sunita Sahney
Wholetime Director
DIN: 02395354

Encl.: Credit Rating Letter

Finova Capital Private Limited

December 04, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	365.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Total Bank Facilities	**365.00 (Rs. Three Hundred Sixty-Five Crore Only)**		
Non-Convertible Debentures	15.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Total Long Term Instruments	**15.00 (Rs. Fifteen Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities and debt instrument of Finova Capital Private Limited (FCPL) is on account of recent fund infusion of around Rs.260 crore by existing private equity (PE) investors in the form of Compulsorily Convertible Cumulative Preference Shares (CCCPS) leading to significant improvement in its capitalization levels and comfortable capital adequacy.

The rating continues to derive strength from growth in its scale of operations marked by growth in disbursements, loan portfolio and total income during FY20 (refers to the period April 1 to March 31) as well as expansion of resource base; along with its moderate asset quality and earning profile and adequate liquidity. The rating further derives comfort from the experience of its promoters and the company's adequate internal control and Management Information System (MIS). CARE also takes cognizance of the company not availing the moratorium as a COVID relief measure (as permitted by the Reserve Bank of India) for the interest and installment repayments on its term loan/ working capital facilities from its lenders except on the loan availed from SIDBI which had provided moratorium of 32 days to the company for facilities sanctioned under RBI's Special Liquidity Scheme for NBFCs.

The rating, however, continues to remain constrained due to its exposure to relatively riskier borrower segment, geographical concentration of its operations majorly in Rajasthan and product concentration, and short track record of operations with low seasoning of its loan portfolio.

Rating Sensitivity

Positive Factors

- Significant growth in its loan portfolio along with adequate portfolio seasoning.
- Diversification in terms of geography, resource base and product while sustaining the asset quality.

Negative Factors

- ALM position shows negative cumulative mismatches exceeding RBI regulatory norms
- Significant deterioration in liquidity due to impact on collection efficiency in the wake of Covid-19 pandemic situation and non-availability of fresh funding.
- Deterioration in overall gearing beyond 3 times.
- Deterioration in asset quality depicted by increase in delinquency to more than 5% of total AUM.

Detailed description of the key rating drivers

Key Rating Strengths

Significant increase in capital base resulting in improvement in capital adequacy: The company's promoters had started the operations of FCPL with initial capital of Rs.10 crore in FY16 and FY17. However, over the years FCPL has been able to raise funds from private equity investors, during the period from April 01, 2018 to October 31, 2020. FCPL has successfully concluded three rounds of such fund raising. In FY18 and FY19, FCPL had raised Rs.38.30 crore & Rs.101.68 crore respectively in the form of Compulsory Convertible Preference Shares (CCPS). Further, FCPL has received fresh fund infusion of Rs.216.80 crore and Rs.43.20 crore respectively from existing PE investor SCI Investments and Faering Capital India Evolving Fund in the form of CCCPS whose allotment was done in October 2020.

Consequently, FCPL's net worth has improved significantly resulting in the significant improvement in capitalization in the current financial year. The capital adequacy ratio of the company which had moderated from 63.89% as on March 31, 2019

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

to 43.10% as on March 31, 2020 due to incremental portfolio funded from debt, further total debt of the company has also increased from Rs.189.26 crore as on March 31, 2019 to Rs.312.07 crore as on March 31, 2020 leading to moderation in overall gearing to 1.85 times as on March 31, 2020 as against 1.20 times as on March 31, 2019, however capital adequacy ratio and overall gearing has improved during current financial year post fund infusion by existing PE investors.

Experienced Promoters: Mr. Mohit Sahney (MD & CEO), promoter of the company, has vast experience of more than two decades in retail banking and financial services with ICICI Bank and has spent more than 10 years in this field in Rajasthan. As he is familiar with the region in which FCPL operates, the company benefits from his insight and knowledge of the socio-economic conditions which is essential for the lending business of FCPL. Also, Mrs. Sunita Sahney, another promoter of the company has worked with Shyam Telelink Ltd. & Tata Teleservices Ltd. in various roles. Apart from that, FCPL's management team comprises of personnel who have been handling credit appraisal, operations and financial aspects for more than 8 years. Further, in 2019, FCPL had received funds to the tune of $15 million (approx. Rs.101.68 crore) from Private Equity investor i.e. Faering Capital Fund (FC) and existing investor (SCI Investments). Post fund infusion, Mr. Aditya Parekh has been appointed as Nominee Director (from Faering Capital Fund) on the board of directors of FCPL. Moreover, Mr. Arjun Das Ratnoo (an ex-banker who was earlier Chief General Manager in NABARD) is also on the Board as an Independent director.

Primarily secured nature of business; albeit exposure to relatively riskier borrower segment: FCPL has secured nature of portfolio as all the loans advanced are secured against the property mortgaged. FCPL majorly lends at Loan to Value (LTV) of around 40-50% for mortgage and housing finance. Primarily secured nature of business along-with strong collection mechanism has led to moderate level of NPA for the company. FCPL mainly caters to the financing needs of the self-employed segment in the lower to middle income category, which is un-serviced by banking sector, at higher rate of interest. Since self-employed segment is highly susceptible to the impact of economic downturn, asset quality will remain a key monitorable. Further, its top 10 borrower concentration stood at 0.72% (*percentage of loan portfolio outstanding)* as on March 31, 2020 (1.71% as on March 31, 2019). FCPL's adjusted gross NPA% (Gross NPA + write-offs) has deteriorated from 0.37% as on March 31, 2019 to 0.89% as on March 31, 2020 mainly due to write off of Rs.2.82 crore during FY20 as compared to Rs.0.02 crore during FY19 *(During FY20, FCPL has revised its estimates of provisioning for loan portfolio, as per the revised policy, loans with more than 365 days past due (DPD) are written off.).*

Improvement in scale of operations with expansion of resource base: FCPL reported growth of 113% in its total income to Rs.91.71 crore in FY20 over Rs.43.05 crore in FY19 mainly due to increase outstanding loan portfolio during FY20. FCPL's outstanding portfolio grew by 66% y-o-y to Rs.396.84 crore as on March 31, 2020, further it stood at Rs. 429.98 crore as on August 31, 2020. FCPL is gradually increasing its resource base and currently it enjoys bank facilities from 13 banks and 12 financial institutions. Further FCPL has also raised funds through NCD during current financial year to the tune of Rs.54 crore

Moderate asset quality and earning profile: FCPL's NIM improved to 10.21% during FY20 from 7.39 % in FY19 mainly due to increase in yield on advances from 18.53% during FY19 to 21.87% in FY20, while average cost of funds *(Interest Expenses /Average Total borrowings)* increased to a relatively lower extent from 11.79% in FY19 to 12.71% in FY20 which was primarily due to industry scenario. However, ROTA has declined to 2.64% during FY20 as compared with 2.91% during FY19 due to impact of extra provisioning on its outstanding loan portfolio done by FCPL in the wake of COVID-19 scenario to factor in its asset quality. Moreover, with its well-defined collection mechanism and lending policy, NPA level has remained moderate with Gross NPA% and Net NPA% of total loan portfolio at 0.18% (NPA recognition for dues more than 180 days) and 0.15% respectively as on March 31, 2020. Further, Net NPA to net-worth stood comfortable at 0.34% as on March 31, 2020; albeit percentage of delinquency to total outstanding loan portfolio (considering 90 days past due) has deteriorated to 0.62% as on September 30, 2020 as against 0.38% as on March 31, 2020 (March 31, 2019: 0.43%) in the wake of Covid-19 scenario which has impacted the collections during H1FY21.

Adequate internal control and MIS system: FCPL has installed modules of 'Finn One Neo', advanced online lending software which facilitates connectivity of the branches with the Head Office at Jaipur with facility of information updation on a real time basis. FCPL has an established monitoring structure for overseeing its operations including area-wise, product-wise and sales executive-wise data. The company has laid down internal policies pertaining to Credit, Risk Management, KYC, Recovery, etc. for smooth functioning of its operations. Entire process involving credit approval, sanction and disbursement is carried out from its Head Office and the decision making is based on the powers given to the higher management. Loan origination and collection is done through own employees. FCPL's credit team compulsorily visits the client and client's house to see the living standard and for understanding the income of the family. The sanctioned limit is based on the Credit appraisal memo prepared by the credit executive to find out expenditure and income of the borrower. However, MIS system needs regular updation with increase in scale of operations for sourcing of the required reports from the MIS system.

Key Rating Weaknesses

Geographical and product segment concentration of operations: The loan portfolio of FCPL is concentrated with MSME loan (mortgage loans to MSMEs) constituting the major portion at around 92.87% of total o/s portfolio as on March 31, 2020 *(August 31, 2020: 92.68%; March 31, 2019: 93.32%)*, while the balance was towards housing loans. Further, FCPL's operations are majorly concentrated in Rajasthan *(93.10% of total O/s loan portfolio as on March 31, 2020; August 31, 2020: 91.46%; March 31, 2019: 99.96%)* with majority of them being in nearby periphery of Jaipur. FCPL has to some extent diversified its operations to Madhya Pradesh (4.09%), Delhi (1%) and Uttar Pradesh (1.82%), though the disbursement in these new states remained low during FY20. FCPL envisages further diversification in its operations going forward to Haryana and Chhattisgarh.

Risk associated with the volatility in interest rates: The borrowings of the company have a mix of floating and fixed rates whereas its entire asset book is at fixed rate. Hence, the company's spreads are exposed to volatility in the interest rates to some extent. The said risk is mitigated to some extent due to the higher interest rates charged by the company on its loans; albeit it comes with a higher credit risk.

Short track record of operations with low seasoning of loan portfolio and moderate scale: FCPL has a relatively short track record of operations of only 5 years in the industry with a moderate scale. However, promoter has vast experience in the financing industry. FCPL is lending with a tenor of 73-84 months. Further, since a significant chunk of loans were disbursed during FY19 & FY20, majority of the company's mortgage portfolio is unseasoned. The asset quality performance of FCPL's recently built mortgage portfolio through different economic cycles and geographies is yet to be established.

Subdued Industry Outlook: Due to subdued economic environment, last three years have been challenging period for the NBFCs with moderation in growth and rising delinquencies resulting in higher provisioning thereby impacting profitability. However, comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs in spite of impact on profitability. Also, with the improvement in economic environment, asset quality pressures should ease which will partially offset the impact of migration towards 90-day NPA recognition norm.
However, the spread of the COVID-19 pandemic has led to a nation-wide lockdown which is likely to impact the overall growth and collections of NBFCs/HFCs sector. As a result, in CARE's view the credit risk profile of NBFCs/HFCs is expected to deteriorate over the medium term. Liquidity profile, resource raising ability, funding support from parent/group and exposure to vulnerable asset classes and operating profiles in terms of geographies and borrower types would be critical monitorable factors in the NBFCs/HFCs sector.

Liquidity: Adequate

Liquidity position of FCPL as on March 31, 2020 was adequate marked by free cash and cash equivalents (Cash & Bank balances, Free FDRs and Free Current Investments) of Rs.76.51 crore, which according to its management has increased significantly upon infusion of funds by private equity investors. Further, FCPL has total repayments towards principal of Rs.58.24 crore in FY21. Moreover, as per management of FCPL, company is maintaining the liquidity of 3 months at any point of time. Further, FCPL has not availed moratorium from any of the lenders under the RBI's COVID 19 relief package except moratorium of around 32 days on one of the term loans raised from SIDBI under RBI's special liquidity scheme for NBFCs. However, FCPL has granted the moratorium of six months on the payment of all instalments and/or interest as applicable falling due between March 01, 2020 and August 31, 2020 to all eligible borrowers based on Opt-out basis. FCPL is raising funds generally having tenor of 48-60 months while majority of the lending is in the tenor of 73-84 months which creates the mismatches in asset liability profile (loans advances and debt repayment) however, ALM remains comfortable mainly due to adequate capitalization level and maintenance of liquidity. FCPL has comfortable ALM as on July 31, 2020 with no cumulative mismatch in any of the time buckets up-to 3 years.

Impact of Covid-19: According to the company's management, FCPL's collection efficiency got impacted during the lock down period on account of Covid-19, wherein it declined to a low of around 56% in April 2020 but gradually improved back to 93% in September 2020. Further, FCPL had stopped disbursements in the months of April and May 2020, however it resumed disbursements from June 2020 and according to the company management its disbursements are almost back at pre-Covid levels in October, 2020. During current financial year FCPL has raised funds to the tune of Rs.179 crore through NCDs and Term loans.

Analytical approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Rating Methodology-Non-banking Financial Companies

Financial Ratios – Financial Sector

About the Company

Incorporated in 2015, Finova Capital Pvt. Ltd. (FCPL) is an RBI registered non-deposit taking Non-Banking Finance Company (NBFC) operating primarily in the state of Rajasthan apart from having some presence in Madhya Pradesh, Uttar Pradesh and Delhi. It is primarily engaged in financing of mortgage loans to MSMEs and small proportion of Housing loans. Total assets under management of FCPL were Rs.396.84 crore as on March 31, 2020 while disbursement during FY20 (April 1 to March 31) was Rs.202 crore.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	43.05	91.71
PAT	7.02	11.28
Interest coverage (times)	1.62	1.46
Total Assets	359.21	497.27
Net NPA (%)	0.28	0.15
ROTA (%)	2.91	2.64

A: Audited

During 5MFY21, as per provisional results, FCPL reported total income of Rs.42.16 crore and earned a PAT of Rs.4.42 crore.

Status of non-cooperation with previous CRA: None
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-4.*

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN No.	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Jannuary-2027	365.00	CARE BBB+; Stable
Debentures-Non Convertible Debentures	INE0DTO07012	-	10.86%	August – 2023	15.00	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	365.00	CARE BBB+; Stable	1)CARE BBB; Stable (14-Oct-20)	1)CARE BBB; Stable (17-Jul-19)	1)CARE BBB-; Stable (27-Jul-18) 2)CARE BBB-; Stable (15-Jun-18)	-
2.	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (27-Jul-18) 2)CARE BBB-; Stable (15-Jun-18)	-
3.	Debentures-Non Convertible Debentures	LT	15.00	CARE BBB+; Stable	1)CARE BBB; Stable (14-Oct-20) 2)CARE BBB; Stable (10-Aug-20)	-	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Term Loan	Simple

Annexure-4: Detailed explanation of covenants of the rated instrument

Instruments	Detailed explanation
A. Non-Financial Covenant	1. The company has to obtain external credit rating from two approved external credit rating agencies for NCD at the time of initial transaction and every year thereafter from one rating agency.

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.