June 21, 2022(Revised)

Gove Finance Limited: Ratings reaffirmed; Migration of the rating on the medium-term rating scale to the long-term rating scale

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed Deposit Programme	NA	NA	[ICRA]BBB- (Stable); reaffirmed and migrated from MA- (Stable)

**Instrument details are provided in Annexure-1*

Rationale

In compliance with the circular [SEBI/HO/MIRSD/MIRSD_CRADT/P/CIR/2021/594] issued by the Securities and Exchange Board of India (SEBI) on July 16, 2021 and the subsequent circular (SEBI/HO/MIRSD/MIRSD_CRADT /P/CIR/2022/43) of April 1, 2022, for standardising the rating scales used by credit rating agencies, ICRA has discontinued the medium-term rating scale which was being used to assign ratings to the fixed deposit programmes of entities.

Accordingly, ICRA has reaffirmed and migrated the rating currently outstanding for the fixed deposits programme of Gove Finance Limited (GFL) from MA- (Stable) on the 14-point medium-term rating scale to [ICRA]BBB- (Stable) on the 20-point long-term rating scale.

The rating takes into account the managerial, operational, and financial support provided by the VST Group to GFL. GFL leverages the Group's auto dealerships and the promoter's experience in vehicle financing. The rating also considers the comfortable capital profile characterised with a gearing of 0.7x (provisional) as of March 2022.

The rating takes cognizance of GFL's modest scale of operations with the portfolio witnessing healthy growth during the year FY2022, albeit from a lower base. ICRA notes that the portfolio growth for GFL in FY2022 has happened following 4 years of decline, with the company undergoing a shift from predominantly being a lender in the passenger vehicles segment to commercial vehicles segment. Also, the company took a conservative approach towards growth during the COVID-19 pandemic. Going forward, the company is expected to continue growing at a healthy pace in the medium term. Given its scale, GFL has geographically concentrated operations with its operations largely restricted to Tamil Nadu. The rating takes note of the improvement in the headline asset quality indicators with gross non-performing advances (NPA's; including write-offs) of 1.0% as of March 2022 (2.7% as of March 2021). ICRA notes that the collection efficiency has recovered from the lows seen during the COVID-19 pandemic. However, further improvement would be required in order to improve its softer bucket delinquencies going forward. The pre-provision operating profitability declined to 0.6% (provisional) in FY2022 from 1.8% in FY2021 (3.8% in FY2020) mainly due to increase in operating costs during the year to 4.6% vis-à-vis 3.1% in FY2021. Nevertheless, the net profitability remained improved in FY2022 backed by the profit on sale of investments (carried out during the year to support the disbursements) and stood at 3.3% in FY2022 vis-à-vis 1.8% in FY2021. Going forward, a sustained growth in the portfolio while continuing to maintain tight control on incremental slippages would remain critical from an asset quality and earnings perspective.

Key rating drivers and their description

Credit strengths

Managerial, operational and financial support from VST Group – As a part of the VST Group, GFL derives managerial, operational and financial support from the Group. The Group's promoters have more than six decades of experience in auto dealership and financing, with its presence largely concentrated in Tamil Nadu. GFL leverages the Group's dealerships, namely VST Motors, India Garage, Metro Ford and VST Auto Agency, for maintaining its branch network as well as sourcing business. The share of business derived from the Group has significantly declined over the years as the company is also targeting business from other dealers. Going forward, ICRA expects the group entities and the promoters to financially support GFL, as and when required.

Comfortable capitalisation profile – The capitalisation profile is comfortable with a gearing of 0.7x (provisional) and a capital adequacy ratio of 62.0% (provisional) as of March 2022. The gearing remained range-bound at 0.7-1.0x during FY2020 –FY2022 given the restricted portfolio growth during the period. ICRA does not envisage any external capital requirement to meet the near-term growth requirements.

Credit challenges

Modest scale and geographically concentrated operations – GFL has a modest scale of operations with a portfolio of Rs. 38.5 crore as of March 31, 2022. The portfolio witnessed a healthy growth during the year, albeit on a lower base, with the company increasing its disbursements in the CV segment post the second wave of the pandemic. Geographically, GFL has eight branches with Tamil Nadu accounting for about 85% of the total portfolio as of March 2022. The company envisages to scale up its portfolio in the current fiscal with focus on the commercial vehicle (CV) segment; the share of this segment is expected to increase to about three-fourth of the portfolio over the near to medium term.

Improvement in headline asset quality indicators; however, collection efficiency yet to reach pre-pandemic levels– GFL's gross NPAs improved to 1.0% (provisional; including 1-year write-offs) as of March 2022 from 2.7% as of March 2021. The collections were impacted due to the Covid-19 pandemic in Q1 FY2022, though the same improved from Q3 FY2022 onwards, which supported the improved NPAs as of March 2022. However, further improvement would be required in order to improve its softer bucket delinquencies going forward. ICRA notes GFL's low provision cover (~11% (provisional) as of March 2022). A sustained improvement in the collections and the ability to contain incremental slippages would be crucial to keep the asset quality under control as the company envisages to expand its portfolio in the current fiscal.

Decline in core profitability indicators – The pre-provision operating profitability declined to 0.6% (provisional) in FY2022 (1.8% in FY2021), largely due to the increase in operating costs during the year. The operating costs increased to 4.6% (provisional) during FY2022 vis-à-vis 3.1% in FY2021 due to increase in manpower expense as the controls imposed in FY2021 due to the pandemic were taken off in FY2022 and pressure in the commission paid to dealership and sourcing partners. The non-interest income stood at a high of 3.4% in FY2022 vis-à-vis 0.7% in FY2021 (0.1% in FY2020) as the company had sold part of its investment to support the increased disbursements during FY2022. This, along with the decline in credit costs to 0.2% (provisional) in FY2022 (0.4% in FY2021), resulted in an increased net profitability of 3.3% vis-à-vis 1.8% in FY2021.

Liquidity position: Adequate

GFL had free cash and liquid investments of Rs. 24.8 crore as of May 31, 2022 against deposit maturities and debt and other obligations of Rs. 4.9 crore till October 2022, indicating adequate coverage for the next six months.

Fixed deposits remain the major source of funding for GFL and accounted for more than 94% of its total debt as of March 2022. While ICRA notes that liquidity comfort can be derived from the Group, it would be crucial for GFL to secure backup credit lines to support future growth requirements.

Rating sensitivities

Positive factor – The rating could be upgraded or the outlook could be revised to Positive if the company is able to increase its scale of operations while maintaining a good asset quality profile and improving its earnings profile.

Negative factor – A significant deterioration in the asset quality, capitalisation or earnings profile or lower-than-expected support from the VST Group would negatively impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	VST Group
Consolidation/Standalone	The rating is based on the standalone financial statements of GFL

About the company

Gove Finance Limited is a non-banking financial company (NBFC) incorporated in 1983. It is a part of the VST Group, which has operations across sectors such as automobile dealerships, manufacturing, tillers, construction and non-banking finance and leasing. GFL is primarily involved in the financing of CVs and cars, both new and used. The company has historically relied on retail funding sources (fixed deposits) while access to banking/wholesale credit facilities is limited. Operations are restricted to Tamil Nadu and Karnataka.

In FY2021, the company reported a net profit of Rs. 1.1 crore on a total asset base of Rs. 61.0 crore compared to a net profit of Rs. 1.1 crore on a total asset base of Rs. 63.0 crore in the previous year. In FY2022, on a provisional basis, the company reported a net profit of Rs. 2.0 crore on a total asset base of Rs. 60.6 crore.

Key financial indicators (IGAAP)

Gove Finance Limited	FY2020	FY2021	FY2022 (P)
Total Income (Rs. crore)	7.6	6.0	7.3
Profit after Tax (Rs. crore)	1.1	1.1	2.0
Net Worth (Rs. crore)	30.7	31.7	33.2
AUM (Rs. crore)	27.7	27.2	38.5
Total Managed Assets (Rs. crore)	63.0	61.0	60.6
Return on Managed Assets %	1.9%	1.8%	3.3%
Return on Net Worth %	3.8%	3.7%	6.1%
Gearing (reported; times)	1.0	0.9	0.7
Gross NPA (90+ dpd) %	2.9%	1.8%	0.9%
Net NPA%	2.6%	1.6%	0.8%
CRAR%	66.9%	69.5%	62.0%

Source: *Company, ICRA research; P – Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jun-21-2022	Jun-08-2021	Jul-31-2020	Apr-30-2019
1	Fixed Deposit Programme	Long Term	NA	NA	**[ICRA]BBB-(Stable)**	**MA-(Stable)**	**MA-(Stable)**	**MA-(Stable)**

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fixed Deposit Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: **www.icra.in**

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed Deposit Programme	NA	NA	NA	NA	[ICRA]BBB-(Stable)

Source: *GFL*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Corrigendum

The rating rationale document dated June 21,2022 has been corrected with the revision as detailed below:

i) The words "ratings reaffirmed;" is included in the heading and the word "outstanding" is removed from the heading of this document.

ii) The words "reaffirmed and" has been included in the rating action in the summary of rating action table and in the second paragraph of the rationale section.

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