June 30, 2023

Gove Finance Limited: Rating reaffirmed

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

**Instrument details are provided in Annexure I*

Rationale

The rating takes into account the managerial, operational, and financial support provided by the VST Group to Gove Finance Limited (GFL). GFL leverages the Group's auto dealerships and the promoters' experience in vehicle financing. The rating factors in the comfortable capitalisation profile (gearing of 0.9x (provisional) as of March 2023), which is expected to support the scale-up of its operations in the medium term. The rating also considers GFL's improved profitability metrics, with its net profitability[1] at 6.0% (provisional) in FY2023 vis-à-vis 2.6% in FY2022.

The rating continues to factor in GFL's modest scale of operations, despite the healthy portfolio growth in FY2023. ICRA notes that GFL's portfolio growth over the last two years, which has happened following a decline in the previous four years, when it started reducing its presence in the passenger vehicle (PV) segment. The company is expected to increasingly remain focused on the commercial vehicle (CV) segment and is envisaged to grow 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 (NPAs; including write-offs) of 1.5% as of March 2023 (2.4% as of March 2022). The net profitability improved in FY2023, backed by the higher net interest margin (NIM). Going forward, the ability to achieve 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 and India Garage for maintaining its sourcing and collections network. However, ICRA notes that the share of business derived from the Group has declined significantly 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 0.9x (provisional) and a capital adequacy ratio of 58.2% (provisional) as of March 2023. The gearing remained range-bound at 0.7-1.0x during FY2020-FY2023, given the restricted portfolio growth during this period. GFL's leverage is expected to increase going forward, considering its significant medium-term growth plan. However, ICRA does not envisage any external capital requirements over the next 2-3 years.

Improved profitability metrics – GFL recorded an improvement in its profitability in FY2023, supported by the increase in its NIM to 10.9% (provisional) in FY2023 from 3.7% in FY2022. This was largely backed by the improvement in the yield on loans and the decline in the cash & bank balance, while the average cost of funds witnessed some reduction with the company

[1] Profit after tax / Average managed assets

renewing deposits at lower rates. GFL's operating expenses increased to 7.1% (provisional) in FY2023 from 5.0% in FY2022 as it continued to expand its employee base and operational infrastructure during the year. ICRA notes that the profitability was also supported by gains from the sale of investments (1.3% in FY2023). However, income from such non-core activities is not expected on a sustained basis. Going forward, the company's ability to sustain its margins and improve its operating efficiency further, while keeping its credit costs under control, would be critical for maintaining its profitability.

Credit challenges

Modest scale and geographically concentrated operations – GFL has a modest scale of operations with a portfolio of Rs. 73.6 crore as of March 31, 2023. The portfolio witnessed a healthy growth during the year, albeit on a lower base, with the company increasing its disbursements in the CV segment from H2 FY2022. Geographically, GFL has nine sourcing and collection locations with Tamil Nadu accounting for a majority of the portfolio. The company plans to expand its network over the medium term, within its existing geographies. ICRA expects the company's portfolio to continue scaling up at a healthy pace over the medium term, with focus remaining predominantly on the used CV segment.

Modest borrower profile; competitive business environment – GFL is involved in the financing of CVs and PVs in the used and new segments. It mainly focuses on the used CV and PV segments. GFL's portfolio vulnerability remains relatively high on account of the inherent risks associated with this segment and the comparatively modest credit profile of the borrowers. Its collections have improved over the last two years as the customers bounced back from the impact of the Covid-19 pandemic. However, the collection efficiency remains subdued, impacting the softer bucket delinquencies, though the headline asset quality performance remains stable (Gross NPAs of 1.1% as of March 2023 vis-à-vis 2.1% as of March 2022). Going forward, GFL's ability to keep incremental slippages and credit costs under control, in view of the envisaged healthy scale of operations, would be critical considering the target segment.

Diversification of funding profile critical for meeting long-term growth plans – ICRA notes that GFL is significantly dependent on fixed deposits for its funding requirements. As of March 31, 2023, its funding profile included Fixed deposits (~84%) and intercorporate deposits (ICDs; 16%). GFL is planning to avail funding from other sources, including banks, to meet its medium-term growth plans. ICRA notes that the company's ability to secure incremental funds from banks and other sources, at competitive rates, would be crucial from a cost of funding and liquidity perspective.

Liquidity position: Adequate

GFL had free cash and cash equivalents of Rs. 3.9 crore as of March 31, 2023 against debt maturities and other obligations of Rs. 1.9 crore from April 2023 to June 2023, indicating adequate coverage for the next 3 months.

As of March 2023, fixed deposits accounted for around 84% of GFL's total debt. The company has a healthy renewal rate for its deposits, which provides further comfort on the liquidity front. Also, it has an ICD sanction of Rs. 15 crore from a Group company, of which Rs. 10 crore was yet to be utilised as of March 2023. While ICRA notes that liquidity comfort can be derived from the VST 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. Its operations are currently restricted to Tamil Nadu and Karnataka.

In FY2023, on a provisional basis, the company reported a net profit of Rs. 3.9 crore on a total asset base of Rs. 70.2 crore. In FY2022, it reported a net profit of Rs. 2.0 crore on a total asset base of Rs. 60.5 crore.

Key financial indicators (IGAAP)

Gove Finance Limited	FY2021	FY2022	FY2023 (P)
Total income	6.0	7.3	12.1
Profit after tax	1.1	2.0	3.9
Net worth	31.7	33.2	37.0
AUM	27.2	38.5	73.6
Total managed assets	61.0	60.5	70.2
Return on managed assets	1.8%	2.6%	6.0%
Return on net worth	3.7%	4.8%	11.2%
Gearing (reported; times)	0.9	0.8	0.9
Gross NPA (90+ dpd)	1.8%	2.1%	1.1%
Net NPA	1.6%	1.8%	1.0%
CRAR	69.5%	63.6%	58.2%

*Source: Company, ICRA Research; P – Provisional; *AUM includes unearned interest component*
All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jun-30-2023	Jun-21-2022	Jun-08-2021	Jul-31-2020
1	**Fixed deposit programme**	Long term	NA	NA	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (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: Click Here

Annexure I: 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 II: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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