

October 13, 2023

Capsave Finance Private Limited: [ICRA]AA+ (Stable) assigned for NCD and Rating reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------------|--------------------------------------|-------------------------------------|------------------------------|
| Non-convertible Debentures | 0.00 | 250.00 | [ICRA]AA+ (Stable); assigned |
| Commercial paper (CP) | 100.00 | 100.00 | [ICRA]A1+; reaffirmed |
| Total | 100.00 | 350.00 | |

*Instrument details are provided in Annexure I

Rationale

The ratings factor in Capsave Finance Private Limited's (CFPL) strategic importance to Mizuho Leasing Company, Limited (MLCL), an affiliate of Mizuho Financial Group, Inc. (MFG; rated A1 (Stable) by Moody's Investors Service). MLCL acquired a 51% stake in Rent Alpha Private Limited (RAPL; owns 100% equity stake in CFPL) in June 2023. With MLCL focused on expansion in emerging markets, including India, CFPL is expected to be strategically important for MLCL's growth plans going forward. MLCL has appointed six of its representatives to CFPL's board, who are expected to aid in the integration of the company with MLCL's global strategy. Further, ICRA expects MLCL to provide equity capital and enable CFPL to raise debt funds at competitive rates in a timely manner to support its growth plans.

CFPL currently has a comfortable capitalisation profile, characterised by a managed gearing of 2.4 times as of June 2023 (2.5 times as of March 2023), supported by regular capital infusions and healthy internal generation. It envisages to continue its portfolio growth at a robust pace in the medium term, while keeping its leverage below 4 times. The rating also factors in CFPL's healthy asset quality indicators with 90+ days past due (dpd)¹ of 0.1% as of March 2023 (0.1% as of June 2023). It maintained a healthy profitability {profit after tax (PAT)/average managed assets (AMA)} of 4.5% in FY2023 (3.3% in Q1 FY2024), notwithstanding a moderation from 5.4% in FY2022 on account of a decline in yields as the company focused on onboarding borrowers with better profiles. Going forward, the profitability is expected to be supported by an improvement in the operating efficiency and funding costs over the near to medium term. CFPL is also expected to improve its borrower profile further on the back of support from MLCL.

Nevertheless, the rating considers the moderate scale of operations despite the robust growth of 65% in the assets under management (AUM) in FY2023. CFPL's AUM increased to Rs. 1,872.7 crore as on March 31, 2023 (Rs. 1,916.3 crore as of June 2023) from Rs. 1,131.9 crore as on March 31, 2022. Leases contributed 52% to the total AUM followed by working capital financing (WCF) at 47% as of June 2023. The rating factors in the company's concentrated exposure profile with the top 20 customers contributing 32% to the overall portfolio as of June 2023 (119% of the net worth) and 34% as of March 2022, which are largely towards well-rated entities (rated in A category and above), multi-national companies (MNC) or backed by liquid collateral. The rating also takes into consideration CFPL's modest track record in the WCF segment as well as the risk associated with realising the residual value of the leased assets, after the expiry of the lease period, on a sustained basis over the long term.

¹ Gross non-performing asset (GNPA) and Net non-performing asset (NNPA) as of March 2023 is 0.2% and 0.1% respectively (0.2% and 0.1% as of June 2023).

Key rating drivers and their description

Credit strengths

Strategic importance to MLCL – The rating factors in the managerial, financial and operational support expected from MLCL, an affiliate of MFG (23.03% stake in MLCL). MLCL is focused on expanding in emerging markets, including India, as a part of its global growth strategy. It acquired a 51% stake in RAPL from the existing shareholders and became the ultimate parent of RAPL and CFPL.

MLCL has extended significant managerial support by appointing six of its representatives to CFPL's board. With three of these members holding executive positions in the company, they provide operational support by being involved in the day-to-day operations and participating in various sub-committees of the board, ensuring that the process efficiency and governance standards are in line with global best practices. MLCL is also expected to support the company in growing its business by onboarding various global clients. Further, CFPL is expected to benefit from its parentage by leveraging MFG's relationships with various financiers in order to provide timely funding opportunities at competitive rates.

CFPL's board, including the founders (Mr. Jinesh Jain and Mr. Praveen Chauhan), has vast experience in the leasing business. The founders have experience in originating and structuring large leasing deals, securitisation and asset life cycle management. The senior management team also has extensive experience in handling various functions in similar businesses.

Comfortable capitalisation profile – CFPL has a comfortable capitalisation profile characterised by a managed gearing of 2.4 times as of June 2023 (2.5 times as of March 2023), supported by regular capital infusions and healthy internal generation. RAPL had infused Rs.75 crore in Q2 FY2024, Rs. 60.0 crore in FY2023 and Rs. 49.5 crore in FY2022. Going forward, ICRA expects MLCL to provide equity capital and enable CFPL to raise debt funds at competitive rates in a timely manner to support its growth plans. CFPL envisages to continue its portfolio growth at a robust pace in the medium term, while keeping its leverage below 4 times.

Healthy asset quality indicators – CFPL has historically maintained healthy asset quality with 90+dpd² of 0.1% as of March 2023 (0.1% as of June 2023) and no write-offs since inception. CFPL's exposures are largely towards well-rated entities, multi-national companies (MNC) or backed by liquid collateral. The management has longstanding experience in leasing, supporting its ability to limit the risks arising from the end-of-lease residual value of the asset. Working capital finance (47% of the portfolio as of June 2023) is a short-term facility with a tenor of usually 30-180 days. ICRA notes that while CFPL has sizeable softer bucket delinquencies, it has restricted slippages into harder buckets. Maintaining or augmenting the borrower risk profiles in the leasing business and ensuring adequate risk coverage for leasing and working capital finance, as the business scales up, would remain crucial.

Good profitability indicators – CFPL maintained a healthy profitability (PAT/AMA) of 4.5% in FY2023 (3.3% in Q1 FY2024), notwithstanding a moderation from 5.4% in FY2022. Its net interest margin declined to 8.2% in FY2023 (7.6% in Q1 FY2024) from 9.9% in FY2022, impacted by the increase in the cost of borrowings and the moderation in the yields as the company focused on onboarding borrowers with better profiles. Operating expenses and credit costs, however, remained largely stable at 2.6% in FY2023 (2.5% in FY2022) and 0.6% in FY2023 (0.7% in FY2022), respectively. Going forward, ICRA expects CFPL to continue to maintain good profitability indicators and improve its operating efficiency and funding costs over the near-to-medium term.

² Gross non-performing asset (GNPA) and Net non-performing asset (NNPA) as of March 2023 is 0.2% and 0.1% respectively (0.2% and 0.1% as of June 2023).

Credit challenges

Moderate scale; wholesale nature of exposures – CFPL witnessed a robust growth in its AUM to Rs. 1,872.7 crore as of March 2023 (Rs. 1,916.3 crore as of June 2023) from Rs. 1,131.9 crore as of March 2022. Nevertheless, its scale of operations remains moderate. However, CFPL is expected to grow at a robust pace in the medium term. Leasing contributed 52% to the total AUM followed by WCF at 47% as of June 2023. The contribution from lease finance has reduced over the last two years with the company foraying into working capital finance in FY2021. The rating also takes into consideration CFPL's modest track record in the WCF segment and the relatively moderate customer profile in this segment. Thus, its performance in this segment would be a key monitorable. ICRA also takes note of the risks associated with realising the residual value of the leased assets after the expiry of the lease period.

The company has a concentrated borrower profile with the top 20 clients contributing 32% to the overall portfolio as of June 2023 (119% of the net worth) vis-à-vis 34% as of March 2022 (100% of the net worth) which are largely towards well-rated entities (rated in A category and above), multi-national companies (MNC) or backed by liquid collateral. Going forward, the ability to maintain healthy asset quality would be a key monitorable as the business expands.

Liquidity position: Strong

CFPL maintains a strong liquidity profile with no cumulative mismatches in its asset-liability maturity (ALM) profile as on June 30, 2023, given its sizeable short-term loan book. It had cash and cash equivalents of Rs. 115.4 crore and undrawn sanctions of Rs. 107.7 crore as on September 30, 2023. Further, RAPL has extended an intercorporate line of Rs. 250 crore to CFPL (of which Rs. 160 crore was utilised as of September 2023) which provides additional liquidity support as the lease rental payments are generally received on a quarterly basis. The company has repayments of Rs. 273.6 crore due during July-September 2023 (including interest of Rs. 25.4 crore). Incrementally, CFPL is expected to benefit from its parentage in diversifying its borrowing profile and maintaining its liquidity position

Rating sensitivities

Positive factors – The long-term rating could be revised upwards in case of a substantial increase in shareholding by MLCL in RAPL. A sustained improvement in operational linkages with MLCL, and a closer association with the Mizuho brand would also positively impact the rating.

Negative factors – The ratings would remain sensitive to any weakening in MFG's credit profile or lower-than-expected support from MFG. A substantial deterioration in CFPL's asset quality, impacting the earnings, or a steady weakening in its liquidity and capitalisation profile would also negatively impact the ratings.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Rating Methodology for Non-banking Finance Companies Rating Approach – Implicit Support from Parent or Group |
| Parent/Group support | The rating factors in the high likelihood of operational, financial and management support from MLCL, an affiliate of MFG, given the strategic importance of CFPL |
| Consolidation/Standalone | The rating is based on the standalone financial statements of CFPL |

About the company

Capsave Finance Private Limited (CFPL) is a non-deposit taking systemically important middle layer non-banking financial company (NBFC). In 2016, it became a 100% subsidiary of Rent Alpha Private Limited and became a step-down subsidiary of MLCL in June 2023 following MLCL's acquisition of a majority (51%) stake in RAPL. The company primarily deals with leasing and working capital financing. It operates from its registered office in Mumbai and has a presence in Delhi, Pune, Chennai,

Bengaluru and Hyderabad. It provides working capital financing and leasing facilities to segments such as information technology equipment, plant & machinery, furniture & fit outs, medical equipment, etc.

CFPL's gross loan book stood at Rs. 1,871.7 crore as of June 2023 (Rs. 1,822.2 crore as of March 2023). The company reported a net profit of Rs. 75.6 crore on a managed asset base of Rs. 2,074.2 crore in FY2023 compared with Rs. 54.1 crore and Rs. 1,308.1 crore, respectively, in FY2022. It reported a provisional net profit of Rs. 17.0 crore on a managed asset base of Rs. 2,100.0 crore in Q1 FY2024.

Key financial indicators

| CFPL – Standalone | Ind-AS | Ind-AS | Ind-AS |
|----------------------------------|---------|---------|---------------|
| | Audited | Audited | Provisional |
| | FY2022 | FY2023 | Q1 FY2024 (P) |
| Total income | 165.0 | 247.6 | 74.6 |
| Profit after tax | 54.1 | 75.6 | 17.0 |
| Net worth | 365.6 | 501.2 | 518.2 |
| Gross loan book | 1,067.6 | 1,822.2 | 1,871.7 |
| Total managed assets | 1,308.1 | 2,074.2 | 2,100.0 |
| Return on managed assets | 5.4% | 4.5% | 3.3% |
| Return on net worth | 17.3% | 17.4% | 13.3% |
| Managed gearing (times) | 1.9 | 2.5 | 2.4 |
| Gross stage 3^ | 0.2% | 0.6% | NA |
| Net stage 3^ | 0.2% | 0.6% | NA |
| Solvency (Net stage 3/Net worth) | 0.5% | 0.5% | 2.1% |
| CRAR | 28.4% | 26.3% | 26.6% |

Source: Company, ICRA Research; Amount in Rs. crore; P – Provisional

Managed gearing = (On-book debt + Off-book portfolio) / Net worth

^Gross non-performing asset (GNPA) and Net non-performing asset (NNPA) as on June 30, 2023 is 0.2% and 0.1% respectively (0.2% and 0.1% as on March 31, 2023 & 0.1% and 0.1% as on March 31, 2022). Gross Stage-3 assets includes accounts with external rating of "C" or below irrespective of the delinquency level

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Type | Current Rating (FY2024) | | | | Chronology of Rating History for the Past 3 Years | | |
|------------------------------|------------|--------------------------|--------------------------------|-------------------------|--------------|---|-------------------------|-------------------------|
| | | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2024 | | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | Oct 13, 2023 | Sep 29, 2023 | | | |
| 1 Non-convertible Debentures | Long term | 250.00 | 0.00 | [ICRA]AA+ (Stable) | - | - | - | - |
| 2 Commercial paper | Short term | 100.00 | 0.00 | [ICRA]A1+ | [ICRA]A1+ | - | - | - |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|-----------------------------|----------------------|
| Commercial paper | Very Simple |
| Non-convertible Debentures* | Not Applicable |

**Yet to be placed*

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 | Date of issuance | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------------------|----------------------------|------------------|-------------|---------------|-----------------------------|----------------------------|
| Yet to be placed | Non-convertible Debentures | - | - | - | 250.00 | [ICRA]AA+ (Stable) |
| Yet to be placed | Commercial paper | - | - | - | 100.00 | [ICRA]A1+ |

Source: Company

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

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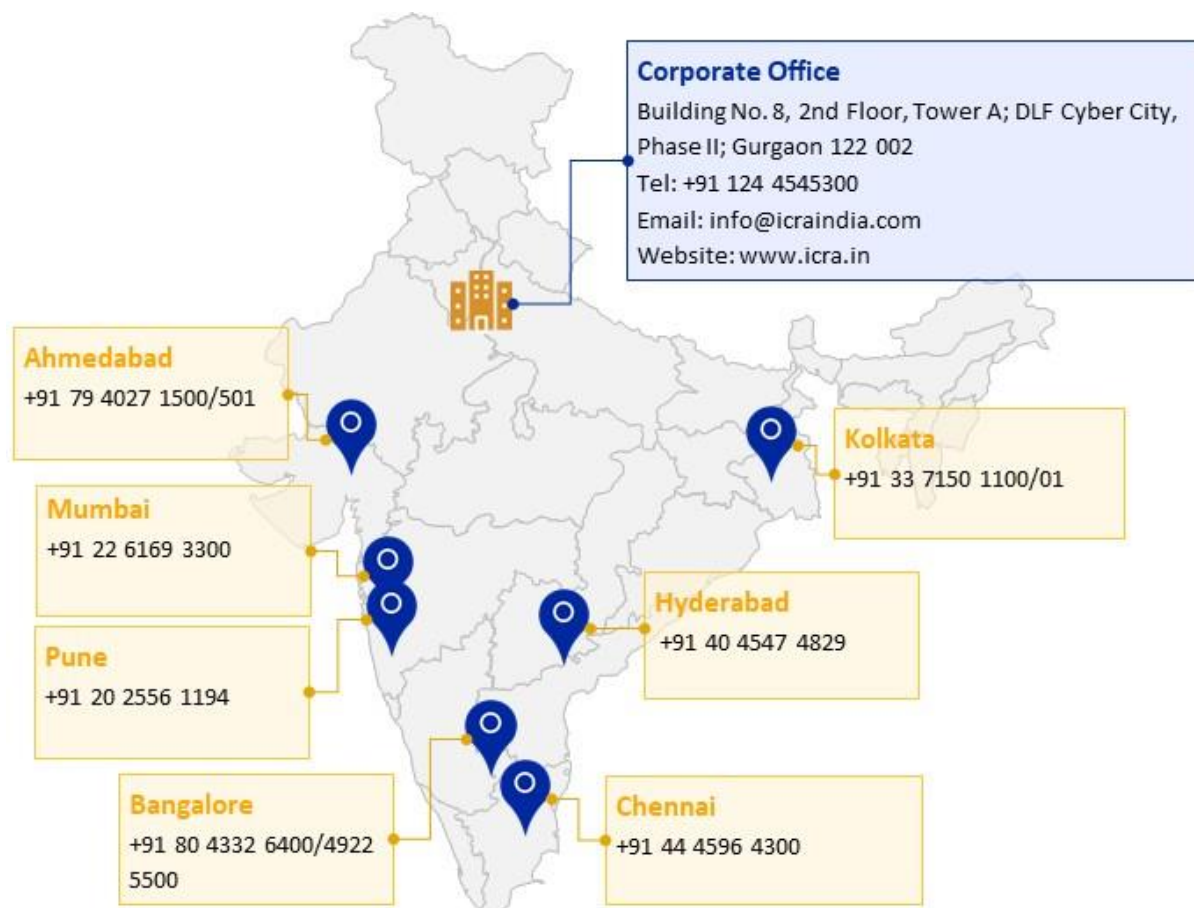


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