

April 17, 2024

Gove Finance Limited: Rating upgraded to [ICRA]BBB (Stable)

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); upgraded from [ICRA]BBB- (Stable)

*Instrument details are provided in Annexure I

Rationale

The rating upgrade factors in the improvement in Gove Finance Limited's (GFL) earnings profile as it scaled up its portfolio. The company's loan portfolio increased to Rs. 99 crore as of December 2023 (compound annual growth rate (CAGR) of 65% over the last two years) and is expected to continue growing at a healthy CAGR of 30-35% over the medium term. The net profitability improved to 4.4% (provisional) in 9M FY2024 (6.4% in FY2023) from 2.6% in FY2022, supported by higher interest margins and controlled credit costs. The rating upgrade also considers the improvement in the credit profile of the VST Group¹. GFL leverages the Group's auto dealerships and the promoters' experience in vehicle financing. The Group's promoters have more than six decades of experience in auto dealership and financing. Given its scale, GFL has geographically concentrated operations with its operations largely restricted to Tamil Nadu.

The rating factors in the comfortable capitalisation profile (gearing of 1.6x (provisional) as of December 2023), which is expected to support the scale-up of its operations in the medium term. The rating continues to consider the moderate asset quality, with some weakening in its delinquency levels in 9M FY2023 {non-performing advances (NPAs; including write-offs) increased to 2.6% as of December 2023 from 0.6% as of March 2023}. The delinquency levels are expected to decline slightly, with the GNPA's estimated at 1.3-1.5% as of March 2024. 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

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 V.S.T. Motors Private Limited (VSTM), for maintaining its sourcing and collection network. However, ICRA notes that the share of business derived from the Group has declined significantly over the years as the company is currently predominantly focused on lending in the used vehicle segment. Nevertheless, GFL's branches continue to be based out of the dealerships of VST Motors. GFL also has an inter-corporate deposit from Chennai Auto Agency Private Limited (Group company), availed in February 2024, with an outstanding amount of Rs. 15 crore as of December 2023. ICRA notes that the ratings of two Group entities (V.S.T. Motors Private Limited – VSTM and V.S.T. & Sons Private Limited – VST&S) were upgraded to [ICRA]A- (Stable) in February 2024. Going forward, ICRA expects the Group entities and the promoters to support GFL financially, as and when required.

¹ Consisting of V.S.T. Motors Private Limited {VSTM; upgraded to [\[ICRA\]A- \(Stable\)](#) from [\[ICRA\]BBB+ \(Stable\)](#) in February 2024}, its subsidiary – V.S.T. & Sons Private Limited {VST&S; upgraded to [\[ICRA\]A- \(Stable\)](#) from [\[ICRA\]BBB+ \(Stable\)](#) in February 2024}, and V.S.T. Titanium Motors Private Limited (VSTT), and Chennai Auto Agency Private Limited (CAAPL)

Comfortable capitalisation profile – The capitalisation profile is comfortable with a gearing of 1.6x (provisional) and a capital adequacy ratio of 43.4% (provisional) as of December 2023. The gearing had remained range-bound in the past as well (0.7-2.0x during FY2020-FY2023). Going forward, GFL's leverage is expected to increase steadily, considering its significant medium-term growth plans. However, ICRA does not envisage any external capital requirements over the next 2-3 years.

Comfortable profitability metrics – GFL's profitability metrics have improved over the last two years, recovering from the impact of the Covid-19 pandemic, with its net profitability at 4.4% (provisional) in 9M FY2024 (6.4% in FY2023) compared to 2.6% in FY2022. The improvement in 9M FY2024 was mainly supported by the increase in the net interest margin (NIM) to 12.7% (provisional) from 10.8% in FY2023 (3.7% in FY2022) as the company was able to raise its yield on loans during the year. With the rise in deposit rates, the average cost of funds also witnessed some increase. GFL's operating expenses decreased marginally to 6.4% (provisional) in 9M FY2024 from 7.1% in FY2023, with the same expected to reduce further as the company scales up its operations.

Credit challenges

Geographically concentrated operations – GFL has nine sourcing and collection locations with Tamil Nadu accounting for a majority of the portfolio. It 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 commercial vehicle (CV) segment.

Modest borrower profile; competitive business environment – GFL is involved in the financing of CVs and passenger vehicles (PVs) in the used and new segments. It mainly focuses on the used CV and PV segments. GFL's portfolio vulnerability remains quite high on account of the relatively modest credit profile of the borrowers. Its collections improved over the last two years as customers bounced back from the impact of the pandemic. However, gross NPAs increased in 9M FY2024 to 2.6% as of December 2023 from 0.6% as of March 2023 due to a seasonal dip in collections. Nevertheless, collections are expected to have recovered in Q4 FY2024, leading to an improvement in the GNPA estimate to 1.3-1.5% as of March 2024. 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 remains significantly dependent on fixed deposits for its funding requirements, though it availed incremental funding from banks in FY2024, which helped decrease its exposure to fixed deposits. As of December 31, 2023, its funding profile included fixed deposits (~49%), intercorporate deposits (ICDs; 23%) and term loans from banks (8%). GFL is planning to avail funding from other sources 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. 10.8 crore as of December 31, 2023 against debt maturities and other obligations of Rs. 13.2 crore from January 2024 to June 2024, indicating adequate coverage for the next six months. As of December 2023, fixed deposits accounted for around 49% 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 outstanding ICD sanction of Rs. 15 crore from a Group company. 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 – A significant scale-up of the operations, while maintaining stable asset quality and earnings and diversifying the funding profile, would positively impact the rating. An improvement in the credit profile of the VST Group could also positively impact the rating.

Negative factor – A significant deterioration in the asset quality, capitalisation (managed gearing of more than 6x) or earnings profile would negatively impact the rating. The rating would also be sensitive to any deterioration in the credit profile or lower-than-expected support from the VST Group.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	VST Group
Consolidation/Standalone	The rating is based on the standalone financial statements of GFL

About the company

Gove Finance Limited (GFL) 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. 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.

The company reported a net profit of Rs. 4.2 crore in FY2023 on a total asset base of Rs. 70.9 crore (Rs. 2.9 crore in 9M FY2024 on a total asset base of Rs. 106.7 crore).

Key financial indicators (IGAAP)

Gove Finance Limited	FY2022	FY2023	9M FY2024
	Audited	Audited	Provisional
Accounting as per	IGAAP	IGAAP	IGAAP
Total income	7.3	12.2	11.8
Profit after tax	1.6	4.2	2.9
Total managed assets ²	60.5	70.9	106.7
Return on managed assets	2.6%	6.4%	4.4%
Gearing (reported; times)	0.8	0.9	1.6
Gross NPA (90+ dpd)	1.7%	0.6%	2.6%
CRAR	63.8%	58.6%	43.4%

Source: Company, ICRA Research; P – Provisional; Dpd – Days past due; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

² Total managed assets = Total assets + Off-book AUM

Rating history for past three years

Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
				Apr-17-2024	Jun-30-2023	Jun-21-2022	Jun-08-2021	
1 Fixed deposit programme	Long term	NA	NA	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB-(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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Branches



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