September 24, 2024

Capsave Finance Private Limited: Ratings reaffirmed

Summary of rating action

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

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation factors in Mizuho Leasing Company Limited's (MLCL) recent acquisition of a 32.9% stake in Rent Alpha Private Limited (RAPL), the holding company of Capsave Finance Private Limited (CFPL), from Bravia Rent Alpha Holdings Limited (Bravia). This led to an increase in its stake in RAPL's share capital to 87.6% from 54.7%.

The ratings continue to derive comfort from the strategic importance of CFPL to MLCL, an affiliate of Mizuho Financial Group, Inc. (MFG; rated A1 (Stable) by Moody's Investors Service). ICRA notes that CFPL has benefited over the last one year from its association with the Mizuho Group, following MLCL's acquisition of a majority stake in June 2023. MLCL infused equity of about Rs. 100 crore in RAPL in October 2023, which was down-streamed to CFPL in November 2023. The company is currently comfortably capitalised, with a net worth of Rs. 776 crore and a managed gearing of 2.2 times as of June 2024. Further, Mizuho Bank has partnered with RAPL and CFPL on both asset and liability side.

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 is also benefiting from its Mizuho association as its target borrower segment has expanded. MLCL is focused on expansion in emerging markets, including India; ICRA believes that CFPL and RAPL are expected to be key entities for Mizuho's business interests in India.

The ratings take into consideration CFPL's good asset quality, though the headline delinquencies weakened slightly with the 90+ days past due (dpd) increasing to 0.8% as of March 2024 from 0.1% as of March 2023. Consequently, the company has tightened its underwriting and expects to restrict incremental slippages, going forward. Nevertheless, the asset quality of this segment would remain a monitorable.

CFPL's profitability remains healthy, though it declined in FY2024 {profit after tax (PAT)/average managed assets (AMA) of 3.1% in FY2024 vis-à-vis 4.5% in FY2023} due to reducing interest margins as a result of shift to better customer profile, and certain one-time costs related to MLCL stake acquisition. Going forward, CFPL's ability to stabilise the interest margins at the current levels would be crucial for maintaining healthy profitability on a sustained basis.

Key rating drivers and their description

Credit strengths

Strategic importance to MLCL – The ratings factor in the managerial, financial and operational support expected from MLCL, an affiliate of MFG (23.1% stake in MLCL). MLCL is a major leasing company in Japan with a presence in multiple geographies across the world. It provides finance for capital investments in industrial machine tools, information technology (IT) equipment, medical equipment and other business assets. It recorded a consolidated net income of ¥35.2 billion on total consolidated revenues of ¥656.1 billion. MLCL has been increasing its focus on expanding in emerging markets, including India, as a part of its global growth strategy. It entered India with the acquisition of a 51% stake in RAPL in June 2023. Since then, it has increased its stake further (acquired 32.9% in August 2024) and currently holds 87.6%.

MLCL has extended significant managerial support by appointing six of its representatives to CFPL's board, three of them have relocated to company office in Mumbai and are involved in the day-to-day operations of the company. MLCL has also ensured that the process efficiency and governance standards are in line with global best practices. 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, as well as generating new business with MNC clients and OEM relationships.

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 March 2024 (2.5 times as of March 2023), supported by regular capital infusions and healthy internal capital generation. During FY2024, it raised Rs. 175.0 crore of capital; while Rs. 75 crore was infused by RAPL from its surplus funds, the balance (Rs. 100) crore was down-streamed to CFPL with a similar amount infused by MLCL into RAPL. Going forward, ICRA expects MLCL to provide equity capital as and when required and enable CFPL to raise debt funds at competitive rates in a timely manner to support its growth plans. In addition, RAPL would also continue to infuse a share of its accruals into CFPL. CFPL envisages to continue its portfolio growth at a robust pace in the medium term, while keeping its leverage below 4 times.

Good asset quality indicators – CFPL has historically maintained its asset quality with a 90+dpd of 0.1% and nil write-offs till date. However, some slippages was seen in Q4 FY2024, leading to an increase in the 90+dpd to 0.8% as of March 2024 (0.8% as of June 2024). ICRA notes the relatively moderate customer profile in its WCF segment, though this is expected to be improved with the company tightening its underwriting practices. Nevertheless, the asset quality of this segment would remain a monitorable.

ICRA notes that CFPL's exposures in the leasing segment are largely towards well-rated entities, multinational companies (MNCs) or backed by liquid collateral. The management has significant experience in leasing, supporting the company's ability to limit the risks arising from the end-of-lease residual value of the asset. Going forward, maintaining or augmenting the borrower risk profiles in the leasing business and ensuring adequate risk coverage for leasing and WCF, as the business scales up, would remain crucial.

Healthy profitability indicators, notwithstanding decline in margins – CFPL has continued to maintain healthy profitability, with its net profitability (PAT/AMA) at 3.1% in FY2024 (3.0% in Q1 FY2025), though it has witnessed some moderation from previous years (4.5% in FY2023). This was on account of certain one-time expenses in relation to MLCL stake acquisition and the reduction in its net interest margin, largely impacted by a moderation in the yields as the company focused on onboarding borrowers with better profiles. Operating expenses and credit costs, however, have remained largely stable in recent years. ICRA expects CFPL to benefit from its MLCL parentage for improving its cost of funding over the medium term. Nevertheless, its ability to maintain it interest margins without further reduction would be critical for maintaining healthy profitability indicators over the near-to-medium term.

Credit challenges

Moderate scale; wholesale nature of operations – Over the last three years, CFPL's assets under management (AUM) witnessed a compound annual growth rate (CAGR) of 66%, reaching Rs. 2,699.7 crore as of March 2024 (Rs. 2,622.5 crore as of June 2024). Nevertheless, its scale of operations remains moderate. On a segment-wise basis, leasing contributed 49% to the total AUM, while WCF contributed 50% as of June 2024. Company expects both these segments to contribute equally to

AUM over the medium term. ICRA also takes note of the risks associated with the realisation of 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 26% of AUM as of March 2024 (94% of the net worth), though this has improved from 32% as of June 2023 (119% of the net worth). ICRA notes that such exposures are largely towards well-rated entities (rated A and above), MNCs 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, 2024, given its sizeable short-term loan book. It had cash and cash equivalents of Rs. 176.7 crore and undrawn sanctions of Rs. 470.8 crore as of August 2024. Further, RAPL has extended an intercorporate line of Rs. 250 crore to CFPL (of which Rs. 195 crore was utilised as of June 2024) and expects capital infusion of Rs. 75 crore in H2 FY2025. This provides additional liquidity support as the lease rental payments are generally received on a quarterly basis. The company has repayments of Rs. 228.5 crore due during September-November 2024 (including interest of Rs. 35.9 crore). CFPL is expected to benefit from its parentage for diversifying its borrowing profile and maintaining its liquidity position.

Rating sensitivities

Positive factors – Improved brand association with MLCL or MFG or a name change could lead to a rating upgrade.

Negative factors – The ratings would remain sensitive to any weakening in MFG or MLCL's credit profile or lower-than-expected support. 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
Parent/Group support	The ratings factor 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 ratings are 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). It became a 100% subsidiary of Rent Alpha Private Limited (RAPL) in 2016 and a step-down subsidiary of MLCL in June 2023, following MLCL's acquisition of a majority (51%) stake in RAPL. MLCL's stake increased to 87.6%, as of August 2024, following its acquisition of Bravia's stake in RAPL.

CFPL primarily provides working capital financing and leasing facilities to segments such as information technology equipment, plant & machinery, furniture & fitouts, medical equipment, etc. It operates from its registered office in Mumbai and has a presence in Delhi, Pune, Chennai, Bengaluru and Hyderabad.

CFPL's gross loan book stood at Rs. 2,593.2 crore as of June 2024 (Rs. 2,666.9 crore as of March 2024). It reported a net profit of Rs. 78.3 crore on a total asset base of Rs. 3,009.1 crore in FY2024 compared with Rs. 75.6 crore and Rs. 2,074.2 crore, respectively, in FY2023. It reported a provisional net profit of Rs. 21.9 crore on a total asset base of Rs. 2,848.8 crore in Q1 FY2025.

Key financial indicators (audited)

CFPL – Standalone	Ind-AS Audited FY2023	Ind-AS Audited FY2024	Ind-AS Provisional Q1 FY2025
Total income	247.6	328.1	94.9
Profit after tax	75.6	78.3	21.9
Total assets	2,074.2	3,009.1	2,848.8
Return on managed assets	4.5%	3.1%	3.0%
Managed gearing (times)	2.5	2.4	2.2
Gross stage 3^	0.6%	1.0%	1.0%
CRAR	26.3%	26.9%	28.5%

Source: Company, ICRA Research; Amount in Rs. crore
Managed gearing = (on-book debt + off-book portfolio) / net worth
^Gross non-performing assets (GNPA) and net non-performing assets (NNPA) as on June 30, 2024 were 0.9% and 0.1%, respectively (0.8% and 0.3%, respectively, as on March 31, 2024 & 0.2% and 0.1%, respectively, as on March 31, 2023). 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

	Current (FY2025)					Chronology of rating history for the past 3 years					
			FY2025			FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs. crore)**	**Sep 24, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Non-convertible debentures	Long term	250.00	[ICRA]AA+ (Stable)	Sep 09, 2024	[ICRA]AA+ (Stable)	Oct 13, 2023	[ICRA]AA+ (Stable)	-	-	-	-
Commercial paper	Short term	100.00	[ICRA]A1+	Sep 09, 2024	[ICRA]A1+	Oct 13, 2023	[ICRA]A1+	-	-	-	-
			-	-	-	Sep 29, 2023	[ICRA]A1+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very Simple
Non-convertible debentures	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
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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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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