

September 02, 2021

CapFloat Financial Services Private Limited – Update on material event

Summary of rating(s) outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Bank Facilities	225.00	225.00	[ICRA]BBB-(Stable) / [ICRA]A3; outstanding
Fund-based Facilities – Long Term	65.00	65.00	[ICRA]BBB-(Stable); outstanding
Fund-based Facilities – Short Term	10.00	10.00	[ICRA]A3; outstanding
Non-convertible Debentures	182.00	182.00	[ICRA]BBB-(Stable); outstanding
Non-convertible Debentures	10.00	10.00	[ICRA]A-(CE)(Stable); outstanding
Total	492.00	492.00	

Rating Without Explicit Credit Enhancement	[ICRA]BBB-
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*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Material Event

As per CapFloat Financial Services Private Limited's (CapFloat) FY2021 annual report shared with ICRA on August 26, 2021, the statutory auditor has reported that the company delayed the repayment of dues to debenture holders during the year to the extent of Rs. 1.99 crore for less than three days.

Impact of Material Event

The company informed ICRA that the delay was technical in nature because of the wrong bank account details. ICRA has been provided with CapFloat's bank statements for the respective period and has ascertained that CapFloat was carrying adequate liquidity buffer on its balance sheet for the repayment of the said dues. Further, the company had free cash and cash equivalents of Rs. 181 crore as on July 31, 2021, that were adequate to meet debt obligations (including operating expenses) for next three months. The ratings remain unchanged at [ICRA]BBB-(Stable)/A3.

Rationale

The ratings continue to factor in CapFloat's comfortable capitalisation with a gearing of 1.1x as on March 31, 2021 and its demonstrated ability to raise capital to fund the annual losses. ICRA also notes the adequate solvency profile with net non-performing advances (NPAs) to net worth of 2.5% as on March 31, 2021.

The ratings remain constrained by the continuous weakening in the profitability and asset quality indicators. CapFloat reported a return on average total managed assets (RoMA) of -10.0% in FY2021 (-8.5% in FY2020) with net losses of Rs. 126 crore in FY2021 (net loss of Rs. 130 crore in FY2020), primarily on account of credit costs of Rs. 79 crore (Rs. 109 crore in FY2020). ICRA notes that the company is yet to break even at the pre-provision profit level since the commencement of operations. The Covid-19 pandemic and the resultant lockdown further delayed the timeline to achieve breakeven.

CapFloat's asset quality remains weak with gross NPAs (GNPAs) plus annual write-offs at 12.9% of the assets under management (AUM) as on March 31, 2021 compared to 12.3% as on March 31, 2020. ICRA notes that the company has taken steps to cushion the incremental slippages by making Covid-related provisions of Rs. 51 crore and availing the credit guarantee scheme for micro, small & medium enterprises (MSMEs) provided by Small Industries Development Bank of India (SIDBI; 70% of the AUM was guaranteed as of September 30, 2020).

ICRA notes the management's efforts towards improving the operating profitability by controlling costs across overheads including reduction in the staff count, rental expenses, technology expenses and other administrative expenses. ICRA notes the company's efforts to strengthen its in-house collection and recovery team, resulting in an improvement in the overdue recoveries position. ICRA also notes the tightening of the credit policies while incrementally restricting high ticket size loan disbursements.

The ratings also consider CapFloat's limited track record of operations, the risks associated with a moderate borrower profile, and its product mix, which is yet to stabilise. Going forward, CapFloat's ability to scale up its operations while controlling the asset quality, improving its earnings profile and maintaining comfortable capitalisation would be a key monitorable from a rating perspective.

Please refer to the following links for the previous detailed rationales that capture the key rating drivers and their description, liquidity position and rating sensitivities: [Click here \(1\)](#) and [Click here \(2\)](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Non-Banking Finance Companies Covered Bonds
Parent/Group Support	NA
Consolidation/Standalone	Standalone

About the company

CapFloat Financial Services Private Limited (previously Zen Lefin Pvt. Ltd.) is a non-deposit taking non-banking financial company (NBFC-ND) registered with the Reserve Bank of India (RBI). It primarily lends to small and medium enterprises (SMEs) and retail customers. It was started in 2013 by co-founders, Mr. Sashank Rishyasinga and Mr. Gaurav Hinduja, and has raised funds from ASPADA, Sequoia, SAIF Partners, Amazon and Creation Investments among others.

CapFloat is a part of the evolving fintech industry and targets borrower segments which are difficult to access by traditional banks. The use of technology helps to reduce the turnaround time as well as facilitate the underwriting of borrowers based on non-traditional data points from the online space like social media, e-commerce sites, etc.

Key financial indicators (audited)

CapFloat	FY2019	FY2020	FY2021
Total income (Rs. crore)	190	210	127
Profit after tax (Rs. crore)	(119)	(130)	(126)
Net worth (Rs. crore)	507	524	429
Total assets (Rs. crore)	1,308	1,197	944
Total managed assets (Rs. crore)	1,631	1,442	1,074
AUM (Rs. crore)	1,404	1,031	681
Return on managed assets (%)	-7.8%	-8.5%	-10.0%
Return on net worth (%)	-26.54%	-25.30%	-26.38%
Gross gearing (times)	1.37	1.15	1.07
Gross NPA (% of AUM)	4.79%	2.11%	3.91%
Net NPA (% of AUM)	0.69%	0.59%	1.60%
Solvency (Net NPA /Net worth)	1.84%	1.15%	2.48%
CRAR (%)	35.98%	43.03%	35.84%

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				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 FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 02, 2021	May 13, 2021			
1	Bank Facilities	Long Term and Short Term	225.00	-	[ICRA]BBB-(Stable)/A3	[ICRA]BBB-(Stable)/A3	[ICRA]BBB-(Stable)/A3	[ICRA]BBB (Negative)/A3+	[ICRA]BBB (Stable)/A3+
2	Fund-based Facilities – Long Term	Long Term	65.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
3	Fund-based Facilities – Short Term	Short Term	10.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A3+
4	Non-convertible Debentures	Long Term	182.00	32.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
5	Non-convertible Debentures	Long Term	10.00	10.00	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Bank Facilities	Simple
Fund-based Facilities – Long Term	Simple
Fund-based Facilities – Short Term	Simple
Non-convertible Debentures	Simple
Non-convertible Debentures	Moderately Complex

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
Unallocated	Bank Facilities*	-	-	-	225.00	[ICRA]BBB-(Stable)/[ICRA]A3
	Fund based Facilities – Long Term*	Oct 27, 2016 Mar 06, 2017	11.80% 11.15%	Oct 31, 2018 Mar 31, 2019	20.00 30.00	[ICRA]BBB-(Stable)
-	Fund based Facilities – Long Term*	Nov 28, 2016 Jul 20, 2017	12.75% 11.75%	Dec 31, 2018 Jul 31, 2019	5.00 10.00	[ICRA]BBB-(Stable)
-	Fund based Facilities – Short Term*	Oct 25, 2016	12.50%	Oct 05, 2017	10.00	[ICRA]A3
INE491W07030	Non-convertible Debentures	Dec 12, 2016	13.25%	Jun 23, 2022	17.00	[ICRA]BBB-(Stable)
INE491W07063	Non-convertible Debentures	Sep 21, 2018	12.90%	Sep 21, 2021	15.00	[ICRA]BBB-(Stable)
Yet to be Placed	Non-convertible Debentures	-	-	-	150.00	[ICRA]BBB-(Stable)
INE491W07097	Non-convertible Debentures	Dec 31, 2020	12.75%^	Feb 28, 2023	10.00	[ICRA]A-(CE)(Stable)

Source: Company

*Unutilised

^Additionally, step-up interest of 2.0% is applicable from date of issuance in case of trigger event

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

Source: Company

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