

## CareEdge Global assigns Long Term Foreign Currency Rating of 'CareEdge B-/Stable' to the Foreign Currency Bond and proposed External Commercial Borrowing plan of TruCap Finance Limited

<b>USD10 million Foreign Currency Bonds</b>	<b>CareEdge B-/Stable</b>
<b>USD20 million External Commercial Borrowing (proposed)</b>	<b>CareEdge B-/Stable</b>

CareEdge Global has assigned a '**CareEdge B-/Stable**' rating to TruCap Finance Limited's (TFL) USD10 million foreign currency bond and proposed USD20 million external commercial borrowing plan. The bond would be issued in two tranches of USD5 million each.

### Rating Rationale

The rating is primarily driven by TFL's experienced board and management team and comfortable capitalisation. These strengths are partly offset by a concentrated geographical and product portfolio, concentrated resource profile, modest though growing scale of operations, and low seasoning of its portfolio in an inherently susceptible asset class.

### Key Rating Drivers

#### Strengths

##### Experienced board and management team

TFL is promoted by Mumbai-headquartered Wilson Group, which took over the company in 2018. Wilson Group has diverse business interests, including financing, real estate, sustainable infrastructure, agro-commodities trading, advisory services, and venture capital investing. The company has eminent board members with rich industry experience. The board includes Mr Krishipal Raghuvanshi (a former Police Commissioner & current strategic security advisor to RBI), and Mr Rajiv Kapoor (former regional head and senior vice president at Visa Inc.). In July 2021, Mr Porter Collins, co-founder of Seawolf Capital, joined the company's board. He was a partner in FrontPoint Financial Services Fund and is credited for accurately predicting the global financial crisis of 2008. Mr Rohanjeet Juneja, the company's Managing Director & CEO, is also on the board. He is a former investment banker and hedge fund manager with over 17 years of experience. The senior management includes Mr Sanjay Kukreja (Chief Financial Officer) having nearly three decades of experience and Mr Mahendra Servaiya (Head – Credit), former AGM at a leading public sector bank.

### **Comfortable capitalisation**

TFL maintains a comfortable capitalisation profile, with an overall capital adequacy ratio of 25.3% as of September 30, 2024. To support its growth plans, the company is in discussions with existing and new investors to raise fresh equity, with completion expected by the end of FY25. While TFL secured Rs 12.5 crore in FY2024 and Rs 10 crore during YTD FY2025, additional equity infusion will be necessary to sustain its growth trajectory.

The company has scaled up its operations into co-lending arrangements with six lenders (banks/ financial institutions) for gold loan and business loan segments. This off-book portion constitutes around 47% of AUM as of September 30, 2024, and is expected to maintain a significant share in the overall portfolio going forward as well.

CareEdge Global expects that, with its planned growth trajectory in a combination of On-book and Off-book, the company will maintain a buffer of approximately 5-7% above the regulatory capitalisation requirements of 15%. However, equity infusion will be critical to keep gearing within the range of 3 to 3.5x and its AUM/Net worth not exceeding 6 to 6.5x and will remain a key monitorable.

### **Weaknesses**

#### **Concentrated resource profile leading to a relatively higher cost of borrowing**

TFL continues to rely primarily on non-banking financial companies (NBFCs) for its debt requirements, though the dependence has gradually reduced. NBFC borrowings accounted for 66% of total debt drawn in FY25, down from 73% in FY23. Typically, these loans are at relatively high cost as compared to other sources of financing, and therefore, limit the profitability. TFL's return on assets (RoA) has remained modest in the range of 1-2.25% during the last three fiscals. While the RoA improved to 1.5% in FY24 from 1.0% in FY23, it was driven by other income of Rs 20.7 crore before adjusting notional interest expense of Rs 5.4 crore. TFL's average borrowing cost stood around 13.9-14% for FY24. The company is taking steps to optimize its borrowing profile by exploring other financing options, including international debt issuances. The pace of reduction in NBFC borrowings is likely to be gradual as a large portion of current borrowings are from NBFCs.

#### **Modest scale of operations with low seasoning of the business loan portfolio**

TFL has been rapidly expanding its scale of operations, through a combination of On-book and Off-book lending with the company achieving an AUM of Rs 1,215 crore as of September 30, 2024. However, a major chunk of the loans in TFL's portfolio have originated in the past two to three years. Consequently, these loans, particularly business loans, have limited seasoning, implying that the portfolio's performance over various economic cycles is yet to be fully tested.

The company's tangible net worth stood at Rs 220 crore (USD25.9 million<sup>1</sup>) as of September 30, 2024, given limited capital infusion and internal accruals over last two years. Consequently, gearing levels increased to 3.4x as of September 30, 2024, from 2.0x as of March 31, 2023, while its AUM/Net worth has also increased to ~5.5x as on September 30, 2024.

Further, TFL has seen some moderation in its asset quality parameters during H1FY25. It reported a GNPA of 2.6% as of September 30, 2024, as compared to 1.4% as of March 31, 2024. Higher NPAs are primarily due to stress in unsecured business loan segment in certain geographies, leading to lower collections and increased slippage in the first half of this fiscal. Over the years, TFL's off-lending has largely been towards gold loans. As a result, business loan segment constitutes ~47.8% of company's on-lending portfolio as of September 30, 2024. Furthermore, since majority of AUM has been added in the last two years, the reported GNPA numbers may not reflect the true seasoning impact. Hence, CareEdge Global has also evaluated GNPA's calculated on a two-year lagged basis. TFL's two-year lagged GNPA stood at 4.5% and 6.9% as on March 31, 2024, and September 30, 2024, respectively. CareEdge Global expects that with TFL's borrower segment/asset class witnessing some asset quality pressure for the past few quarters due to various macroeconomic factors, the asset quality parameters will see some moderation in the short term.

### Liquidity

TFL's liquidity is adequate, reporting no negative cumulative mismatches for up to five years as per the asset-liability mismatch statement as of September 30, 2024. TruCap has a liquidity of around Rs 166 crore in the form of cash and bank balance, fixed deposits without lien mark, and liquid investment as of September 30, 2024. This is adequate to meet the upcoming debt maturities over the next six months.

### Outlook: Stable

The stable outlook reflects CareEdge Global's expectation that TFL will maintain a comfortable profitability and capitalisation profile over the medium term. Furthermore, TFL's growth will continue to be supported by timely equity infusion while maintaining the asset quality.

### Rating Sensitivities

#### Upward factors

- Significant growth in AUM with asset quality remaining under control
- Significant improvement in leverage metrics resulting from capital infusion
- Improvement in product and geographical diversification

<sup>1</sup> USD-INR exchange rate of 85.09 as on December 23, 2024

### **Downward factors**

- Decline in profitability with return on assets (RoA) below 1.25% on a sustained basis
- Increase in AUM to net worth beyond 6.5-7.0x on a sustained basis
- Significant deterioration in asset quality

### **Environmental, Social and Governance (ESG) considerations**

CareEdge Global observes that TFL is primarily engaged in lending to businesses operating in semi-urban geographies promoting sustainable practices among its borrowers. TFL's board has constituted the Environmental, Social and Governance (ESG) Committee to oversee sustainable corporate growth, financial inclusion initiatives, and support for the MSME sector and women empowerment initiatives.

From a social perspective, the company addresses critical social risks by focusing on low-ticket lending to MSMEs and individual borrowers. This approach enhances credit accessibility for underserved segments, including women entrepreneurs, thereby contributing to financial inclusion and socio-economic development. TFL also regularly conducts healthcare and financial literacy outreach campaigns in the regions where it operates, benefitting local communities.

On the governance front, the company demonstrates a reasonable commitment to corporate governance practices with three independent directors on its board and various committees of the board (audit committee, risk management & strategy committee, finance committee, and stakeholders' relationship committee). However, further improvements in board structure and practices could enhance resilience and stakeholder confidence.

### **About the company**

TruCap Finance Limited (formerly known as Dhanvarsha Finvest Limited) is an RBI-registered non-deposit accepting NBFC since 1998 and is listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). The company was originally incorporated on November 9, 1994, in Gujarat. Before being registered as an NBFC, the company was promoted by Gujarat-based promoters in the business of finance broking, registrar to the issue and share transfer agent and various other related segments.

TFL is currently promoted by Mumbai-based Wilson Group, which took over as its parent in 2018 and has multiple business interests across financing, real estate, sustainable infrastructure, agro-commodities trading, advisory services, and venture capital investing. As on September 30, 2024, the promoters held a 36.9% stake, Aviator Emerging Market Fund held 4.4%, and the balance is held by various domestic and foreign shareholders.

The company provides financing options to the under-banked micro, small & medium enterprises (MSME) and low-to-mid income (LMI) groups of the society, offering a range of

secured and unsecured financing products, tailored to suit the borrower's requirements. TruCap has defocused loans against properties (LAP) and unsecured personal loans, and these segments constitute less than 1% of the company's AUM. The company is building its portfolio focusing on gold loans, business loans to MSMEs and EV financing. The EV segment has also gained traction, with its contribution rising to 3% of AUM as of September 30, 2024.

TFL, with its AUM exceeding Rs 1,000 crore, has recently been reclassified into the Middle Layer as per the Reserve Bank of India (RBI) scale-based regulation framework for NBFCs. The company will be subjected to stricter regulatory requirements, including enhanced governance standards and comprehensive risk management practices with this transition.

### Solicitation Status

These ratings are solicited. The management has provided information and meetings to the CareEdge Global analytical team for the rating.

### Rating History

Instrument	Type	Rating	Date
<b>Foreign currency bonds/ External commercial borrowings</b>	Long Term Foreign Currency (Solicited)	CareEdge B-/Stable	December 24, 2024

### Criteria Applied

[CareEdge Global's Rating Methodology for Financial Institutions](#)

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