

TruCap Finance Limited placed on Credit Watch with Developing Implications

USD 10 million Foreign Currency Bonds	CareEdge B-/Credit Watch with Developing Implications
USD 20 million External Commercial Borrowing (proposed)	CareEdge B-/Credit Watch with Developing Implications

CareEdge Global has placed its rating on TruCap Finance Limited's (TFL) debt instruments on 'Credit Watch with Developing Implications' following TFL's announcement of selling its gold loan business to Incred Financial Services Ltd (Incred).

TFL signed a binding term sheet with Incred on February 25, 2025, regarding the sale of its gold loan business on a going-concern basis, for a consideration of approximately Rs 330 crore (USD 37.8 million¹). CareEdge Global notes that the proposed sale is subject to certain approvals and execution of necessary documents. The entire transaction is expected to be completed by the end of April 2025 and TFL is expected to use the sale proceeds to repay around 50% of its current debt, thereby reducing its gearing level. Along with debt, the company's Asset Under Management (AUM) would decline as gold loans comprise 60.9% of total AUM as of December 31, 2024. While hiving off the gold loan portfolio is expected to reduce operational costs, asset quality may weaken in the short term due to the relatively higher delinquencies in the unsecured business loans portfolio.

CareEdge Global will continue to monitor the progress of the slump sale transaction and its subsequent impact on the company's business and financial risk profile including scaling of residual business, asset quality metrics and capitalisation level post consummation of the slump sale.

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

¹ USD-INR exchange rate of 87.39 as on March 12, 2025

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 2008 global financial crisis. 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) and Mr Mahendra Servaiya (Head – Credit).

Comfortable capitalisation

TFL maintains a comfortable capitalisation profile, with an overall capital adequacy ratio of 26.0% as of December 31, 2024. To support its growth plans, the company is in discussions with existing and new investors to raise fresh equity. Though TFL secured Rs 12.5 crore in FY2024 and Rs 22 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 45% of AUM as of December 31, 2024. However, the share of off-book portion in the overall portfolio is expected to decline post the slump sale of gold loan business. 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 and expected debt reduction post consummation of slump sale will likely result in lower gearing and lower AUM/Net Worth 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. In the current fiscal year, NBFC borrowings comprised 66% of total debt, down from 73% in FY23. These loans tend to be costlier than alternative financing options, which hampers profitability. Over the past three fiscals, TFL's return on assets (RoA) has been relatively low, ranging from 1% to 2.25%. 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 optimise its borrowing profile by exploring other financing options, including international debt issuances. The reduction in NBFC borrowings is expected to be slow, given that a substantial portion of current debt is from the NBFCs.

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

TFL has been expanding its scale of operations, through a combination of On-book and Off-book lending with the company achieving an AUM of Rs 1,153 crore (USD 131.9 million²) as of December 31, 2024. However, a major chunk of the loans has 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 233 crore (USD 26.6 million) as of December 31, 2024, given limited capital infusion and internal accruals over the last two years. Consequently, its AUM/Net worth has also increased to ~5.3x as on December 31, 2024. Further, TFL has seen some moderation in its asset quality parameters during 9MFY25. It reported a gross non-performing asset (GNPA) of 2.8% as of December 31, 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 the 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 6.3% as on March 31, 2024, and December 31, 2024, respectively.

CareEdge Global expects that with the proposed sale of gold loan business the scale of operations will reduce materially, and the asset quality may weaken in the short term due to the relatively higher delinquencies in the unsecured business loans portfolio. CareEdge Global will continue to monitor the progress of the slump sale transaction and evaluate management strategy on scaling of residual business, asset quality metrics and capitalisation level post consummation of the slump sale.

Liquidity

TruCap has a liquidity of around Rs 100.4 crore in cash and bank balance, fixed deposits without lien mark, and liquid investment as of December 31, 2024. This is adequate to meet the upcoming debt maturities over the next six months, factoring regular inflows and outflows from operations. The company had no negative cumulative mismatches for up to five years as per the asset-liability mismatch statement as of September 30, 2024.

² USD-INR exchange rate of 87.39 as on March 12, 2025

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

Downward factors

- Significant and sustained deterioration in asset quality or profitability or scale of operations
- 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

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 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, 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 board committees (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 December 31, 2024, the promoters held a 37.2% 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. TFL's portfolio is focused on gold loans, business loans to MSMEs and EV financing. The EV segment has also gained traction, with its contribution rising to 5% of AUM as of December 31, 2024.

With an AUM exceeding Rs 1,000 crore, TFL has recently been reclassified into the Middle Layer under the Reserve Bank of India's (RBI) scale-based regulatory framework for NBFCs. This transition entails compliance with stricter regulatory standards, including enhanced governance and comprehensive risk management practices.

Solicitation Status

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

Details of Instruments

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Issue Size	Rating
Foreign Currency Bonds	INIFD1705026	December 2, 2024	490 basis points plus Term SOFR ³	December 2, 2027	USD 5 million	CareEdge B-/ Credit Watch with Developing Implications
Foreign Currency Bonds	-	-	-	-	-	CareEdge B-/ Credit Watch with Developing Implications
External Commercial Borrowing (proposed)	-	-	-	-	-	CareEdge B-/ Credit Watch with Developing Implications

³ Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by treasury securities

Rating History

Instrument	Type	Rating	Date
Foreign currency bonds/ External commercial borrowings	Long Term Foreign Currency (Solicited)	CareEdge B-/ Credit Watch with Developing Implications	March 13, 2025
Foreign currency bonds/ External commercial borrowings	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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About Us

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