SK Finance Limited (Revised)

February 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	160.09 (Reduced from 380.81)	CARE A+; Positive	Reaffirmed; Outlook revised from Stable
Non-convertible debentures/ Subordinate debt	20.00	CARE A+; Positive	Reaffirmed; Outlook revised from Stable
Market-linked debentures	200.00	CARE PP-MLD A+; Positive	Reaffirmed; Outlook revised from Stable
Non-convertible debentures	100.00	CARE A+; Positive	Reaffirmed; Outlook revised from Stable
Market-linked debentures	-	-	Withdrawn
Non-convertible debentures	-	-	Withdrawn
Non-convertible debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings for long-term bank facilities and instruments of SK Finance Limited continues to factor in its long track record of operations with experienced management, established franchise in the Rajasthan region, healthy capitalisation levels, and diversified resource profile. The ratings further take into account growth in business operations which have been led by expansion in both existing and newer geographies. The ratings also take note of the improving profitability metrics of the company, though the same remains moderate on account of continued high Opex. However, these rating strengths are partially offset due to moderate asset quality with exposure to weak borrower profile, modest scale of operations, moderate seasoning, and geographical concentration of the portfolio notwithstanding efforts to diversify. Given the robust business growth and diversification in new geographies, SKFL's asset quality will continue to remain a key monitorable.

Rating sensitivities

Factors that could individually/ collectively lead to positive rating action

- Significant & consistent scale-up of operations along with improved geographic diversification
- Stable asset quality metrics with NNPA of less than 2.5% on a sustained basis
- Improvement in financial performance with ROTA of 3.5% and above on a sustained basis
- Consistent ability of the company to attract capital at competitive rates

Factors that could individually/ collectively lead to negative rating action

- Significant dilution in promoter shareholding
- Deterioration in asset quality with GNPA exceeding 5% of loan book on a sustained basis
- Overall gearing exceeding 4x on a sustained basis

Analytical approach:

Standalone Business profile of SK Finance Limited

Outlook: Positive

The assignment of positive outlook factors in the expectation of sustenance of the current growth momentum in the business operations and improvement in profitability metrics. With the company's demonstrated ability to raise growth capital in previous years and expectation of further equity raise going ahead, the fillip to support the expansion of its business operations in newer geographies is expected to continue. Additionally, while the company has moderate asset quality metrics owing to the asset class that the company caters to, it has demonstrated ability to contain delinquencies and maintain adequate buffers.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

However, the outlook may be revised back to stable in case the company is unable to grow at the envisaged growth rate or it reports moderation in its asset quality and profitability metrics.

Key strengths

Long track record of operations with experienced management and established franchise

SKFL has a long track record of more than 25 years in vehicle financing business. Rajendra Setia, promoter & MD (holds 38.68% (including in the capacity of HUF as well) equity as on November 30, 2022) has vast experience of more than two decades in finance sector especially vehicle financing. Also, SKFL is backed by established investors like TPG Growth, Baring Private Equity India AIF, Norwest Venture Partners, Evolvence group, and IIFL. Together they hold 61.23% of the equity as on Nov 30, 2022. Furthermore, SKFL has experienced board members who have relevant experience in the finance industry.

SKFL has diversified the portfolio across ten states and has been strengthening and digitizing the systems and processes of the company which will support scaling up the business.

Uptick in business growth

Over the last few quarters, the company has been expanding its operations, in both existing as well as newer geographies on account of which there has been growth in disbursals. The company has expanded its presence both in terms of branches as well as geographies with 325 branches in FY20 [P.Y.: 262] to 423 branches in FY22 [P.Y.: 325]. Furthermore, the company has now presence in 10 states across the country as against six states during FY20. Consequently, the company's pre-COVID-19 disbursals increased from ₹2,193 crore during FY20 [P.Y.: ₹1,551 crore] to ₹3,226 crore during FY22 [P.Y.: ₹1,631 crore]. AUM expanded from ₹2,986 crore during FY20 [P.Y.: ₹2,002 crore] to ₹4,714 crore during FY22 [P.Y.: ₹3,417 crore]. While the AUM has grown in last few quarters, it continues to remain modest. Going forward, the company's ability to sustain growth momentum shall be a key monitorable.

Healthy capitalization supported by regular equity infusion and healthy gearing

SKFL has comfortable capitalization with a tangible net-worth base of Rs.1,657 crore as on Sept 30, 2022, as against Rs.1,554 crore as on Mar 31, 2022, owing to equity infusions at regular intervals. Overall capital adequacy and Tier I ratios have remained comfortable at and 26.97% to 26.31% respectively as on September 30, 2022 (30.42% and 29.16% as on March 31, 2022). Healthy level of Tier I capitalisation helps provide the company cushion for absorbing losses as well as helps in future growth. Going forward, CARE Ratings expects the company to continue to get capital support and generate healthy internal accruals which is expected to aid continued future growth.

The overall gearing moderated to 3.43x as on September 30, 2022, as against 2.89x as on March 31, 2022 [P.Y.:3.47x] owing to increase in borrowings from ₹4,498 crore as on March 31, 2022, to ₹5,688 crore as on September 30, 2022. CARE Ratings expects the company to maintain gearing thresholds at 4x.

Moderate albeit consistent record of profitability

Disbursements of the company almost doubled, rising from ₹1,631 crore for FY21 to ₹3,226 crore for FY22, with strong growth reported all its business segment. In the current year, till September 30, 2022, the company achieved a disbursement of ₹2,520 crore reflecting robust growth in the overall business. Backed by higher disbursements, AUM of the company increased from ₹3,417 crore for FY21, to ₹4,714 crore for FY22 and to further ₹5,960 crore as on September 30, 2022. NIM moderated from 8.97% as on March 31, 2021, to 8.19% as on March 31, 2022 while it stood at 8.72% (annualised) for September 30, 2022. Despite lower rise in the interest income, the company has been able to maintain its spreads which stood at 10.78% for FY21 and 10.59% for FY22. The spread increased during H1FY23 and stood at 11.38% (annualised) on account of lower borrowing cost. Opex increased from 4.36% for FY21 to 5.35% for FY22 and 5.16% (annualised) for September 30, 2022, on account of geographical expansion. The company has expanded its presence from 7 states to 10 states and increased branches from 345 as

on March 31, 2021, to 423 as on March 31, 2022. Employee cost also increased by around 71% on a Y-o-Y basis. On head count basis on year ending Mar 2022, the company had 6,703 employees as compared to 5,176 in PY. Despite elevated Opex, ROTA improved from 2.35% for FY21 to 2.73% for FY22 due to sharp decline in credit costs on account of reversal of provisions made in earlier years thus improving from 2.31% for FY21 to 0.31% for FY22. ROTA stood at 2.83% (annualised) during H1FY23.
With the company's thrust on growth is expected to continue, CARE Ratings expects the Opex to gradually decline in the medium term with the increasing scale of operations.

Diversified resource profile

SKFL's resource profile is adequately diversified with liabilities raised in form of NCDs (32% of borrowings), term loans & working capital lines from banks & financial institution (56% of borrowings), Securitization liability (7% of borrowings) and others (including CP and ECB) as on March 31, 2022. The average borrowing cost of the company has been on a reducing trend which has reduced from 11.33% during FY20 [P.Y.:11.76%] to 8.98% during FY22 [P.Y.:10.27%].
SKFL has gradually increased its resource base and currently enjoys bank facilities including term loans and working capital limits from 30 banks and 25 financial institutions (including NBFCs) thereby having a broad resource base. Furthermore, SKFL has regularly received equity infusion during last few years leading to comfortable capitalization.

Key weaknesses

Moderate asset quality with exposure to relatively weak borrower profile

The company's asset quality is moderate and is vulnerable on account of exposure to weak borrower profile with seasonal nature of cashflows. GS3 and 1 year lagged GNPA improved to 2.83% and 4.12% as on March 31, 2022, from 4.03% [P.Y.: 4.07%] and 4.87% [P.Y.: 6.59%] respectively as on March 31, 2021. The asset quality of the company has seen an improvement in the post pandemic period vis-à-vis pre pandemic period owing to company's robust collections. GS3 improved from its peak at 5.28% in Q1FY22, to 3.06% in Q2FY23. The company had been investing heavily in its operations and processes of collections, recovery, and active risk management, which has led to improvement in the overall asset quality. However, as the business is dependent on the seasonal nature of borrower's cashflows, there has been some moderation for Q2FY23 as mentioned earlier. Collection efficiency improved from an average of 91% during Q1FY22 to 99% average during Q2FY23.
The company is mainly into used vehicle financing segment which is susceptible to slippages during weak economic environment. SKFL through its vintage and geographical know how has been able to maintain its asset quality during the pandemic. Nevertheless, asset quality would be a key monitorable especially given the general weakening of the borrower profile post pandemic and robust business expansion including growth from newer geographies.

Limited portfolio seasoning

Given the robust growth recorded by the company in all its business segments including its recently launched MSME portfolio in terms of quantum as well in newer geographies, thus resulting in relatively limited seasoning of portfolio. During H1FY23, the company recorded a disbursement of ₹2,520 crore, as against disbursement of ₹3,230 crore for FY22. The average monthly rate of disbursements has increased from ₹400 crore in the first two quarters of FY23 to ₹500 crore during Q3FY23. The average tenor of CV loan is around 2.5 years to 3 years and for MSME is close to 7 years. However, the behavioural tenor is around 1 year to 1.5 years as 40%-45% of the book runs down every year. Thus, given the low behavioural tenor and the robust growth of the company, the existing portfolio has seen limited seasoning. The company is also expanding its portfolio into new geographies, therefore, scalability along with portfolio performance in the newer geographies will be a key monitorable.

Modest scale of operation with geographical concentration

Despite long track record of the company, SKFL's scale of operation remains modest with AUM of ₹5,959 crore as on September 30, 2022. SKFL's portfolio continues to remain dominant in terms of its commercial vehicle business which comprised of 48% of the AUM as on H1FY23 followed by cars (18%), tractors (17%), MSME loans (13%) and two wheelers (4%) as on September 30, 2022.

SKFL has geographically diversified its operations in ten different states across the country. However, despite some diversification, there is still high degree of geographical concentration of its operations, with around 71% of the business, in the states of Rajasthan and Gujarat.

Liquidity: Adequate

Liquidity position of SKFL as on September 30, 2022, has remained adequate with no negative cumulative mismatches in any of the time buckets. The company reported free cash and bank balance (including FDs) of ₹750 crore and investments in G-secs and liquid investments of ₹771 crore as on September 30, 2022. The company has debt repayments of ₹2,147 crore up to one year against which it had cash and cash equivalent of around ₹1,521 crore and receivables from loan portfolio of around ₹2,280 crore.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Market Linked Notes
Non-Banking Financial Companies
Policy on Withdrawal of Ratings

About the company

SKFL is a non-deposit taking NBFC operating out of Rajasthan. The company is promoted by Rajendra Setia along with his family members. As on March 31, 2022, SKFL has operating branches of 423 which are spread across in the states of Rajasthan, Gujarat, Punjab, MP, Maharashtra and five other states across the country. It is primarily engaged in the used vehicle financing including commercial vehicle, multi utility vehicle, car, tractors and MSME loans. Total AUM stood at ₹4,714 crore as on March 31, 2022, which has further increased to ₹5,959 crore as on September 30, 2022.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	H1FY23 (UA)
Total operating income	691	821	595
PAT	91	143	97
Total Assets*	4,261	6,197	7,514
Net Stage 3 (as a % to Gross Advance)	1.90	2.04	2.19
ROTA (%)	2.27	2.68	2.83

A: Audited; UA: Un audited; *net of deferred tax assets and intangible assets

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debt-Non-convertible Debenture/Subordinate Debt	INE124N08042	Jan 31, 2017	12.75%	Feb 03, 2023	20.00	CARE A+; Positive
Debentures-Non-Convertible Debentures	(INE124N07234/ INE124N07242)	Dec 21, 2018	11.16	March 05, 2024	50.00	CARE A+; Positive
Debentures-Non-Convertible Debentures	INE124N07374	Jun 02, 2020	10.85%	3 year	50.00	CARE A+; Positive
Debentures-Market Linked Debentures	INE124N07630	Jan 05, 2023	Market Linked	Apr 05, 2023	200.00	CARE PP-MLD A+; Positive
Debentures-Market Linked Debentures*	INE124N07127	May 15, 2018	Market Linked	Nov 12, 2021	-	Withdrawn
Debentures-Non-Convertible Debentures*	INE124N08034	Sept 29, 2016	12.00%	Sept 29, 2022	-	Withdrawn
Debentures-Non-Convertible Debentures*	INE124N07515	Dec 17, 2022	9.65%	Jun 17, 2022	-	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	-	25.00	CARE A+; Positive
Fund-based - LT-Term Loan	-	-	-		135.09	CARE A+; Positive

*Withdrawn due to redemption

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	25.00	CARE A+; Positive	-	1)CARE A+; Stable (09-Mar-22) 2)CARE A; Stable (05-Oct-21)	1)CARE A; Stable (02-Mar-21) 2)CARE A; Stable (31-Dec-20) 3)CARE A; Stable (05-Nov-20)	1)CARE A; Stable (02-Jan-20) 2)CARE A-; Positive (16-Aug-19)
2	Fund-based - LT-Term Loan	LT	135.09	CARE A+; Positive	-	1)CARE A+; Stable (09-Mar-22) 2)CARE A; Stable (05-Oct-21)	1)CARE A; Stable (02-Mar-21) 2)CARE A; Stable (31-Dec-20) 3)CARE A; Stable (05-Nov-20)	1)CARE A; Stable (02-Jan-20) 2)CARE A-; Positive (16-Aug-19)
3	Debentures-Non-Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (16-Aug-19)

4	Debentures-Non-Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (16-Aug-19)
5	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (05-Oct-21)	1)CARE A; Stable (31-Dec-20) 2)CARE A; Stable (05-Nov-20)	1)CARE A; Stable (02-Jan-20) 2)CARE A-; Positive (16-Aug-19)
6	Debentures-Non-Convertible Debentures	LT	-	-	-	1)CARE A+; Stable (09-Mar-22) 2)CARE A; Stable (05-Oct-21)	1)CARE A; Stable (31-Dec-20)	1)CARE A; Stable (02-Jan-20) 2)CARE A-; Positive (16-Aug-19)
7	Debt-Non-convertible Debenture/Subordinate Debt	LT	20.00	CARE A+; Positive	-	1)CARE A+; Stable (09-Mar-22) 2)CARE A; Stable (05-Oct-21)	1)CARE A; Stable (31-Dec-20)	1)CARE A; Stable (02-Jan-20) 2)CARE A-; Positive (16-Aug-19)
8	Debentures-Market Linked Debentures	LT	-	-	-	1)Withdrawn (05-Oct-21)	1)CARE PP-MLD A; Stable (31-Dec-20)	1)CARE PP-MLD A; Stable (02-Jan-20) 2)CARE PP MLD A-; Positive (16-Aug-19)
9	Debentures-Market Linked Debentures	LT	-	-	-	-	1)Withdrawn (31-Dec-20)	1)CARE PP-MLD A; Stable (02-Jan-20) 2)CARE PP MLD A-; Positive (16-Aug-19)
10	Debentures-Non-Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (06-Dec-19) 2)CARE A-; Positive (16-Aug-19)
11	Debentures-Market Linked Debentures	LT	-	-	-	1)CARE PP-MLD A+; Stable (09-Mar-22)	1)CARE PP-MLD A; Stable (31-Dec-20)	1)CARE PP-MLD A; Stable (02-Jan-20)

						2)CARE PP-MLD A; Stable (05-Oct-21)		2)CARE PP MLD A-; Positive (16-Aug-19)
12	Debentures-Non-Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (16-Aug-19)
13	Debentures-Non-Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (16-Aug-19)
14	Debentures-Non-Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (06-Dec-19) 2)CARE A-; Positive (16-Aug-19)
15	Debentures-Non-Convertible Debentures	LT	50.00	CARE A+; Positive	-	1)CARE A+; Stable (09-Mar-22) 2)CARE A; Stable (05-Oct-21)	1)CARE A; Stable (31-Dec-20)	1)CARE A; Stable (02-Jan-20) 2)CARE A-; Positive (16-Aug-19)
16	Debentures-Non-Convertible Debentures	LT	50.00	CARE A+; Positive	-	1)CARE A+; Stable (09-Mar-22) 2)CARE A; Stable (05-Oct-21)	1)CARE A; Stable (31-Dec-20) 2)CARE A; Stable (28-May-20)	-
17	Debentures-Non-Convertible Debentures	LT	-	-	-	1)CARE A+; Stable (09-Mar-22) 2)CARE A; Stable (05-Oct-21)	1)CARE A; Stable (31-Dec-20) 2)CARE A; Stable (10-Dec-20)	-
18	Debentures-Market Linked Debentures	LT	200.00	CARE PP-MLD A+; Positive	1)CARE PP-MLD A+; Stable (02-Jan-23)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Market-linked debentures	Highly Complex
2	Debentures-Non-convertible debentures	Simple
3	Debt-Non-convertible debenture/Subordinate debt	Simple
4	Fund-based - LT-Cash credit	Simple
5	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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