

SK Finance Limited

March 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	4,980.09 (Enhanced from 4,180.09)	CARE AA-; Stable	Reaffirmed
Market-linked debentures	200.00	CARE PP-MLD AA-; Stable	Reaffirmed
Non-convertible debentures	50.00	CARE AA-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirming of ratings assigned to long-term bank facilities and debt instruments of SK Finance Limited (SKFL) factors in the continued growth momentum in the scale of operations supported by strong resources raising ability and improving internal accruals. During September- December 2023, SKFL raised equity aggregating to ₹899.49 crore from both existing as well as new private equity (PE) investors.

Ratings continue to factor in SKFL's long-standing track record of operations in the vehicle finance industry, established franchise in the Rajasthan region, healthy capital structure and diversified resources profile. However, these rating strengths are partially offset by moderate asset quality with exposure to weak borrower profile and geographical concentration of the portfolio notwithstanding efforts to diversify. Given the robust business growth and diversification in new geographies, majority of the company's portfolio is recently originated and thereby has moderate seasoning. SKFL's asset quality will thereby continue to remain a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade

- Significantly and consistently scaling up of operations along with improving geographic diversification.
- Stable asset quality metrics with net non-performing assets (NNPA) of less than 2.5% on a sustained basis.
- Improving financial performance with (return on managed assets) (ROMA) of 3.5% and above on a sustained basis.
- Company consistently attracting capital at competitive rates.

Negative factors: Factors that could, individually or collectively, lead to negative rating action/ downgrade

- Significantly diluting promoter shareholding.
- Deteriorating asset quality with GS3 exceeding 5% of loan book on a sustained basis.
- Overall managed gearing (assets under management (AUM)/net worth) exceeding 4x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The outlook is 'Stable' on account of CARE Ratings Limited's (CARE Ratings') expectation of the company's ability to demonstrate consistent business growth complemented by both healthy resources raising ability and internal accruals.

Detailed description of the key rating drivers:

Key strengths

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

Long track record of operations with experienced management and established franchise

SKFL has a long track record of more than 28 years in vehicle financing business. Rajendra Setia, promoter & managing director, has vast experience of more than two decades in the finance sector, especially vehicle financing, and has been instrumental in scaling up of operations of the company from DSA-led business to vehicle financing non-banking finance company (NBFC).

SKFL is also backed by established investors like TPG Growth, Baring Private Equity India AIF, Norwest Venture Partners, Evolvence group, Karma Holdings Mauritius Limited, Massachusetts Institute of Technology, Axis Asset Management Company, IIFL, Motilal Private Equity and Ananta Capital. Post the recent round of equity infusion, Rajendra Setia now holds 32% stake in the company [pre-infusion.: 37.31%] with PE funds/ employees holding the remaining stake.

SKFL has experienced independent board members who have relevant experience in the finance industry.

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 disbursements. The company has gradually scaled up its presence in 12 states across the country as on December 31, 2023, as against six states as on March 31, 2020. Consequently, the company's disbursements increased from ₹3,230 crore during FY22 to ₹5,623 crore in FY23 [9MFY24: ₹5,039 crore] led by disbursements in both commercial vehicle (CV) and micro, small and medium enterprises (MSME) segments. With a view to diversify its lending book, the company has been focusing on augmenting share of MSME loans in overall disbursements which led to ₹873 crore of disbursements for MSME segment in FY23 [PY.: ₹328 crore]. Buoyed by healthy disbursements, AUM expanded from ₹4,714 crore as on March 31, 2022, to ₹7,378 crore as on March 31, 2023, demonstrating healthy growth of around 57%.

Within the overall AUM, SKFL has increased its MSME share to 20% of the entire loan book as on December 31, 2023, as against 9% of the entire loan book as on March 31, 2020. CARE Ratings notes that while vehicle financing will continue to contribute sizeable chunk in the overall portfolio mix, the share of MSME loans is expected to rise to around 35% in the medium to long term.

Healthy capitalisation supported by regular equity infusions and healthy gearing

SKFL has comfortable capitalisation with a tangible net worth (TNW) base of ₹2,693 crore as on December 31, 2023, as against ₹1,702 crore as on September 30, 2022, owing to both healthy internal accruals and equity infusions at regular intervals. Overall capital adequacy and Tier-I ratios have remained comfortable at 30.46% and 30.44%, respectively, as on December 31, 2023 (26.10% and 25.52% as on March 31, 2023). Healthy level of Tier-I capitalisation helps provide the company cushion for absorbing losses as well as helps in future growth. SKFL recently announced a fresh round of equity infusion of ₹899.49 crore from both existing as well as new PE investors. The company has received the entire equity amounting to ₹899.49 crore in 9MFY24. Going forward, CARE Ratings expects the company to generate healthy internal accruals driven by geographic expansion and continued portfolio growth.

Gearing levels improved to around 2.93x as on December 31, 2023 (March 31, 2023: 3.92x) on account of equity infusion. CARE Ratings expects the company to maintain gearing thresholds below 4x, going forward.

Moderate but consistent record of profitability

Disbursements of the company increased from ₹3,226 crore for FY22 [P.Y.: ₹1,631 crore] to ₹5,623 crore for FY23, up 75% y-o-y. Backed by higher disbursements, AUM of the company increased from ₹4,714 crore as on March 31, 2022, to ₹7,378 crore as on March 31, 2023. Higher disbursements and broadly range-bound portfolio spreads have helped the company improve its net interest margin (NIM) to 8.09% in FY23 against 7.60% as on March 31, 2022. Given the continued momentum in disbursements and economies of scale, the operating expenses (Opex) moderated in FY23. Despite higher credit costs on account of portfolio growth, the company reported improvement in return metrics with return on total assets (ROTA) (including managed

book) of 2.83% as on March 31, 2023. The credit cost stood around 1.17% [P.Y.: 0.31%] as on March 31, 2023, and around 1.39% as on December 31, 2023. As on December 31, 2023, ROTA stood around 2.72% (including managed book), total income of ₹1,315 crores and profit after tax (PAT) of ₹217 crore.

With the company's continued thrust on growth, 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 as on December 31, 2023, is adequately diversified with liabilities raised in form of non-convertible debentures (NCDs) - 19% of borrowings, term loans & working capital lines from banks & financial institution - 56% of borrowings, Securitisation liability - 23% of borrowings and others – 2% (including external commercial borrowing (ECB)). SKFL has gradually augmented its resource base and currently enjoys borrowings from 62 lenders (including NBFCs) which has enabled it to borrow at the competitive rates. Average cost of funds stood around 9.32% as on March 31, 2023 [P.Y.: 9.23%].

CARE Ratings will continue to monitor SKFL's ability to raise funds at competitive rates, which will be critical for it to demonstrate a profitable growth going forward.

Key weaknesses

Moderate asset quality

The company's asset quality is moderate and vulnerable on account of exposure to weak borrower profile with seasonal nature of cashflows. The company is mainly into used vehicle financing segment which is susceptible to slippages during weak economic environment. As on December 31, 2023, gross non-performing asset (GNPA) and net non-performing asset (NNPA) stood around 4.60% and 3.16%, respectively. CARE Ratings notes that the increase in NPAs in 9MFY24 is usually a seasonal phenomenon, and given the demonstrated track record of the company, the same are expected to improve in Q4FY24.

Despite exposure to vulnerable asset class, the company has demonstrated track record of maintaining range-bound asset quality enabled by geographical know how as well as improved collections/risk management mechanisms with greater focus on softer delinquencies.

Nevertheless, asset quality would be a key monitorable especially given the robust business expansion including growth from newer geographies and dependence on the seasonal nature of borrower's cashflows.

Geographical concentration of operations with moderate, but improving scale of operations

Despite long track record of the company, SKFL's scale of operation remains moderate with AUM of ₹9,525 crore as on December 31, 2023 [March 31, 2023.: ₹7,378 crore]. While the company's scale of operations has been growing significantly over last few quarters, its size and scale continues to remain moderate compared with larger vehicle financing peers.

SKFL's portfolio continues to remain dominant in terms of its commercial vehicles (CV) business which comprised 44% of the AUM followed by MSME loans – 20%, cars - 19%, tractors - 13%, and two wheelers (5%) as on December 31, 2023. SKFL has geographically diversified its operations in 12 different states across the country. Despite diversification, Rajasthan continues to account for significant portion with around 53% of entire business as on December 31, 2023 (March 31, 2020: 70%).

Moderated portfolio seasoning

Given the robust growth recorded by the company in all its business segments in terms of quantum as well in newer geographies, the company has relatively moderate portfolio seasoning. In 9MFY24, the company recorded a disbursement of ₹5,039 crores, as against disbursement of ₹4,060 crore for 9MFY23. The average monthly run-rate of disbursements has increased from ₹451 crore in the 9MFY23 to ₹560 crore in 9MFY24.

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 for CV, while it is around 36 months to 48 months for MSME, thereby 33%-35% of the book runs down every year. Thus, given the low behavioural tenor and the robust growth of the company, the recently originated portfolio has seen moderate seasoning. As per CARE Ratings' observation, 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.

Liquidity: Strong

As on December 31, 2023, the liquidity position of SKFL was comfortable with positive cumulative mismatches in all the time buckets. For the next one year, the company has debt obligations including interest repayment of ₹3,636 crore, against inflows of ₹2,905 crore and liquidity of ₹1,614 crore as on December 31, 2023. Additionally, SKFL's undrawn sanctioned lines stood at ₹1,645 crore which provide comfort.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Non-Banking Financial Companies](#)

[Market Linked Notes](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Finance	Non-banking finance company (NBFC)

Incorporated in 1994, SKFL is a non-deposit taking NBFC operating out of Rajasthan. The company is promoted by Rajendra Setia along with his family members. SKFL has expanded its network from 12 states and the number of branches increased from 423 as of March 31, 2022 to 535 as of December 31, 2023. The company has major presence in the states of Rajasthan, Gujarat and Madhya Pradesh, both accounting for around 77% of the total business.

It is primarily engaged in the used vehicle financing, including CVs, multi-utility vehicle, car, tractors and MSME loans. Total AUM stood at ₹7,378 crore as on March 31, 2023 (PY.: ₹4,714 crore), which has further increased to ₹9,525 crore as on December 31, 2023.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	682.49	820.46	1,314.03	1315.23
PAT	91.00	142.87	222.78	217.10
Total assets*	4,261.07	6,196.87	9,017.78	10,804.10
Net NPA (%)	1.90	2.04	2.36	3.16
ROTA (%) (incl. off book)	2.28	2.69	2.83	2.73
ROTA (%) (on book)	2.34	2.73	2.93	2.92

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

*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 last three years: Please refer to Annexure-2

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

Complexity level of various instruments rated: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Market Linked Debentures	INE124N07630	01-May-2023	11	05-04-2025	200.00	CARE PP-MLD AA-; Stable
Debentures-Non-Convertible Debentures	INE124N07234*/ INE124N07242	21-Dec-2018	11.16	05-03-2024	50.00	CARE AA-; Stable
Fund-based - LT-Cash Credit		-	-	-	100.00	CARE AA-; Stable
Fund-based - LT-Term Loan		-	-	29-Mar-2028	4880.09	CARE AA-; Stable

*older ISIN

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT*	100.00	CARE AA-; Stable	1)CARE AA-; Stable (05-Jan-24) 2)CARE AA-; Stable (06-Oct-23) 3)CARE A+; Positive (02-Jun-23)	1)CARE A+; Positive (03-Feb-23)	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)

					4)CARE A+; Positive (07-Apr-23)			
2	Fund-based - LT-Term Loan	LT*	4880.09	CARE AA-; Stable	1)CARE AA-; Stable (05-Jan-24) 2)CARE AA-; Stable (06-Oct-23) 3)CARE A+; Positive (02-Jun-23) 4)CARE A+; Positive (07-Apr-23)	1)CARE A+; Positive (03-Feb-23)	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)
3	Fund-based - LT-Term Loan	LT*	-	-	-	-	1)Withdraw n (05-Oct-21)	1)CARE A; Stable (31-Dec-20) 2)CARE A; Stable (05-Nov-20)
4	Debentures-Non Convertible Debentures	LT*	-	-	-	1)Withdraw n (03-Feb-23)	1)CARE A+; Stable (09-Mar-22) 2)CARE A; Stable (05-Oct-21)	1)CARE A; Stable (31-Dec-20)
5	Debt-Non-convertible Debenture/Subordinat e Debt	LT*	-	-	1)Withdraw n (02-Jun-23)	1)CARE A+; Positive (03-Feb-23)	1)CARE A+; Stable (09-Mar-22) 2)CARE A; Stable (05-Oct-21)	1)CARE A; Stable (31-Dec-20)
6	Debentures-Market Linked Debentures	LT*	-	-	-	-	1)Withdraw n (05-Oct-21)	1)CARE PP- MLD A; Stable (31-Dec-20)
7	Debentures-Market Linked Debentures	LT*	-	-	-	-	-	1)Withdraw n (31-Dec-20)
8	Debentures-Market Linked Debentures	LT*	-	-	-	1)Withdraw n (03-Feb-23)	1)CARE PP- MLD A+; Stable (09-Mar-22) 2)CARE PP- MLD A; Stable (05-Oct-21)	1)CARE PP- MLD A; Stable (31-Dec-20)

9	Debentures-Non Convertible Debentures	LT*	-	-	1)Withdrawn (05-Jan-24) 2)CARE AA-; Stable (06-Oct-23) 3)CARE A+; Positive (02-Jun-23)	1)CARE A+; Positive (03-Feb-23)	1)CARE A+; Stable (09-Mar-22) 2)CARE A; Stable (05-Oct-21)	1)CARE A; Stable (31-Dec-20)
10	Debentures-Non Convertible Debentures	LT*	50.00	CARE AA-; Stable	1)CARE AA-; Stable (05-Jan-24) 2)CARE AA-; Stable (06-Oct-23) 3)CARE A+; Positive (02-Jun-23)	1)CARE A+; Positive (03-Feb-23)	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)
11	Debentures-Non Convertible Debentures	LT*	-	-	-	1)Withdrawn (03-Feb-23)	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)
12	Debentures-Market Linked Debentures	LT*	200.00	CARE PP-MLD AA-; Stable	1)CARE PP-MLD AA-; Stable (05-Jan-24) 2)CARE PP-MLD AA-; Stable (06-Oct-23) 3)CARE PP-MLD A+; Positive (02-Jun-23)	1)CARE PP-MLD A+; Positive (03-Feb-23) 2)CARE PP-MLD A+; Stable (02-Jan-23)	-	-

*Long term

Annexure-3: Detailed explanation of 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	Fund-based - LT-Cash Credit	Simple
4	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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