

Rating Advisory

February 21, 2023 | Mumbai

Regency Fincorp Limited

Update as on February 21, 2023

This rating advisory is provided in relation to the rating of Regency Fincorp Limited

The key rating sensitivity factors for the rating include:

Upward factors

- Stable asset quality, with gross non-performing assets (90+ dpd) consistently below 1.0% over the medium term
- Improvement in scale of operations with gearing remaining below 3 times

Downward factors

- Moderation in the capitalisation metrics, with significant jump in gearing to over 5 times while scaling up the portfolio
- Any adverse movement in the asset quality, with GNPA's weakening the earnings profile

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from Regency Fincorp Limited (Regency Fincorp) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If Regency Fincorp continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

About the Company

Regency Fincorp (*erstwhile Regency Investments Limited*), based out of Chandigarh, Punjab, was registered in 1993. The company, which is categorised as a non-government public limited company, was listed on the Bombay Stock Exchange (BSE) in 2016, acquired by Mr Gaurav Kumar, managing director, acquired company through open offer and later increased the shareholding to 24.98% through warrant conversion and preferential allotment. Company has branches mainly at Punjab, offers business loan, JLG Loan and personal loans to around 8,400 customers in Chandigarh, Amritsar, Batala, Ludhiana, Samrala, Fatehgarh sahib, Surat other districts in the vicinity. Business Loan has 85% share in total portfolio outstanding, however now company has plans to reduce the proportion of business loan and more focus will be on microfinance segment.

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Rating Rationale

December 08, 2021 | Mumbai

Regency Fincorp Limited

'CRISIL BB-/Stable' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.5 Crore
Long Term Rating	CRISIL BB-/Stable (Assigned)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its 'CRISIL BB-/Stable' rating to the proposed long-term bank facility of Regency Fincorp Limited (Regency Fincorp).

The rating reflects promoter's experience in financing space and adequate capitalisation. These strengths are partially offset by short track record, and small scale of operations, and lack of diversity in resource profile.

Regency Fincorp is non deposit taking, non banking finance company (NBFC), which has been offering unsecured short term business loan, Joint Liability Group (JLG) loan, and personal loan since 2016. Company's portfolio stood at Rs 38.5 crore as on September 30, 2021 (Rs 34.9 crore as on March 31, 2021). The company's portfolio has grown at CAGR of 90% during last 3.5 years (fiscal 2018 to H1 of fiscal 2022). In terms of portfolio composition, unsecured business loans accounted for around 85%, JLG loans for 11% and personal loans 4% as on June 30, 2021. The company faced limited impact due to Covid pandemic (both during first and second wave). Despite over 85% of portfolio consists of unsecured loans, the company reported nil Gross NPAs (at 90+ days past due) as on September 30, 2021. The asset quality of business loan segment, which constitute 85% of total loan portfolio, is backed by good relationship with borrowers and short tenure loan. In the JLG loan model, as there is liability on all member of group women borrower, supports regular repayment of dues. JLG portfolio is very granular with low ticket size loans.

In terms of incremental growth, the company proposes to reduce its dependence on high ticket business loans and increase its focus towards low ticket granular JLG loans. Initially, the management started extending JLG loans since 2018 and expanded portfolio within Punjab and Hyderabad region. CRISIL Ratings believes that ability of the company to grow its JLG portfolio to decent size while maintaining asset quality will remain key monitorable. Further, company's ability to continue to maintain asset quality within high ticket unsecured business loans will also be closely monitored.

Analytical Approach

CRISIL Ratings has evaluated the standalone business and financial risk profiles of Regency Fincorp.

Key Rating Drivers & Detailed Description

Strengths:

* Promoter's experience in financing space

The company has been operational since 2016, though promoters have been in the financing space for more than 20 years now. Mr Gaurav Kumar, managing director of the company, has vast experience in capital market and real estate segment, also worked in banking industry for 13 years. In fiscal 2018, Company began lending in microfinance segment which contribute to around 11% of current loan portfolio, management has plans to grow in this segment. The business benefits from the extensive experience of the board of directors and their strong understanding in financing space and the geographies in which they operate; this helped the company scale up operations and should continue to support the business.

* Adequate capital position

Capitalisation is adequate for the current and expected scale of operations, as reflected in networth of Rs 12.3 crore and 2.3 times gearing as on September 31, 2021, compared with Rs 9.5 crore and 2.9 times, respectively, as on March 31, 2021.

The adequate capital position is supported regular equity infusion by promoters and steady accretion to reserves. Promoters had infused around Rs 4.9 crore in last 4 years since started operations and has 24.98% shareholding as of September 30, 2021. Also company reporting profits consistently; during last 4 fiscals company reported profits of Rs 1.42 crore cumulatively during fiscal 2018 to fiscal 2021. Additionally, the company raises funds from the investors in the form of Inter corporate deposits (ICDs). In terms of incremental capital infusion, the promoters have plans to infuse equity capital and they are also in talks with one of the private equity player. Nevertheless, overall capital position is expected to remain adequate with steady internal accruals and also gearing level expected below 3-4 times over the medium term.

Weakness:

*** Short track record, and small scale of operations**

Regency Fincorp was established in 1993, however current management took over the company in 2016 and full-fledged operations commenced in fiscal 2018. Company's loan portfolio comprises 85% business loan segment, 11% JLG loan and 4% personal loan with total loan portfolio of Rs 38.5 crore as of September 30, 2021. Company has presence in Punjab, Chandigarh, Hyderabad and Surat, however during Covid pandemic, company remain more active in Punjab and Chandigarh. Total Loan portfolio of Rs 38.5 crore as on September 30, 2021 and Rs 34.9 crore as of March 31, 2021, reflect the small scale of operations, the size of the loan book grew at compounded annual growth rate of 90% from Rs 5.6 crore as of March 31, 2018. The scale of operations will likely remain small and the operations geographically concentrated over the medium term.

*** Lack of diversity in resource profile**

The company is highly dependent on funds from investors through ICDs and privately placed non convertible debentures (NCDs). In first half of fiscal 2022, company had raised Rs 0.71 crore in the form of NCD at rate of 10.8% per annum in first half of fiscal 2022 and Rs 0.87 crore in fiscal 2021. The management plans to raise funds from banks. The company's ability to improve its resource profile and raise bank loans will be critical to fund future growth and, hence, will remain a key rating monitorable.

Liquidity: Stretched

As on August 31, 2021, cash and equivalents stood at Rs 1.2 crore. Liquidity would be just sufficient to meet total debt obligation and operating expenses till November 2021. The company largely raises funds through ICDs and privately placed NCDs. In first half of fiscal 2022, company had raised around Rs 0.71 crore in the form of NCD. Promoters will infuse capital in case of requirement.

Outlook: Stable

CRISIL Ratings believes Regency Fincorp will maintain adequate capital position and also will benefit from its experienced management in the near term.

Rating Sensitivity Factors

Upward factors

- Stable asset quality, with gross non-performing assets (90+ dpd) consistently below 1.0% over the medium term
- Improvement in scale of operations with gearing remaining below 3 times

Downward factors

- Moderation in the capitalisation metrics, with significant jump in gearing to over 5 times while scaling up the portfolio
- Any adverse movement in the asset quality, with GNPA's weakening the earnings profile

About the Company

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Key Financial Indicators

As on/for the period ended March 31	Unit	Sep-21	2021	2020
Total assets	Rs crore	42.57	39.13	37.07
Total income	Rs crore	2.53	5.31	3.54
Profit after tax	Rs crore	0.14	0.41	0.40
Gearing	Times	2.3	2.9	3.0
Gross NPA	%	Nil	Nil	Nil

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	5	NA	CRISIL BB-/Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	5.0	CRISIL BB-/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	5	Not Applicable	CRISIL BB-/Stable

This Annexure has been updated on 08-Dec-2021 in line with the lender-wise facility details as on 08-Dec-2021 received from the rated entity.

Criteria Details

Links to related criteria
Rating Criteria for Finance Companies
CRISILs Bank Loan Ratings - process, scale and default recognition

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