Press Release

Capri Global Housing Finance Limited

April 23, 2018

Rating Assigned

Total Instruments Rated*	Rs. 700.00 Cr.
Long Term Rating	SMERA A+ / Outlook: Stable
Short Term Rating	SMERA A1+

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA A+' (read as SMERA A plus)** on the Rs. 600.00 crore bank facilities of Capri Global Housing Finance Limited. The outlook is **'Stable'**.

Further, SMERA has also assigned the short-term rating of **'SMERA A1+' (read as SMERA A one plus)** on the Rs. 100.00 crore of proposed commercial paper.

Capri Global Housing Finance Ltd. (CGHF) is a Housing Finance Company and a 100 percent subsidiary of Capri Global Capital Ltd. (CGCL), together known as group. The company forayed into affordable housing loan segment for low income and economically weaker section of the society. Consequently, the company targeted low ticket size loans and loans eligible for credit linked subsidy scheme (CLSS). The company started its operations from December 2016 and has leveraged existing branch network of its parent Company. CGHF is operational in 65branches across Maharashtra, Gujarat, Delhi NCR, MP and Rajasthan. CGHF is a registered Primary Lending Institutions (PLI) of National Housing Bank which is the notified Central Nodal Agency (CNA) under CLSS programme.

About the Group Entity

CGCL is a non-deposit taking systemically important (NBFC-ND-SI) financing company engaged in lending to the SME / MSME (loan against property) business and the construction sector (construction funding). The company was incorporated in 1994 and is listed on both Bombay Stock Exchange & National Stock Exchange. The Board of Directors comprises of experienced professionals from financial services like Mr. Rajesh Sharma, Mr. Bipin Kabra, Mr. Desh Raj Dogra and other eminent professionals from banking and insurance industry. Mr. Quintin E. Primo III (the Chairman) has over three decades of experience in real estate lending and investments. The group started with wholesale lending business and has gradually diversified to SME / MSME (loan against property) lending since 2013, and into affordable housing loan segment in 2016. The group has a loan portfolio of Rs.2430.57 crore as on December, 2017 with SME / MSME, Construction Finance (CF) and housing segments accounting for Rs.1444.77 crore, Rs.852.01croreandRs.133.79crore respectively.

Key Rating Drivers

Strengths

Experienced management

The group's senior management team comprises of seasoned industry professionals having a strong background in Small and Medium Enterprises (SME), housing finance and construction lending. Over the past two fiscal years, there has been a complete revamp of the company's internal organisation structure with experienced industry professionals brought on board in various leadership roles. The day to day operations and functions are overseen by the Board of Directors supported by well experienced senior management. Mr. Bipin Kabra (Executive Director of CGCL) has more than 25 years of experience in banking, insurance and capital markets. Mr. Surender Sangar (Head of Construction Finance lending) has over 37 years of experience in handling Large/Mid Corporate, formulation of credit policy and restructuring. Mr. Kaushik Chatterjee (Chief Risk Officer)has18 years of experience in handling risk framework for mortgages, housing finance, construction finance and launching new products. Mr. Abhinav Singh (Director of Treasury)has vast knowledge in fund raising at competitive cost and has worked for infrastructure sector such as renewable power, cement, road and ports.

Established player with presence in SME, Housing & Construction lending segment

The group started its lending business with a focus on construction funding i.e. financing to real estate players. Over the past 4 years, it has forayed into SME lending which will be the focus area and key growth driver over the near to medium term. In December, 2016, the group commenced its housing business. The Average Ticket Size of the MSME portfolio has dropped from Rs.0.79 crore as on March 31, 2015 to Rs.0.34 crore as on the December 31, 2017 thereby reducing its concentration risk which is further expected to go down as the company is looking at lending to affordable housing developers or developers which are not in large township developments.

As of December 31, 2017, the SME lending book accounted for 62.90 percent of its overall loan book. In the real estate segment, the group will focus on small/medium sized builders with average exposure ranging between ~Rs.20-25 crore. There is a shift by the management towards lower ticket size loans with incremental sanctions in 9MFY2018 having an average ticket size of Rs.15 crore as compared with the average ticket size of Rs.28 crore outstanding as on March 31, 2017. The SME segment will focus on small units/ traders with modest documentation requirements i.e. a segment which has limited access to bank finance. The increasing growth prospect for SME lending in India supports companies like CGCL. The group forayed into affordable housing loan segment for low income and economically weaker section of the society. Consequently, the group targets low ticket size loans and loans eligible for credit linked subsidy scheme (CLSS).The average ticket size for housing segment is Rs.13 lakh as on December, 2017.

The group operates through a network of 65branches with more than 1300 employee at group level across India with a presence mainly in Western, Northern and Southern regions. The company has put in place risk management systems and processes to support the scaling up of the loan book while maintaining the asset quality and the profitability margins. SMERA believes that the business profile of the group will benefit from the experience of its management team and its increasing thrust in the SME and housing segment.

Strong capitalization levels& comfortable liquidity profile

CGCL has a strong capital adequacy ratio (CAR) of 43.29 percent as on December 31, 2017 with Tier I CAR at 42.48 percent (52.97 percent as on March, 2017). While in CGHF, the CAR stands high at 129.85 percent with Tier I CAR at 129.28 percent as on December 31, 2017 on account of the housing segment being started recently. The net-worth of the group is healthy at Rs.1233.86 crore as on December 31, 2017 (Rs.1160.65crore as on March 31, 2017). The gearing for the group remains comfortable at 1.12 times as on December 31, 2017 as compared to 0.68 times as on March 31, 2017 albeit the growth is on account of increase in loan book funded from borrowings in the form of bank loans, NCD and CP. From an ALM standpoint, as on December31, 2017, CGCL had low negative mismatches in the near term (3-6 months) buckets. However, the company has undrawn bank lines of more than ~Rs.297 crore to tide over the mismatches. The large unutilized bank lines support the liquidity profile. Besides bank lines, CGCL has also demonstrated financial flexibility by raising short term funds through CPs which indicates high level of financial flexibility.

SMERA believes that the group is adequately capitalized for its growth plans over the near to medium term but the pace of loan book growth and asset quality will remain key monitories.

Capri group enjoys credit facilities wide base of banks, including PSB, Private Sector and Foreign Banks. CGCL also has access to capital markets for raising funds via Non-Convertible Debentures and Commercial Papers. This not only provides access to adequate liquidity from time to time but also different avenue for raising funds as per business requirements.

Healthy Profitability Levels

The group reported a PAT of Rs.58.12 crore for FY2017 as against Rs.43.65 crore for FY2016. The profitability for FY2016 was impacted by write offs of Rs.68.8 crore. The NIMs (Net Interest Income) of the company moderated at 11.36 percent in FY2017 as compared to 14.39 percent in FY2016, mainly due to higher debt levels. Notwithstanding the decline in margins, the NIMs continue to be at healthy levels (vis-a-vis peers) mainly on account of the high capitalization levels. ROAAs continue to be comfortable at 3.51 percent for FY2017 as against 3.48% during FY2016. The margins are expected to be moderate over the near to medium term mainly on account of expected lower NIMs and high operating costs. Hitherto, the group has relied on its own funds for the loan book growth. However, going forward the group will be required to fund its loan book expansion through additional debt intake. This in turn will impact its NIMs. Besides the higher debt funded expansion, the higher operating costs (due to focus on SME and housing segment) will also impact the margins. The increasing competition from banks and NBFCs will also result in margin pressures.

SMERA believes that the group's ability to maintain its margins in a competitive landscape will depend on its ability to raise funds at a competitive cost and keep its operating cost and expenses under control.

Weaknesses

Vulnerability of asset quality

The Gross NPA (GNPA) for the CGCL stood at 0.98 percent as on March 31, 2017 up from 0.88 percent as on March 31, 2016. The GNPA ratio further declined to 1.96 percent as on December 31, 2017 largely driven by change in NPA recognition norms from 120 days to 90 days and fresh slippages. The Gross NPAs stood at Rs.45.21 crore as on December 31, 2017 up from Rs.17.84 crore as on March 31, 2017of which Rs.9 crore in CF segment and Rs.36.74 crore in SME / MSME segment. In CGHF, the gross NPA stood at Rs.0.30 crore as on February 28, 2018. Alongwith, the asset quality pressures in construction finance segment, the delinquency in the SME segment is also on the rise. The SME/ MSME portfolio is yet to be adequately seasoned as a major portion of the SME / MSME exposures have been initiated in FY2017 & H1FY2018.However, the concentration risk is extremely low as compared to its peers in the industry. The group also has in place technology based operational control methods & systems and internal control infrastructure which are well aligned with its underwriting and collection process. Also, the company has its presence in the North and west where as a general trend of NBFC's delinquencies has been low.

Significant exposure to real estate sector

The group has been focusing more on the SME lending segment as a de-risking strategy. However its loan portfolio still has a significant exposure to real estate segment. As on December 31, 2017, the group's construction lending comprised of one-third of the total loan portfolio. The real estate sector has been a challenging operating environment which has impacted the demand for real estate players, cash flows and credit profiles of the realtors. Though these exposures are secured by way of a mortgage of the immovable properties, the overall tepid environment limits the lender's flexibility to unwind such exposures in the event of a distress. The group's exposure of Rs.852.01 crore as on December 31, 2017 was spread across ~51 clients. Though, the company has diversified into SME and housing segment, which are more granular and less risky. The portfolio of the company has ~62.90 percent exposure to the SME segment with an average ticket size of Rs.34 lakh. Going forward, with more disbursement in the segment, the overall risk of the portfolio is expected to reduce. The group's ability to curtail its real estate exposure and expand the overall loan book by focusing on SME and housing segment while maintaining a healthy asset quality will be crucial for maintenance of a stable credit profile.

Analytical Approach

SMERA has consolidated the risk profiles of Capri Global Housing Finance Ltd. and Capri Global Capital Ltd due to same promoter group, common treasury, significant business and financial synergies.

Outlook: Stable

SMERA believes that group will maintain a Stable outlook on account of its comfortable capital position and the gradual diversification in its lending profile. The outlook may be revised to Positive in case of healthy growth in AUM along with sustainability in asset quality and profitability margins. The outlook may be revised to Negative in case of any significant deterioration in asset quality, challenges in business scale-upon a decline in profitability indicators.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	1982.73	1325.71	1181.39
Total Income	Rs. Cr.	197.04	178.72	201.37
PAT	Rs. Cr.	58.12	43.65	95.24
Net Worth	Rs. Cr.	1160.65	1102.53	1065.20
Return on Assets (RoA)	(%)	3.51	3.48	16.12
Return on Net Worth(RoNW)	(%)	5.14	4.03	17.88
Total Debt/Tangible Net Worth (Gearing)	Times	0.68	0.18	0.08
Gross NPA	(%)	0.98	0.88	0.97
Net NPA	(%)	0.84	0.75	0.88
Net Worth/ Net NPA	Times	76.41	132.52	127.72

Status of non-cooperation with previous CRA (if applicable)

NA

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.smera.in/criteria-default.htm
- Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.htm
- Complexity Level Of Financial Instruments - https://www.smera.in/criteria-complexity-levels.htm
- Non - Banking Financing Entities - https://www.smera.in/criteria-nbfc.htm

Note on complexity levels of the rated instrument

https://www.smera.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	50.00	SMERA A+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	50.00	SMERA A+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	50.00	SMERA A+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	75.00	SMERA A+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	30.00	SMERA A+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA A+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	50.00	SMERA A+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA A+ / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	245.00	SMERA A+ / Stable
Proposed Commercial Paper	Not Applicable	Not Applicable	Not Applicable	100.00	SMERA A1+

Contacts

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in Abhishek Verma Manager - Rating Operations Tel: 022-67141115 abhishek.verma@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

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