**Press Release**

**Capri Global Housing Finance Limited**

December 07, 2018

**Rating Reaffirmed**

| | |
|---|---|
| **Total Facilities Rated** | **Rs. 700. 00 Cr.** |
| **Total Bank Facilities** | Rs. 600.00 Cr. |
| **Long Term rating** | ACUITE A+/ Outlook: Stable (Reaffirmed) |
| **Commercial Paper** | Rs. 100.00 Cr. |
| **Short Term Rating** | ACUITE A1+ (Reaffirmed) |

** Refer Annexure for details*

**Rating Rationale**

Acuité has reaffirmed its long term rating of **'ACUITE A+' (read as ACUITE A plus)** on the Rs. 600.00 Cr. bank facilities and its short term rating of **'ACUITE A1+' (read as ACUITE A one plus)** on the Rs. 100.00 Cr commercial paper programme of Capri Global Housing Finance Limited. The outlook is **'Stable'.**

## Analytical approach:

To arrive at its rating, Acuité has taken a consolidated view on the business and financial risk profiles of Capri Global Capital Limited and its subsidiaries Capri Global Housing Finance Limited, Capri Global Asset Reconstruction Private Limited, Capri Global Capital (Mauritius) Limited and Capri Global Resources Private Limited together referred to as the 'Capri group'. The consolidation is in view of the common management, shared brand, and strong operational and financial synergies between the group companies. Extent of Consolidation: Full.

## About the company and group:

Capri group ventured into lending segment by starting construction finance business in 2010 and gradually diversified to SME / MSME lending in 2013, and affordable housing finance segment in 2016. Presently, the group is engaged in extending credit to MSMEs as loan secured against property, construction finance and housing finance. Mr. Quintin E. Primo III, Chairman and Chief Executive Officer of Capri Capital Partners, LLC, is the non-executive chairman of the group's flagship company in India and has over three decades of experience in real estate lending and investments segment.

Capri Global Capital Limited (CGCL), incorporated in 1994, is the flagship company of Capri group and is a non-deposit taking systematically important non-banking financial company (NBFC- ND-SI). The company is engaged in extending construction finance and loans to MSMEs. CGCL has four subsidiaries Capri Global Housing Finance Limited (CGHFL), Capri Global Asset Reconstruction Private Limited (CGARPL), Capri Global Capital (Mauritius) Limited (CGCML) and Capri Global Resources Private Limited (CGRPL). CGARPL and CGCML are yet to commence operations.

Incorporated in 2006, CGHFL, a wholly owned subsidiary of CGCL, is registered as a housing finance company (HFC) with National Housing Bank. The company commenced its operations in 2016 and is engaged in extending credit to the affordable housing segment by leveraging the existing branch network of its parent Company. CGHFL has presence in Maharashtra, Gujarat, Delhi NCR, MP and Rajasthan through a network of 74 branches.

List of key rating drivers and their detailed description:

## Strengths:

**Healthy growth in loan book supported by experienced managerial team**

Capri group, through its flagship company CGCL, forayed into lending business with focus on construction finance i.e. financing real estate developers, and gradually diversified into retail segment by extending credit to MSMEs, and housing Finance through its wholly owned subsidiary CGHFL. CGCL also forayed into indirect lending to smaller NBFCs and MFIs in FY2018. The group strategizes to drive its growth by increased focused towards retail lending over the medium term.

The group's loan portfolio grew by 57.1 percent to Rs. 2840 Cr as on March 31, 2018 from Rs. 1810 Cr as on March 31, 2017. The consolidated loan portfolio was at Rs. 3489 Cr. as on September 30, 2018. Construction finance, MSME lending, indirect lending and housing finance constituted 30 percent, 51 percent, 5 percent and 15 percent of the portfolio as on September 30, 2018. While the growth is expected to moderate in the near term on account of the funding challenges faced by the NBFC sector in recent months, the group is expected to maintain healthy growth in the loan portfolio over the medium term driven by its focus on retail lending segments. The group operates through a network of 74 branches with more than 1700 employees across India with a presence mainly in Western, Northern and Southern regions.

CGCL's board has 6 members comprising of Mr. Quintin E. Primo (non-executive chairman) and Mr. Rajesh Sharma (managing director) and four independent directors. The day to day operations and functions are overseen by Mr. Rajesh Sharma, having more than 20 years of experience in capital markets and financial advisory services, and is supported by well experienced senior management team. The group's senior management team comprises of experienced industry professionals having a strong background in MSME lending, housing finance and construction finance segments.

Acuité believes that the business profile of the Capri group will benefit from the experience of its management team and increasing thrust on the MSME and affordable housing finance segments.

**Healthy financial risk profile**

Capri group has a prudent capital structure as reflected in its comfortable gearing of 1.34 times as on March 31, 2018 as against 0.68 times as on March 31, 2017. The group's reported networth was at Rs. 1258.60 Cr. as on March 31, 2018 as against Rs. 1160.65 Cr. as on March 31, 2017. CGCL reported comfortable capital adequacy of 36.81 percent as on September 30, 2018 (39.29 percent as on March 31, 2018). CGHFL reported capital adequacy of 28.67 percent as on September 2018 (69.52 percent as on March 31, 2018). The group's capitalization remains comfortable, albeit strong growth in loan book, supported by moderate gearing philosophy and healthy internal accruals.

Capri group primarily focuses on secured high yield lending products, which supports its profitability. The group's operating income grew by ~48 percent to Rs. 292.46 Cr. in FY2018 from Rs. 197.04 Cr. in FY2017. While the group's net interest margin (NIM) moderated to 9.8 percent in FY2018 as against 11.4 percent in FY 2017, it remained healthy. The group reported a healthy return on average assets (RoAA) of 4.17 percent in FY2018 as compared to 3.51 percent in FY2017. The profitability is supported by the stable operating expenses to earning assets ratio at 4.53 percent in FY2018 as against 4.58 percent in FY2017. The earnings profile was also supported by low provisions for NPAs at Rs. 15.9 Cr in FY2018 as against Rs. 13.7 Cr in the previous year.

Acuité believes that the group is adequately capitalized for its growth plans over the medium term and will benefit from the steady internal accruals given its focus on high yield loan segments. However, its ability to maintain competitive borrowing cost to support its profitability will remain a key monitorable. Furthermore, any sharp deterioration in asset quality will result in increase in provisioning cost and will adversely impact the overall earnings profile.

## Weaknesses:

**Vulnerability of asset quality**

Capri group has a relatively short track record in the lending business. The group focuses on high yield products which have relatively high inherent risks. Furthermore, the group's loan portfolio has grown significantly in the past two years, thereby resulting in relatively low seasoning in the loan portfolio, especially in case of long tenure loan products such as mortgage finance.

As on September 30, 2018, construction finance comprised 30 percent of the group's loan portfolio. The group had exposure of Rs. 1049.5 Cr. towards construction finance spread across 136 projects of 129 clients. The real estate sector has been witnessing a challenging operating environment which has impacted demand, cash flows and credit profiles of the realtors over the past few years. Though these exposures are secured by way of a mortgage of immovable properties, the overall tepid environment limits the lender's flexibility to unwind such exposures in the event of a distress. Additionally, a sustained slowdown in funding to the wholesale segment over the near to medium term may adversely impact the developers' ability to complete the existing projects in a timely manner as well as launch new projects. Given the inherent concentration risk in the construction finance, any sharp deterioration in the loan book will adversely impact the Capri group's credit risk profile.

While the group has diversified into MSME and affordable housing financing segment, which are more granular and less risky, the group's track record is relatively short in these segments. Affordable housing finance segment faces strong competitive intensity given the emergence of the large number of housing finance companies, which impacts the players' pricing ability. Any material laxity in the underwriting process due to the high competitive intensity may also adversely the asset quality.

MSME financing is based on the cashflow assessment of the borrowers and is backed by property as collateral. Any stress on the cashflows of the borrowers due to borrower or industry specific issues will adversely impact the repayment ability of the borrowers. Hence, the ability of the lender to sell the borrowers' property in a timely manner will remain a key monitorable and any material delay may adversely impact the asset quality.

Nevertheless, the group has adequate risk management systems and processes to manage the inherent risks in the business. The group has put in place technology based operational control methods and systems, and internal control infrastructure which are well aligned with its underwriting and collection process. In the construction finance segment, CGCL holds the first and exclusive charge on the developers' property and is the sole lender in many of the projects. Further, the sales velocity and construction progress is monitored on a quarterly basis. The group's focus on MSME and affordable housing segment has resulted in high granularity in the overall loan portfolio. MSME loan portfolio has average ticket size of Rs. 0.23 Cr in H1 FY 2019 as against Rs. 0.26 Cr in FY2018 and Rs. 0.43 Cr in FY2017. The average ticket size in the affordable housing segment is around Rs. 0.11 Cr in H1 FY 2019 (Rs. 0.11 Cr in FY2018). The group is also focusing on reducing the average ticket size in the construction finance segment to reduce the risks: the ticket sizes have reduced from Rs. 40 Cr in FY2016 and FY2017 to around Rs. 11 Cr in FY2018. The Capri group is also increasing the proportion of direct sourcing in the MSME segment which is expected to help in originating better quality loans – direct sourcing constituted around 62% of the disbursements in H1 FY2019 as against 55% in FY2018.

The Capri group reported gross NPAs of 1.68 percent as on March 31, 2018 as against 0.98 percent as on March 31, 2017. The increase was mainly due to change in NPA recognition norm from 120 days past due in FY2017 to 90 days past due in FY 2018. The MSME segment reported gross NPAs of 2.23 percent followed by construction finance at 0.86 percent and housing finance of 0.12 percent. The Indirect lending portfolio has reported nil gross NPAs as on March 31, 2018. Further, as on September 30, 2018 CGCL reported gross NPAs and net NPAs of 1.79 percent and 1.05 percent, respectively, while CGHFL reported gross NPAs and net NPAs of 0.41 percent and 0.22 percent, respectively.

Acuité believes that the group's ability to manage its asset quality while increasing the scale of operations will remain a key monitorable.

**Liquidity Position**

CGHFL has adequately matched asset liability profile with no negative cumulative mismatches in the maturity buckets of upto one year as on September 30, 2018. The company has undrawn bank lines of around Rs. 240 Cr. as on September 30, 2018 to support business needs or in case of any future mismatches. The company does not have any outstanding commercial papers as on date.

**Outlook: Stable**

Acuité believes that Capri group will maintain a 'Stable' outlook on account of its comfortable capital position, increasing scale of operations coupled with diversification in its lending book. The outlook may be revised to 'Positive' in case of healthy growth in loan portfolio along with sustained asset quality and profitability. The outlook may be revised to 'Negative' in case of significant deterioration in asset quality thereby impacting profitability, or if there is deterioration in its capitalisation.

## About the Rated Entity - Key Financials (Consolidated)

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|---|---|---|---|---|
| Total Assets | Rs. Cr. | 3007 | 1983 | 1326 |
| Total Income* | Rs. Cr. | 292 | 197 | 179 |
| PAT | Rs. Cr. | 104 | 58 | 44 |
| Net Worth | Rs. Cr. | 1259 | 1161 | 1103 |
| Return on Average Assets (RoAA) | (%) | 4.2 | 3.5 | 3.5 |
| Return on Average Net Worth(RoNW) | (%) | 8.6 | 5.1 | 4.0 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 1.3 | 0.7 | 0.2 |
| Gross NPA | (%) | 1.68 | 0.98 | 0.88 |
| Net NPA | (%) | 1.44 | 0.84 | 0.75 |

**Total income equals to Total Income net off interest expense*

## About the Rated Entity - Key Financials (Standalone)

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|---|---|---|---|---|
| Total Assets | Rs. Cr. | 262 | 44 | 40 |
| Total Income* | Rs. Cr. | 18 | 3 | 4 |
| PAT | Rs. Cr. | 11 | 1 | 2 |
| Net Worth | Rs. Cr. | 103 | 42 | 42 |
| Return on Average Assets (RoAA) | (%) | 6.9 | 2.0 | 6.3 |
| Return on Average Net Worth(RoNW) | (%) | 14.5 | 2.0 | 6.1 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 1.5 | 0.1 | 0.0 |
| Gross NPA | (%) | 0.1 | 0.0 | 0.0 |
| Net NPA | (%) | 0.1 | 0.0 | 0.0 |

**Total income equals to Total Income net off interest expense*

**Status of non-cooperation with previous CRA (if applicable)**
Not Applicable

**Any other information**
Not Applicable

**Applicable Criteria**

- Non-Banking Financing Entities: https://www.acuite.in/view-rating-criteria-10.htm
- Financial Ratios and Adjustments: https://www.acuite.in/view-rating-criteria-20.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-17.htm
- Consolidation of Companies: : https://www.acuite.in/view-rating-criteria-22.htm

**Note on complexity levels of the rated instrument**
https://www.acuite.in/criteria-complexity-levels.htm

**Rating History (Upto last three years)**

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|---|---|---|---|---|
| April 23, 2018 | Term Loan | Long Term | 50.00 | ACUITE A+/Stable (Assigned) |
| | Term Loan | Long Term | 50.00 | ACUITE A+/Stable (Assigned) |
| | Term Loan | Long Term | 50.00 | ACUITE A+/Stable (Assigned) |
| | Term Loan | Long Term | 75.00 | ACUITE A+/Stable (Assigned) |
| | Term Loan | Long Term | 30.00 | ACUITE A+/Stable (Assigned) |
| | Term Loan | Long Term | 25.00 | ACUITE A+/Stable (Assigned) |
| | Term Loan | Long Term | 50.00 | ACUITE A+/Stable (Assigned) |
| | Term Loan | Long Term | 25.00 | ACUITE A+/Stable (Assigned) |
| | Proposed Bank Facility | Long Term | 245.00 | ACUITE A+/Stable (Assigned) |
| | Proposed Commercial Paper | Short Term | 100.00 | ACUITE A1+ (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|---|---|---|---|---|---|
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 50.00 | ACUITE A+/Stable (Reaffirmed) |

| | | | | | |
|---|---|---|---|---|---|
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 50.00 | ACUITE A+/Stable (Reaffirmed) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 50.00 | ACUITE A+/Stable (Reaffirmed) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 75.00 | ACUITE A+/Stable (Reaffirmed) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 30.00 | ACUITE A+/Stable (Reaffirmed) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE A+/Stable (Reaffirmed) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 50.00 | ACUITE A+/Stable (Reaffirmed) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE A+/Stable (Reaffirmed) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 245.00 | ACUITE A+/Stable (Reaffirmed) |
| Commercial paper | Not Applicable | Not Applicable | Not Applicable | 100.00 | ACUITE A1+ (Reaffirmed) |

## Contacts

| Analytical | Rating Desk |
|---|---|
| Manish Saraf<br>Head - Financial Sector Ratings<br>Tel: 022-49294061<br>manish.saraf@acuite.in<br><br>Leena Gupta<br>Analyst - Rating Operations<br>Tel: 022-49294035<br>leena.gupta@acuiteratings.in | Varsha Bist<br>Manager - Rating Desk<br>Tel: 022-67141160<br>rating.desk@acuite.in |

**About Acuité Ratings & Research:**

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.