

Press Release

Capital India Finance Limited

September 28, 2018

Rating Assigned and Reaffirmed



| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 500.00 Cr. |
| Long Term Rating | ACUITE A- / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 325.00 crore proposed bank facilities and has assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 175.00 crore bank facilities of Capital India Finance Limited. The outlook is '**Stable**'.

Originally incorporated as Bhilwara Tex-Fin Limited in 1994, the non-banking financial company (NBFC) was renamed as Capital India Finance Limited on November 27, 2017. CIFL is registered with the Reserve Bank of India (RBI) as a non-systemically important non-deposit taking NBFC. The company is engaged in wholesale lending with focus on real estate and corporate/structured finance. The company has Assets Under Management of Rs. 139 Cr. as on July 2018. It plans to introduce other products namely Loan against shares, Loan against Property, Non-convertible Debentures among others over the medium term. The company's equity shares are listed on the Bombay Stock Exchange (BSE). CIFL is led by Mr. Keshav Porwal (Managing Director), Mr. Amit Sahai Kulshreshtha (Executive Director & Chief Executive Officer), and Mr. Vineet Kumar Saxena (Non- Executive Director, CIFL & Chief Executive Officer, Capital India Home Loans Limited) each having an experience of nearly two decades in the financial services sector. The professional management is backed by a set of domestic investors led by Capital India Corp LLP (Promoter) which held 63% as on June 30, 2018. The other investors include Dharampal Satyapal Limited, RJ Corp Limited, Sudhir Power Limited, and few individual investors.

Key Rating Drivers

Strengths

- **Experienced management team backed by resourceful investors:**

CIFL is headed by Mr. Keshav Porwal (MD) who along with Mr. Amit Sahai Kulshreshtha (ED & CEO), and Mr. Vineet Kumar Saxena each having nearly two decades of strong experience in banking and financial services including in corporate and real estate lending. CIFL along with its subsidiaries will currently focus on secured wholesale lending and mortgage finance segments. The second line of management comprises of people with experience in real estate, corporate finance and mortgage lending each having more than a decade of relevant experience. The board of directors play an active role in overseeing the company's operations including strategic decisions and policy formulation, and risk management including credit approvals and portfolio monitoring through various committees. CIFL is backed by domestic long-term investors such as Capital India Corp LLP (holding 63%), Dharampal Satyapal Limited (holding 11.3 percent), RJ Corp Limited (4.7 percent holding), Sudhir Power Limited (holding 4.9 percent) among others. The investors have infused Rs.250 Cr. of capital in June 2018 and are planning to invest additional Rs.250 Cr. Through recently announced rights issue over the next few months. CIFL has filed draft letter of offer with SEBI on August 9, 2018. CIFL is also looking to bring in new institutional investors to support its capital requirements as it scales-up its operations over the next few years. Acuite believes that CIFL will scale-up its operations supported by the strong experience of its professional management team and capital support from the investors.

- **Comfortable capitalization:**

CIFL had a networth of Rs. 256.6 Cr. as on June 30, 2018 underpinned by a capital infusion of Rs. 250 Cr. by investors in June 2018. Further, the company plans to raise additional capital from existing investors through right issue of Rs. 250.00 Cr. The company also intends to raise a significant amount of capital in the next 1-2 years to support its strong growth plans. CIFL had a gearing of 0.03 times as on June 30, 2018 as the company was largely equity funded. While debt will increase with the scale-up of the operations, CIFL is expected to follow a conservative leverage policy with gearing likely to remain around 3 to 4 times over the medium term; this is comparable to other wholesale financing NBFCs. The capital to risk weighted assets ratio (CRAR) was 100.62 % as on June 30, 2018.

Acuite believes that CIFL's comfortable capitalisation will be backed by regular equity infusion and steady internal cash accrual to support its growth initiatives over the medium term.

Weaknesses

- Limited track record of operations:**

CIFL is a recent entrant in the NBFC sector having started its operations in 2017 and is gradually expanding its scale. CIFL is primarily engaged in corporate/structured finance and real estate. CIFL's loan portfolio stood at Rs. 139 Cr. as on July 30, 2018 as against Rs. 103.94 Cr. as on March 31, 2018. The company is likely to face intense competition from established players with large scale of operations who can offer similar loan products to the borrowers at competitive rates. In order to scale up operations, the company would also require adequate funding at low rates to entail stable profitability and competitiveness.

Acuite believes that the company's ability to scale-up its operations and achieve competitive positioning in the wholesale financing segment will remain a key monitorable.

- Risks related to wholesale lending, low seasoning of portfolio and resultant impact on profitability**

CIFL is a wholesale NBFC focused on corporate/structured financing and real estate segments. Hence, CIFL's asset quality remains exposed to the concentration risks inherent in the business model. As on July 31, 2018, CIFL's portfolio was Rs.139 Cr. across 9 borrowers. While the concentration will reduce with the growth in loan portfolio, concentration risks in the portfolio will still remain high over the medium term, given the inherent nature of the wholesale financing business. Additionally, CIFL is a recent entrant in the lending segment which results in low seasoning of the loan book and hence the asset quality and profitability is susceptible to delinquencies, especially as the inherent risks in these segments are relatively high. CIFL's ability to maintain asset quality and profitability along with high growth plans remains to be seen. Any sharp deterioration in asset quality will significantly increase provisioning costs and adversely impact CIFL's profitability. Nevertheless, CIFL has put in place strong credit appraisal and risk management processes to manage the asset quality. CIFL primary focuses on secured wholesale lending to corporates & medium enterprises. CIFL undertakes detailed due diligence of the borrowers including assessment through external agencies. All the credit decisions are taken based on a board approved credit matrix linked to the borrowers' loan requirements. The company also has internal limits on the maximum exposure to real estate segment within the overall lending portfolio. It will also seek to maintain adequate collateral cover depending upon the risks in the underlying exposure. It has also put in place a monitoring team to undertake regular monitoring of the performance of the borrowers, which will enable timely and appropriate actions in case of any potential stress in the borrowers.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of CIFL to arrive at this rating.

Outlook: Stable

Acuite believes CIFL will maintain a stable outlook given its experienced management team and comfortable capitalization. The outlook may be revised to 'Positive' if there is significant scale up of the operations while maintaining profitability and healthy quality. Conversely, the outlook may be revised to 'Negative' in case of growth challenges or if the company faces asset quality or profitability related challenges.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|--|---------|------------------|------------------|------------------|
| Total Assets | Rs. Cr. | 154.17 | 143.58 | 59.31 |
| Total Income* | Rs. Cr. | 15.34 | 0.80 | 0.48 |
| PAT | Rs. Cr. | 2.95 | 0.24 | 0.08 |
| Net Worth | Rs. Cr. | 6.9 | 3.95 | 3.72 |
| Return on Average Assets (RoAA) | (%) | 1.98 | 0.23 | 0.14 |
| Return on Average Net Worth (RoNW) | (%) | 54.33 | 6.13 | 2.24 |
| Total Debt/Tangible Net Worth (Gearing)** | Times | 2.62 | 34.83 | 13.00 |
| Gross NPA | (%) | Nil | Nil | Nil |
| Net NPA | (%) | Nil | Nil | Nil |

*Total income equals to Net interest income plus other income

**Total Debt/ Tangible Networth excluding book overdraft of Rs. 11.05 crore stood at 1.11 times as on March 31, 2018.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- 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>

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 |
|----------------|---------------------------------|-----------|-----------------|-----------------------------|
| 17 August 2018 | Proposed Term Loans | Long Term | 500.00 | ACUITE A-/Stable (Assigned) |

*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 | 125.00 | ACUITE A- / Stable (Assigned) |
| Working Capital Demand loan | Not Applicable | Not Applicable | Not Applicable | 50.00 | ACUITE A- / Stable (Assigned) |
| Proposed Term loans | Not Applicable | Not Applicable | Not Applicable | 325.00 (Revised from Rs. 500 Cr.) | ACUITE A- / Stable (Reaffirmed)) |

Contacts

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About Acuité Ratings & Research:

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