

Press Release

Capital India Finance Limited

August 16, 2019

Rating Reaffirmed



Total Bank Facilities Rated	Rs. 500.00 Cr.
Long Term Rating	ACUITE A-/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. 500.00 Cr. bank facilities of Capital India Finance Limited (CIFL). The outlook is '**Stable**'.

About the company:

CIFL (erstwhile Bhilwara Tex-Fin Limited), incorporated in 1994, is a non-deposit taking non-banking financial company (NBFC) registered with the Reserve Bank of India. The company is engaged in extending credit for business financing to SMEs and MSMEs, commercial and residential real estate projects, Loan against Property, among others.

The company commenced its lending operations in November 2017, led by Mr. Keshav Porwal (Managing Director), Mr. Amit Sahai Kulshreshtha (Executive Director & Chief Executive Officer), and Mr. Vineet Kumar Saxena (Non- Executive Director), each having an experience of nearly two decades in financial services. The company's equity is listed on the Bombay Stock Exchange (BSE) and has a market Capitalisation of Rs. 715 Cr as on August 8, 2019.

CIFL's 73 per cent of the holding is with Capital India Corp LLP (erstwhile Trident Holdings LLP), which is promoted by Mr. Sumit Narvar, who is primarily engaged in development of commercial and residential real estate projects in India. Besides, the high level of promoter holding, other large shareholders of CIFL are Dharampal Satyapal Group, RJ Corp Limited and Sudhir Power Limited.

Analytical Approach

Acuite has adopted a standalone approach on CIFL's business and financial risk profile for arriving at the rating.

Key Rating Drivers

Strengths

Experienced management team backed by resourceful investors:

CIFL promoted by Delhi-based Narvar Family, is led by senior professionals such as Mr. Keshav Porwal (MD) and Mr. Amit Sahai Kulshreshtha (Executive Director & CEO), who have nearly two decades of experience in banking and financial services including corporate and real estate lending. Mr. Porwal has been associated with various private and foreign banks and Mr. Kulshreshtha has over two decades of professional experience in the field of mergers and acquisitions, structured finance, project financing to name a few.

The company's Board comprises of 7 members of which 2 are independent Directors. The day-to-day operations are managed by seasoned professionals with extensive experience in corporate and business banking. CIFL is backed by domestic long-term investors such as Capital India Corp LLP (holding 73 percent), Dharampal Satyapal Group (holding 13.5 percent), RJ Corp Limited (4.9 percent holding), Sudhir Power Limited (holding 2.7 percent), among others.

The resourcefulness of investors has supported the company's Capitalisation levels. The company has a Networth of Rs. 515 Cr. as on March 31, 2019 as against Rs. 6.9 Cr. as on March 31, 2018. The increase in Networth is on account of infusion by promoter and investors. The company capital adequacy ratio remains comfortable with overall capital adequacy of 81.2 percent of which Tier one capital of 80.7 percent as on March 31, 2019.

Acuite believes that CIFL's business profile will be supported by expertise of its management and the continued support of promoter and resourceful investors.

Weaknesses

Susceptibility of the credit profile to low vintage of loan assets and exposure to real estate:

CIFL commenced its lending operations under the new management in November 2017 with a focus on extending business finance loans to SMEs and MSMEs, Loan against Property and commercial and residential real estate. The company's average ticket size is ~ Rs.12 crore as on June 30, 2019 with a tenure ranging less than one year to 6 years. The company extends larger exposures on selective basis. The company's loan portfolio stood at Rs. 561 Cr. as on March 31, 2019 (previous year Rs.104 Cr.). A large portion of the loans portfolio pertained to the disbursements in FY2019. Hence, the track record of timely servicing by the borrowers is yet to be established. The top 19 exposures as on May 31, 2019 comprised 66 per cent of the overall loan book, which adds to the concentration risk in the portfolio. Of the overall loan portfolio as on March 31, 2019, business finance loans comprised 41 per cent, real estate portfolio comprised 48 per cent and Loan against Property comprised 11 per cent. As on March 31, 2019, 55 per cent of the loan assets were exposed to Real estate sector.

Acuite observes that in some of the large accounts as on May 30, 2019, the repayments are yet to commence on account of the moratorium. Based on discussion with the management, Acuite understands that the company's focus has shifted to mid ticket loans with lower tenures. CIFL has disbursed Rs. 873 Cr. and collected Rs. 420 Cr. for the period April 30, 2018 to June 30, 2019. The asset quality of CIFL as on June 30, 2019 remains healthy with 99.7 per cent of the portfolio being on time (89.8 percent as on March 31, 2019). The company's credit monitoring activities ensure that any intermittent irregularities are managed in a short time frame, thereby maintaining a healthy overall collection efficiency.

CIFL's exposure towards Real Estate loans has increased to 48 per cent as on March 31, 2019 from 37 per cent as on March 31, 2018. This exposes the company to project risk of its borrower. The tepid state of the real estate sector indicated in the slowdown in the project offtake, buildup in unsold inventory and moderation in project launches has impacted the credit profile of Real estate developers. It has been observed that the real estate players generally go in for refinancing of their debt in case of challenges in cash flow generation from existing projects. The recent NBFC crises has made it difficult for the NBFCs to raise fresh debt from banks, since banks have been adopting a cautious and selective approach towards this sector. This in turn, has impacted the ability of the real estate players to refinance their debt in a timely manner. In a nutshell, the demand side challenges faced by the real estate sector coupled with restricted refinancing ability adds to the risks inherent in real estate lending.

The management of the company plans to continue to focus on mid ticket lending (i.e. 10-15 Cr.), however large exposures will be taken on selective basis. Acuite believes that CIFL's ability to scale up its loan book while maintaining a healthy asset quality and higher diversity in its Loan Portfolio across Real estate and other product offerings will be key rating monitorable.

Liquidity Position:

CIFL's liquidity position is adequate with no cumulative mismatches in any of the time buckets upto 5 years, primarily on account of support from the healthy networth base. The gearing stood at 0.3 times as on March 31, 2019. Going forward with increasing dependence on external borrowings to scale up its operations, the company's liquidity profile will depend on its ability to raise external debt in tandem with the tenure of loans extended by CIFL. The company had maintained adequate liquidity in the form of unencumbered cash and bank balances of Rs. 24.9 Cr. as on March 31, 2019.

Outlook: Stable

Acuite believes that CIFL's credit profile will be supported by its experienced management, support from resourceful promoters'/investor base and healthy capitalisation level. The outlook may be revised to 'Positive' in case the company is able to scale up its loan book significantly while maintaining its asset quality and profitability metrics. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in asset quality/ profitability metrics or increased concentration in portfolio towards real estate sector.

About the Rated Entity – Key Financials

Parameters	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	659.6	154.2	143.6
Total Income*	Rs. Cr.	48.5	15.3	0.8
PAT	Rs. Cr.	10.2	2.9	0.2
Net Worth	Rs. Cr.	514.9	6.9	3.9
Return on Average Assets (RoAA)	(%)	2.5	1.98	0.2
Return on Average Net Worth (RoNW)	(%)	3.9	54.3	6.1
Total Debt/Tangible Net Worth (Gearing)	Times	0.3	2.6**	34.8
Gross NPA	(%)	0	0	0
Net NPA	(%)	0	0	0

* 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.

Status of non-cooperation with previous CRA

Not Applicable

Any other information

None

Applicable Criteria

- Rating of Non-Banking Financing Entities – <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition – <https://www.acuite.in/view-rating-criteria-17.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.)	Rating/Outlook
28 September 2018	Term Loans	Long Term	125.00	ACUITE A- / Stable (Assigned)
	Working Capital Demand loan	Long Term	50.00	ACUITE A- / Stable (Assigned)
	Proposed Term loans	Long Term	325.00	ACUITE A- / Stable (Reaffirmed)
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	NA	NA	NA	125.00	ACUITE A- / Stable (Reaffirmed)
Working Capital Demand loan	NA	NA	NA	50.00	ACUITE A- / Stable (Reaffirmed)
Proposed Term loans	NA	NA	NA	325.00	ACUITE A- / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Vinayak Nayak Vice President - Rating Operations Ratings Tel: 022-49294071 vinayak.nayak@acuite.in Leena Gupta Senior Rating Analyst - Rating Operations Tel: 02249294061 leena.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.