Press Release

Capital India Finance Limited

June 18, 2020

Rating Assigned & Reaffirmed; Outlook Revised

Total Bank Facilities Rated	**Rs. 500.00 Cr.**
Long Term Rating	ACUITE A-/Negative (Reaffirmed; Outlook Revised)
Non-Convertible Debentures	**Rs. 150.00 Cr.**
Long Term Rating	ACUITE A-/Negative (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité 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). Acuité has also assigned the long-term rating of '**ACUITE A-' (read as ACUITE A minus)** to the non-convertible debentures of CIFL. The outlook is revised from **'Stable'** to **'Negative'**.

The revision in outlook from 'Stable' to 'Negative' is driven by Acuité's expectation that CIFL could face asset quality pressures over the near to medium term. The resultant increase in credit costs is also likely to impact it's near to medium term profitability. As on March 31, 2020 CIFL's exposures to real estate sector entities comprised ~44 percent of the overall credit book. Besides the significant exposure to real estate sector, CIFL also continues to face a high concentration risk, i.e. top 20 exposures of the company comprised ~72 percent as on March 31, 2020 (~66 percent previous year) of the overall book. The real estate sector has been facing headwinds for quite some time. The challenges in this sector from both demand outlook and in terms of their resource raising ability are expected to intensify over the near to medium term.

Analytical Approach

Acuité has adopted a consolidated approach and considered the business and financial risk profile of Capital India Finance Limited (CIFL) and its subsidiaries, Capital India Home Loans Limited (CIHL), Capital India Assets Management Private Limited (CIAM), CIFL Holdings Private Limited (CHPL), CIFL Investment Manager Private Limited (CIML), RapiPay Fintech Holding Private Limited (RFHL), RapiPay Fintech Private Limited (RFPL), for arriving at the rating.
Extent of Consolidation: Full.

CIHL is a 99.70 percent subsidiary of CIFL and extends credit towards the affordable home loan segment. CIAM, CHPL and CIML were 100 percent subsidiary of CIFL, there were no major operations in these companies at present. RFHL is a holding company of RFPL, CIFL directly and through RFPL holds 62.8 percent stake in RFPL. RFPL is holds a pre-paid instrument (PPI) license. It is engaged in providing money transfer services via a franchised Retail Network of distributors and retailers across India.

About the company:

CIFL (erstwhile Bhilwara Tex-Fin Limited, incorporated in 1994), is a systemically important non deposit taking non-banking financial company (NBFC) registered with the Reserve Bank of India. The company is engaged in extending wholesale credit with a focus on real estate, Loan against Property and corporate/structured finance loans.
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. 723 Cr as on June 17, 2020. Around 73 percent of CIFL's equity is held by Capital India Corp LLP (erstwhile Trident Holdings LLP) which is promoted by Mr. Sumit Narvar. Mr. Narvar is a businessman who is engaged in development of commercial and residential real estate projects in India. Besides the promoter holding, CIFL has been able to attract funding from reputed investors such as Dharampal Satyapal Limited, RJ Corp Limited,

Sudhir Power Limited among others.

Key Rating Drivers

Strengths

Experienced management team backed by resourceful investors:

CIFL promoted by Noida 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 6 members of which two are independent Directors. The day to day operations are managed by seasoned professionals with expertise in corporate finance,mortgage lending SME/MSME lending and real estate lending each having over a decade of relevant experience. CIFL is backed by domestic long-term investors such as Capital India Corp LLP (holding 73 percent), Dharampal Satyapal Limited (holding 6.3 percent), RJ Corp Limited (4.9 percent holding), Sudhir Power Limited (holding 2.7 percent) among others.

The ability to attract funding from diverse investors has supported the company's capitalisation levels. The company has a net worth (consolidated) of Rs. 521 Cr. as on March 31, 2020 (standalone Rs. 539.58 Cr.) and Rs. 508 Cr as on March 31, 2019. The company capital adequacy ratio remains comfortable with overall capital adequacy of ~80 percent of which Tier one capital of ~79 percent as on March 31, 2020.

Acuité believes that CIFL's business profile will be supported by expertise of seasoned professional managing the day to day operations and the support from the resourceful investors.

Weaknesses

Susceptibility of the credit profile to large ticket exposures from real estate segment; Current operating environment likely to impinge on asset quality and profitability:

CIFL commenced its lending operations in November 2017 with a focus on extending credit towards developer financing, Loan against Property, and Structured /Corporate Credit. The company has hitherto focused primarily on the real estate sectors with ticket sizes as high as Rs. 75 Cr (presently the maximum o/s ticket size was ~Rs. 37 Cr.). The company's top 20 exposures (Mostly real estate exposures) comprised 72 percent of the book (consolidated) as on March 31, 2020, previous year 66 percent. Of these top 20 exposures loan to one group comprised ~20 percent of the overall loan book. Most of these players comprising ~61 percent of the top 20 exposures, were either unrated or in the non-investment grade category. A significant portion of these exposures are currently under moratorium and likely to remain under moratorium even beyond August 2020.
The company has plans to reduce its exposure to real estate segment and deploy the funds so released towards other relatively granular non real estate avenues. In this context it is pertinent to note that real estate sector has been facing significant challenges on account of the overall tepid environment and slowdown in offtake of projects. The challenges are expected to intensify further after the recent outbreak of COVID-19 and the expected contraction in the level of economic activity. Besides the expected slowdown in demand, the realtors are also likely to face challenges in raising fresh funding for their projects and refinancing is expected to be difficult in the near term. 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 cautious and selective approach of bankers and lenders to lend towards these sectors has made it difficult to raise fresh debt. This in turn has impacted the ability of the real estate players to refinance their debt in a timely manner. Hence, in view of the above the ability of CIFL to significantly bring down the real estate exposures over the near term could be a challenging task.
The asset quality of most of these exposures will be tested after the expiry of the moratorium period. In the event of deterioration of the credit profile of its borrowers CIFL could face elevated asset quality pressures and consequently higher credit costs. This in turn will impact CIFL's profitability margins. Despite the low gearing and relatively benign environment in FY2020, the company's Return on Average Asset (RoAA) only ~2 percent (Consolidated) this was primarily on account of high operating expenses vis-à-vis its scale of operations. The company plans follow a two pronged strategy in the current fiscal, firstly to prune down its operating expenses

to support the profitability, secondly as mentioned earlier the company plans to unwind its real estate exposures and utilize the said proceeds to expand in other Small and Medium Enterprise (SME) segments. The company's focus over the near to medium term will be to build granularity of its loan book.
Acuité believes that while the company has initiated the steps to move towards relatively granular portfolio its ability to significantly reduce its dependence on real estate sector over the near term could be challenging in view of the overall subdued economic environment. The ability of CIFL to maintain the growth in its Assets Under Management (AUM) by expanding in non-real estate segments, while maintaining its profitability margins and containing its asset quality pressures will be key monitorable.

Liquidity Position: Adequate

Business growth of CIFL until FY20 has been supported by equity funds, the company's dependence on debt is very low as reflected in low gearing of 0.23 times as on March 31, 2020. Hence, the company has no significant term debt obligations over the near term. On the asset side, ~80 percent of CIFL's book was under moratorium till May 31, 2020 under RBI's special dispensation scheme. The company is evaluating additional moratorium to be granted to these borrowers, however, most of this portfolio is likely to remain under moratorium up to August 31, 2020. The ability of CIFL in attaining optimal collection efficiency will be critical in the sustenance of a comfortable liquidity profile. The company currently has cash and cash equivalents of ~Rs. 32.61 Cr. as on March 31, 2020. Besides the liquidity buffers the company also plans to raise debt through the Targeted Long Term Repo Operations (TLTRO) Scheme. These funds are expected to support the business growth of the company over the near term.

Outlook: Negative

Acuité believes that CIFL could face elevated asset quality and profitability pressures over the near to medium term on account of its significant exposure to the real estate segment. The challenging operating environment for real estate sector is likely to impact the credit profiles of most of its borrowers and consequently impact CIFL's ability to unwind its real estate exposures in a timely manner. The outlook may be revised to stable in case the company is able significantly prune down its real estate exposures while maintaining its asset quality and profitability at healthy levels. Conversely, the rating will be downgraded in case of higher than expected stress in asset quality/profitability and continued challenges in unwinding the real estate exposures.

Rating sensitivity factors
- Changes in ownership pattern
- Containing Asset Quality pressures
- Unwinding of Real estate exposures

About the Rated Entity – Key Financials Consolidated

Parameters	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	710.26	667.33
Total Income*	Rs. Cr.	102.30	50.21
PAT	Rs. Cr.	13.86	6.51
Net Worth	Rs. Cr.	521.15	507.55
Return on Average Assets (RoAA)	(%)	2.01	1.56
Return on Average Net Worth(RoNW)	(%)	2.69	2.04
Total Debt/Tangible Net Worth (Gearing)	Times	0.23	0.26
Gross NPA	(%)	NIL	NIL
Net NPA	(%)	NIL	NIL

** Total income equals to Net interest income plus other income*

Status of non-cooperation with previous CRA
None

Material Covenants
None

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-52.htm
- Financial Ratios And Adjustments – https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation of companies - https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Rating/Outlook
August 16, 2019	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)
September 28, 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- / Negative (Reaffirmed; Outlook Revised)
Working Capital Demand loan	NA	NA	NA	50.00	ACUITE A- / Negative (Reaffirmed; Outlook Revised)
Proposed Term loans	NA	NA	NA	325.00	ACUITE A- / Negative (Reaffirmed; Outlook Revised)
Proposed Non-Convertible Debentures	NA	NA	NA	150.00	ACUITE A- / Negative (Assigned)

Contacts

Analytical	Rating Desk
Vinayak Nayak Vice President – Ratings Operations Tel: 022 49294071 vinayak.nayak@acuite.in Salome Farren Senior Rating Analyst - Rating Operations Tel: 022-49294072	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

salome.farren@acuite.in	

About Acuité Ratings & Research:
Acuité Ratings & Research 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.