Acuite RATINGS & RESEARCH

Press Release

Jupiter Capital Private Limited

December 22, 2020

Rating Assigned

Total Non-Convertible Debentures Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE Provisional A-/ Outlook: Stable (Assigned)

** Refer Annexure for details*

**The rating will be converted to a final rating after the:

- Appointment of a SEBI Registered Trustee
- Execution of the Trust Deed with the proposed Structured Payment Mechanism (SPM) duly incorporated

Rating Rationale

Acuité has assigned the rating of **'ACUITE Provisional A-'(read as ACUITE Provisional A minus)** on the Rs. 100 Cr. Proposed Secured Redeemable Non-Convertible Debentures of Jupiter Capital Private Limited (JCPL). The outlook is **'Stable'**.

The rating factors in experienced management and resourceful promoters and the ability of the company to grow its networth by way of internal accruals. The rating also factors in the high capitalization levels and low gearing levels. The capital adequacy ratio stood at 67.12% as on September 30, 2020 (Provisional) and 60.32% as on March 31, 2020 (Provisional) coupled with low gearing of 0.06 times as on September 30, 2020(Provisional) and March 31, 2020(Provisional). JCPL has a networth of Rs. 1,684 Cr. as on September 30, 2020(Provisional) out of which it has the equity portfolio of Rs. 1,332 Cr (Provisional).The rating derives comfort from proven track record of investments and divestments. The rating also derives strength from the underlying DSRA and Structure Payment Mechanism of the proposed Non-Convertible Debentures.

The rating is, however, constrained due to weak asset quality on its debt book and volatile nature of its revenue. The Gross Non-Performing Assets stood at ~26 percent as on September 30, 2020(Provisional) Going forward, the ability of company to scale up its debt book, while improving asset quality and timeliness of divestments will be key monitorable.

About the company:

Jupiter Capital Pvt Ltd ("JCPL") was founded by Mr Rajeev Chandrasekhar in 2005, is an Investment & Financial services firm headquartered in Bangalore. JCPL has been registered as an NBFC-SI with RBI since September, 2009. JCPL has an extensive portfolio of public and private investments through acquisitions, direct investments joint ventures and debt book. The company makes investment across sectors with focus on Engineering & Technology Services, Media & Entertainment, Hospitality & Wellness, Real Estate & Infrastructure and Technology-enabled consumer internet and business platforms. JCPL's co-investors include global leaders such as Star, Goldman Sachs, Cisco and NOL. JCPL also owns an aircraft and provides charter flight services.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of JCPL to arrive at the rating. Further, the rating also takes the support of the presence of internal credit enhancement proposed in the form of Debt Service Reserve Account (DSRA) and the Structured Payment mechanism.

Key Rating Drivers

Strengths

- **Resourceful Promoter supported by Experienced Management Team:**

The founder, Mr. Rajeev Chandrasekhar, known amongst other things for pioneering private investments into Indian Telecom sector and presently, Member of Parliament at Rajya Sabha started the organisation in 2005. He was on the

Board of Directors as promoter director till January, 2020. Though, he has stepped down from the Board, he continues to remain the ultimate shareholder of the company. Presently, the operations are overseen by the Board of Directors with the support of qualified and experienced management team. The management of JCPL is led by Mr. Sudhakar Gande, CEO who has prior experience in the areas of Investment Banking, Corporate Finance, Venture Development and Management , etc and has also held leading positions in banks. The management of JCPL also comprises of CFO and Investment Director, all of whom have prior experience in the Financial Services Sector and have demonstrated the ability to survive through business cycles.

Apart from overseeing the day-to-day operations, the management team is responsible for making investments and divestments decisions. Over the years, JCPL has built-up an Equity Book of ~Rs. 1,332 and Debt Book of ~Rs. 282 Crore as on September, 2020 (Provisional). The management has demonstrated the ability to monetize their investments at higher than expected IRR and able to make profit on their monetizations.

Acuité believes that the company will continue to benefit from its experienced Management Team backed by a resourceful promoter which will aid the company in its future growth trajectory.

- **High Capitalisation Level**

JCPL commenced its operations in 2005 and its Assets under Management (AUM) has grown to ~Rs. 1,615 Cr. as on September 30, 2020(Provisional) from ~Rs. 1,430 Cr. as on March 31, 2019. The AUM of ~Rs. 1,615 Cr. comprised of Equity Book of ~Rs. 1,332 Cr and Debt Book ~Rs. 282 Cr. as on September 30,2020(Provisional). This growth has been on the back of its high net worth of ~Rs. 1,684 Cr. as on September 30, 2020(provisional). The networth has been built up from internal accruals by way of profit from divestments. The Capital Adequacy Ratio (CAR) stood at 67.12% as on September 30, 2020(provisional) and 60.32% as on March 31, 2020(Provisional). As the company has high capitalisation buffers, the reliance on external borrowing has been minimal. The overall debt stood ~Rs. 95 Cr. and gearing of 0.06 times as on September 30, 2020 (Provisional). Out of the total debt of Rs. 95.74 Cr, ~Rs. 60 Cr. is against the aircraft operated by JCPL which will be hived off to a separate entity post demerger. This will further enhance the liquidity buffers on account of low debt servicing obligations and opex commitments.

Acuité believes that the ability of the company to maintain high capitalisation level with low gearing will support the growth requirements of the company.

- **Proven Track Record of Investments**

JCPL started its operations in the year 2005 and over the years, they have built an Equity Book of ~Rs. 1,332 Crore as on September 30, 2020 and ~Rs. 1,172 Cr as on March 31, 2020(Provisional). These investments have been made out of owned funds and along with large brand strategic investors. These investments are made in emerging sectors especially technology focused sectors, along with strategic global partners, ultimately all critical deciding factors are aimed towards value creation. First set of investments happened in 2008 -2009; followed by another set during 2013-2014, latest being in the year- 2019.

For the exit strategy, JCPL follows a methodology by which the exit option is set out in the term sheet. Usually, the company either has a put/call option or gives the first option of stake sale to the strategic investor. The divestments are made after evaluating the overall industry, economic cycles, carrying out valuation, amongst other things. Over the years, JCPL has been able to make successful exits from various investments at higher than expected IRR. During the H1FY2021(Provisional), JCPL has earned Rs. 137.9 Cr. and Rs. 60 Cr. in FY2020(Provisional) through divestments.

Acuité believes that the company will benefit from the demonstrated ability of the management in making investments and divestments.

- **Maintenance of principal cash collateral, DSRA along with the presence of Structured Payment Mechanism (SPM):**

The rating factors in the Structured Payment Mechanism (SPM) put in place by JCPL to ensure timely availability of funds for servicing of debt obligations. The rating on the NCDs is secured by the presence of Structured Payment Mechanism wherein amount equivalent to principal repayment of the respective year shall be brought in by T-5 days (T is the due date) and the said amount will be invested in commercial bank/government bonds rated at least "AA".

In case the principal amount is not invested and made sufficient, the principal servicing is additionally secured by way of DSRA of 20 percent of NCD. The SPM is also in place for quarterly/semi-annual servicing of interest obligations. In case the interest amount is not invested and made sufficient, the interest servicing is additionally secured by way of DSRA wherein amount equivalent to one semi-annual interest obligation of the outstanding bonds will be maintained by the issuer on a rolling basis.

The cash collateral and DSRA will be lien marked to the debenture trustee and in the event of principal or interest is not invested and made sufficient, the trustee will mandatorily liquidate the principal cash collateral and DSRA in order to make the proceeds available for the principal payment and interest payment respectively.

The cash collateral, DSRA, investment as per structured payment mechanism, and funds in the escrow account till such time being utilized would be permitted to remain invested in schedule commercial bank/government bonds rated at least "AA". These investments will be pledged in favour of debenture trustee.

The rating centrally assumes complete adherence to the SPM by the debenture trustee and JCPL on an ongoing basis.

Weaknesses

- **Weak Asset Quality:**

JCPL started its operations in 2005 with a focus in building up its Equity Book, however, since the past two years JCPL has expanded its operations to creating a debt book as well. JCPL built a Debt Book of ~Rs 282 Cr as on September 30, 2020(Provisional) and ~Rs 219 Cr as on March 31, 2020 (Provisional). These loans were majorly extended in the form of Venture Debt and individuals. On account of relatively less stringent underwriting policy, JCPL faced significant asset quality pressures and credit costs in the past. The company's gross non-performing assets (GNPAs) stood at ~26 percent as on September 30, 2020(Provisional) and ~33 percent as on March 31, 2020(Provisional). The company has already created ~99 percent provisions against the delinquent assets.

JCPL has also put in place strategy on case to case basis to resolve majority of its GNPAs. As a part of resolution process; JCPL has initiated legal proceedings against certain accounts, invoked the securities pledged, etc. The company has realised a token amount against one of its major NPA Account.

In order to mitigate the asset quality pressures in future, JCPL has revised its risk management policies and process. In line with this strategy JCPL has decided to completely withdraw from high risk venture debt financing. Further they are in process of operationalising the new team structure for debt portfolio and is accordingly looking out to on board seasoned professionals including the Head- Debt.

Acuité believes that going forward the ability to grow its debt book while improving its asset quality will be key monitorable.

- **Volatility of Income:**

JCPL started its operations with a focus on building in Equity Book. However, the revenue from Equity Book depends highly on the return on investment/gains i.e. profits on sale of investments which in turn depends on the performance of a particular industry/sector in which it has invested. This volatility is reflected in profit on sale of Investments which was ~Rs. 60 Cr as on March 31, 2020(Provisional) and ~Rs. 90 Crore as on March 31, 2019. The company has however set out plan for divestments for the next three years. JCPL also owns a Charter Aircraft and provides charter flight services. The charter flight services have helped the company in giving a stable income inflow to a certain extent. During the period of Covid-19, income from charter flight services faced some headwinds and hence in the current year (FY21), the income from charter flight services may be lower. It will be pertinent to mention that JCPL is in the process of transferring this business to another entity. The demerger is expected to be in place by end of FY2021 and the appointed date of demerger shall be 01.04.2020

In order to mitigate this volatility, JCPL has expanded its operations to creating a debt book as well since the past two years. This enables the company in having a steady income flow by way of interest income. The interest income for the FY2020(Provisional) stood at ~Rs. 21 Cr and ~Rs. 25 Cr as on March 31, 2019. Going forward, JCPL will focus on growing its debt book and thus interest income is expected to grow.

Acuité believes that the ability of the company and management to mitigate the risks associated with volatility of income would be crucial.

Rating Sensitivity

- Changes in management.
- Decline in asset quality.
- Timeliness of monetization of investments

Material Covenants

JCPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others. As per confirmation received from client vide mail dated December 04, 2020. 'JCPL is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity Position: Adequate

JCPL's liquidity buffers primarily depend on its cash inflows (collections from debt book, charter flight income and divestment income) vis. a vis. the cash outflows (disbursements, new investments, debt servicing commitments, operating expenses). The income by way of divestments has been and is expected to remain volatile owing to its nature of business. However, the liquidity is adequately supported by stable collections from its debt book. JCPL has not offered moratorium to its borrowers and the borrowers continued servicing their obligations. JCPL, had however taken moratorium from one of its lender. The liquidity is further supported by way of Charter Flight Income. JCPL has fixed monthly obligations (Debt servicing obligations and operating expense) range between Rs. 6-7 Cr for the H2FY21 against which it had liquid balance of Rs. 41.24 Cr. in form of unencumbered cash and bank balance as on September 30, 2020. Apart from the collections from clients, JCPL is also augmenting its resources through the NCD to support their liquidity.

Outlook: Stable

Acuité believes that JCPL will maintain a 'Stable' outlook over the medium term supported by its resourceful promoter, experienced management and high capitalisation levels. The outlook may be revised to 'Positive' in case of higher than expected growth in AUM while maintaining key operating metrics and asset quality, liquidity and timeliness of divestments. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of any challenges in maintaining its asset quality, profitability metrics.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	1723.21	1755.82
Total Income (Net of Interest Expense)	Rs. Cr.	126.23	121.19
PAT	Rs. Cr.	26.82	54.45
Net Worth	Rs. Cr.	1604.49	1589.35
Return on Average Assets (RoAA)	(%)	1.54	3.06
Return on Average Net Worth (RoNW)	(%)	1.68	3.45
Total Debt/Tangible Net Worth (Gearing)	Times	0.06	0.08
Gross NPAs	(%)	33.68	45.70
Net NPAs	(%)	0.82	0.82

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Non- Banking Financing Entities - https://www.acuite.in/view-rating-criteria-44.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-rating-criteria-55.htm

Rating History (Upto last three years)

None

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Bank Name	Ratings/Outlook
Proposed Secured Redeemable Non-Convertible Debenture	Not Applicable	Not Applicable	Not Applicable	20.00	Not Applicable	ACUITE Provisional A-/ Stable (Assigned)
Proposed Secured Redeemable Non-Convertible Debenture	Not Applicable	Not Applicable	Not Applicable	80.00	Not Applicable	ACUITE Provisional A-/ Stable (Assigned)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President Tel: 022- 4929 4071 mohit.jain@acuite.in Palak Shah Analyst - Rating Operations Tel: 022- 4929 4072 palak.shah@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-4929 4021 rating.desk@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.