Altico Capital India Limited

September 20, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating	Rating Action
Long-term bank facilities	2,000	**CARE AA-; Stable [Double A Minus; Outlook: Stable]**	**Assigned**
Non-Convertible Debentures	2,000	**CARE AA-; Stable [Double A Minus; Outlook: Stable]**	**Assigned**
Total	**4,000 (Rs. Four Thousand Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities and instruments of Altico Capital India Limited (Altico) factor in its strong sponsors as well as operational, managerial and financial support from its strong sponsors. The ratings take into account Altico's experienced management and board and adequate risk management systems. The ratings also take into account Altico's strong capitalization levels as well as prudent gearing, healthy profitability, comfortable asset quality parameters and strong liquidity position. The ratings remain constrained due to concentration risks in terms of clients, geography and sector as the company is primarily engaged in real estate financing and limited seasoning of the recently originated portfolio, albeit high repayment/prepayment rates witnessed historically. Continued sponsor support, profitability, business diversification, client concentration, asset quality and seasoning of portfolio are its key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong managerial and financial support from sponsors

Altico was incorporated by Clearwater Capital Partners (44.2% stake), Abu Dhabi Investment Council (ADIC, 33.6% stake) and Varde Partners (22.2% stake). The promoters have significant expertise and track record in the real estate space and managing financial institutions in emerging markets. Clearwater (recently acquired by Fiera) is a credit and special situations platform based in the Asian region. ADIC is a one of the largest sovereign wealth fund. Varde is a global alternative investment firm managing investments in real estate, infrastructure and the financial sector world-wide. All the three sponsors together have combined AUM of over $235 billion. Further, these sponsors have infused over Rs.2,000 crore of capital into Altico since inception. Altico benefits in the form of capital, managerial and operational support from the sponsors.

Experienced management and board

Altico is headed by Mr. Sanjay Grewal (CEO). He is responsible for developing and executing the vision and strategy for Altico Capital and its business in India. He has over 25 years of experience in infrastructure and real estate sector across various geographies, in particular covering South East Asia. He is assisted by a team of experienced professional management. The Board comprises of 4 Directors from Clearwater Capital, 1 from ADIC, 1 from Varde and 3 Independent Directors. The Independent Directors are Mr.Rahul Merchant who is Executive Vice President and Chief Information Officer at TIAA, Mr.Stephen J Marzo has over 30 years of experience in financial management at various financial institutions and commodity trading and resource investment companies like Hong Kong Exchanges and Clearing Limited (HKEx) and Noble Group Limited ("Noble Group") and Ms Naina Lal Kidwai who retired as Executive Director on the Board of HSBC Asia Pacific and Chairperson of India, after a 13-year stint.

Strong capitalization

Altico has strong capitalization levels with total CAR and Tier I CAR at 40.72% (FY17: 59.46%) and 40.33% (FY17: 40.33%), respectively as on March 31, 2018. Higher Tier I capital provides the company sufficient headroom to raise Tier II capital in order to fund the asset book growth in the coming years. Altico's gross gearing levels, as on March 31, 2018, stood comfortable at 1.58 times (FY17: 0.81 times). As indicated by the management, the company plans to keep its gearing levels below 3 times on a steady state basis. Over the years, there has been regular infusion of equity capital in the company to support business growth. Till FY18, Altico has received total capital infusion of over Rs.2,000 crore. Further, Altico is considering exercise of Rs.500 crore worth of equity warrants in FY19.

Comfortable liquidity profile

Liquidity profile of the company stands comfortable with ALM statement as on March 31, 2018, showing positive cumulative mismatches in all the time buckets. Company also has Rs.438 crore in form of cash and bank balances as on March 31, 2018. Further, average tenure of company's assets is 36 months as compared to average tenure of borrowing which is 28 months. As on March 31, 2018, Altico has outstanding total borrowing of Rs.4,182 crore, out of which term loans/WCDL accounts for 64% followed by NCDs (26%) and CP (10%).

Healthy profitability

The company's outstanding loan portfolio (incl. credit substitutes) grew by 70% during FY18 and stood at Rs.6,266 crore as on March 31, 2018. Consequently, interest income during FY18 grew by 56% and stood at Rs.829 crore (FY17: Rs.533 crore). The company's average yield on advances (incl. credit substitutes) stood at 16.06% (FY17: 19.46%) in FY18 as against average cost of borrowing of 10.40% (FY17: 11.23%) in FY18. As a result of this, NIM declined to 9.25% (FY17: 13.77%) during FY18 but continued to remain at healthy levels. In terms of operating efficiencies, the company was able to maintain its operating expenses to income ratio of 13.36% in FY18 (FY: 11.05%). Operating expenses to Average total assets improved to 1.53% during FY18 as against 1.72% during FY17. The company did not witness any GNPA till FY18 and consequently reported lower loans provisioning cost of Rs.9 crore (attributable to contingency provisions against standard assets) as against loans provisioning cost of Rs.15 crore during FY17. Overall, the company reported PAT of Rs.355 crore during FY18 as against PAT of Rs.271 crore during FY17 registering y-o-y growth of 31%. RoTA and RoNW for FY18 stood healthy at 6.37% (FY17: 8.69%) and 14.38% (FY17: 12.57%), respectively. Further, Altico has no dividend payout until FY20.

Comfortable asset quality with adequate risk management systems

The company till March 31, 2018 did not report any GNPA and NNPA. However, asset quality is a key monitorable as the credit portfolio seasons and grows. Altico has adequate risk management systems for appraisal and monitoring of the portfolio. All credit decisions require the approval of the Credit Committee which consists of six directors. It has defined criteria for sanction of loans including track record & borrowing capacity of borrower, credit history of borrower and quality of collaterals. Altico has a dedicated asset management team that closely monitors exposures on a daily basis to maintain asset quality.

Key Rating Weaknesses

Limited portfolio seasoning of recently originated loan portfolio; albeit high repayment/prepayment rates witnessed historically, indicating fair degree of portfolio churn

With loan portfolio of Rs.6,266 crore as on March 31, 2018, the company's scale of operations is relatively moderate. In addition, majority of the loan portfolio has been originated during last three years. Altico's loan book has grown at a CAGR of 123% over the last three years, which indicates that the seasoning with respect to newly originated portfolio is limited. However, the portfolio has witnessed high repayment/prepayment rates in the past due to structured nature of trades. The average tenure of Altico's loans is 3 years, which resulted into sufficient churning of portfolio.

High client, sectoral and geographical concentration

Altico faces concentration risk inherent in wholesale lending owing to exposures with large ticket sizes. Top 10 exposures as a percentage of outstanding portfolio and net worth as on March 31, 2018 stood at around 52% and 123%, respectively. Group exposure wise average ticket size stood at Rs.169 crore as on March 31, 2018. The risk of financial loss in case of slippage is mitigated to some extent by adequate collateral/security (around 2 times security cover) maintained by the company majorly in the form of real estate and pledge of shares. Further, the company's primary focus is on real estate financing, thereby exposing it to sectoral risk. Altico is also exposed to geographical concentration. Top 3 cities i.e Mumbai, Gurgaon and Pune accounted for 67% of portfolio as on March 31, 2018. However, within two years company plans to increase its geographical presence from 7 cities to 9 cities.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Non-Banking Finance Companies
Financial ratios - Financial Sector

About the Company

Altico Capital India Limited (Altico) was incorporated as a private limited company on January 28, 2004 by the name of Clearwater Capital Partners India Private Limited. The Company is registered with the Reserve Bank of India as a non-deposit accepting NBFC. The Company is a systemically important NBFC. Altico is engaged in the business of senior secured lending to mid-income residential projects and commercial real estate sector across Tier-1 cities in India which include Mumbai, NCR, Chennai, Bangalore, Pune and Hyderabad. As on March 31, 2018, the company had a loan portfolio (including credit substitutes) of Rs.6,266 crore.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total Operating Income	588	952
PAT	271	355
Interest coverage (times)	5.02	2.74
Total Assets	4,197	6,955
Net NPA (%)	Nil	Nil
ROTA (%)	8.69	6.37

A: Audited
** Note: Ratios have been computed based on average of annual opening and closing balances*
NIM has been calculated as net interest income/ average annual total assets
For tangible net worth and total net assets calculation; deferred tax assets and intangible assets have been deducted

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2
Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Long-term bank facilities (Proposed)	-	-	-	2,000	CARE AA-; Stable
Non-Convertible Debentures (Proposed)	-	-	-	2,000	CARE AA-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Long-term bank facilities	LT	2,000.00	CARE AA-; Stable	-	-	-	-
2.	Non-Convertible Debentures	LT	2,000.00	CARE AA-; Stable	-	-	-	-

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