**Altico Capital India Limited**
**September 12, 2019**

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Rating | Rating Action |
|---|---|---|---|
| Long-term bank facilities (Proposed) | 2,000 | **CARE B; Negative [Single B; Outlook: Negative]** | **Revised from CARE AA-; Stable [Double A Minus; Outlook: Stable]** |
| Non-Convertible Debentures (Proposed) | 2,000 | **CARE B; Negative [Single B; Outlook: Negative]** | **Revised from CARE AA-; Stable [Double A Minus; Outlook: Stable] and Withdrawn*** |

*Details of instruments/facilities in Annexure-1*
**Initial rating was assigned on September 18, 2018. The validity of the rating letter was for six months from the date of the initial rating letter. As per CARE's "Policy on Withdrawal of ratings", CARE withdraws a credit rating, inter alia, On expiry of the validity period of the initial rating during which funds have not been mobilized using the rating.*

**Detailed Rationale & Key Rating Drivers**
The revision in ratings assigned to the proposed bank facilities of Altico Capital India Limited takes into account default in repayment of ECB (not rated by CARE) due to liquidity constraints. The revision also takes into account Altico's significant exposure to real estate sector which is witnessing slowdown and experiencing heightened refinancing risk which is reflected to an extent with moderation in asset quality of the company.
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.
The ratings factors sponsor's profile as well as operational, managerial and financial support in the past.

**Outlook: Negative**
The Outlook has been revised from Stable to Negative on account of increased risk profile of Altico's real estate lending business; which is experiencing slowdown and heightened refinancing risk. The revision in outlook also takes into account moderation in profitability, asset quality and liquidity position.

**Detailed description of the key rating drivers**

**Moderation in profitability**
Interest income during FY19 grew by 44% and stood at Rs.1195 crore vis-a-vis Interest expenses grew by 75% and stood at Rs.547 crore. As a result, Net Interest Income grew by 23% and stood at Rs.675 crore. PAT declined by 44% respectively during FY19 to Rs.147 crore. The declined PAT was mainly due to provisions/write off, which increase by 470% to Rs.336 crore in FY19. Rise in provision/write off was mainly due to Altico had 2 accounts worth Rs.732 crore which were sold to ARCs; Altico received upfront amount of Rs.437 crore despite having average security/cash cover of around 1.5-2 times and net amount of Rs.282 crore was shown as write off in P&L.
During FY19, NIM declined to 8.99% (FY18: 10.08%). Operating expenses as percentage total assets stood at 1.60% (FY18:1.70%). Whereas provision/write off as percentage of total assets rises sharply to 4.48% (FY18:1.08%). As a result, ROTA declined to 1.96% (FY18: 4.87%).

**Moderation in asset quality**
The company till March 31, 2018 did not report any GNPA and NNPA. However during FY19, 2 accounts slipped into NPA as results GNPA and NNPA increase to 2.06% and 1.30% respectively as March 31, 2019. In absolute term, GNPA and NNPA stood at Rs.143 crore and Rs.93 crore respectively. GNPA plus write off as percentage of gross advances stood at 6.11% whereas NNPA plus write off as percentage of net worth stood at 12.68% as on March 31, 2019. As per audited financials as on March 31, 2019, stage assets 2 (31 to 90 d-p-d along with perceived stress assets) stood at Rs.2897 crore (FY18: Rs.1656 crore), which constitutes to 42% (FY18: 27%) of the total loan portfolio. Stage 2 assets remain on higher sider despite giving average moratorium period of around 2 years to borrowers. However, as informed by management, proportion of stage 2 assets is high mainly due to company's policy to classify asset as stage 2 if any account falls between 31-90 dpd bucket during any point of year as against as on date status.

**Limited portfolio seasoning of recently originated loan portfolio**
With loan portfolio of Rs.6,906 crore as on March 31, 2019, the company's scale of operations and track record operations is relatively moderate. In addition, majority of the loan portfolio has been originated during last four to five years. Altico's loan book has grown at a CAGR of 83.43% over the last five years, which indicates that the seasoning with respect to newly originated portfolio is limited.

**High client, sectoral and geographical concentration**
Altico faces concentration risk inherent in wholesale lending owing to exposures with large ticket sizes. Top 5 group exposures as a percentage of net worth as on March 31, 2019 stood at around 84% (FY18:69%), respectively. Top 10 group exposures as a percentage of net worth as on March 31, 2019 stood at around 139% (FY18:123%), respectively. Group exposure wise average ticket size stood at Rs.196 crore (FY18:Rs.169 crore) as on March 31, 2019. 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, Bangalore and Hyderabad accounted for 61% (FY18 Top 3: 67%) of portfolio as on March 31, 2019.

**Sponsor's profile as well as operational, managerial and financial support in the past**
Altico was incorporated by Clearwater Capital Partners (44.2% stake), Abu Dhabi Investment Council (33.6% stake) and Varde Partners (22.2% stake). The sponsors have significant expertise and track record in the real estate space and managing financial institutions in emerging markets. All the three sponsors together have combined AUM of over $235 billion. Further, these sponsors have infused over Rs.2,357 crore of capital into Altico since inception. Thus Altico benefits in the form of capital, managerial and operational support from the sponsors. The Board has representation from all the sponsors apart from independent directors.
Clearwater Capital Partners: It is a credit and special situations platform based in the Asian region which has invested close to US$ 6.5 billion across 350 companies over the past 16 years. It currently holds 44.2% stake in Altico. During FY18, Fiera Capital acquired Clearwater Capital Partners. Fiera Capital is a leading independent asset management firm with approximately USD114 billion in assets under management.
Abu Dhabi Investment Council: It is a one of the largest sovereign wealth funds managing over a US$ 120 billion of assets. It currently holds 33.6% stake in Altico.
Varde Partners: It is a global alternative investment firm headquartered in Minneapolis, USA, focused on investing capital and resources across a broad array sectors. Varde has invested over US$ 60 billion since inception and is currently managing investments in Real Estate, Infrastructure and financial sector world-wide. It currently holds 22.2% stake in Altico.

**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

**Liquidity profile: Weak**
Liquidity profile of the company stands weak with ALM statement as on June 30, 2019, showing marginal positive cumulative mismatch of Rs.36 crore in upto one year time bucket. As per ALM dated June 30, 2019, company has inflows from loans & advances of Rs.1,930 in one year time bucket against which Altico has borrowing repayments worth Rs.2,795 crore, thereby generating negative mismatch of Rs.865 crore. Against which company also has Rs.842 crore in form of cash & cash equivalents and investments as on June 30, 2019.

** Assumptions for ALM were not provided by the company. As per ALM given by client, cash inflows (principal only) from loans & advances from next one year (Jul'19 to Jun'20) stood at Rs.1930 crore, however as per contractual project wise cash inflow (principal only) schedule provided by the company, this amount stood at Rs.1042 crore for next one year (Jul'19 to Jun'20); indicating some prepayment assumptions may have been considered in loans & advances inflows given in ALM*.

**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, 2019, the company had a loan portfolio (including credit substitutes) of Rs.6,906 crore. Total CAR and Tier I CAR stood at 43.24% (FY18: 40.72%) and 41.99% (FY18: 40.33%), respectively as on March 31, 2019. Gross gearing levels, as on March 31, 2019, stood at 1.80 times (FY18: 1.71 times).

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total Income | 875 | 1,235 |
| PAT | 265 | 147 |
| Total Assets | 6,681 | 8,331 |
| Net NPA (%) | Nil | 1.30 |
| ROTA (%) | 4.87 | 1.96 |

*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

**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 B; Negative |
| Non-Convertible Debentures (Proposed) | - | - | - | 2,000 | CARE B; Negative & Withdrawn |

**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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Long-term bank facilities | LT | 2,000.00 | CARE B; Negative | - | 1)CARE AA-; Stable (20-Sep-18) | - | - |
| 2. | Non-Convertible Debentures | LT | 2,000.00 | CARE B; Negative & Withdrawn | - | 1)CARE AA-; Stable (20-Sep-18) | - | - |

***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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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.