Anand Rathi Global Finance Limited

February 08, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Market Linked Debentures	75.00	CARE PP MLD A-; Stable (Principal Protected Market Linked Debentures Single A Minus; Outlook: Stable)	Revised from CARE MLD A-; Stable (Market Linked Debentures Single A Minus; Outlook: Stable)

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of Anand Rathi Global Finance Ltd. (ARGFL) factors in the experience of the promoters and management team of the Anand Rathi group in the financial services sector (including broking and wealth management services). The rating further takes into account the strategic importance of ARGFL to Anand Rathi group, with ARGFL being the lending arm of the group and also complementing some of the group's other products through its offering of loan products like loan against share (LAS). The ratings also draw comfort from strong liquidity position on account of its large investment book primarily comprising of government securities and liquid investments. In addition, the rating considers moderate leverage of ARGFL on an adjusted basis, given higher proportion of total assets in government securities and highly liquid investments.

The above rating strengths, however, get partially offset by ARGFL's moderate track record in segments like construction finance and SME book which constitute around 47% of the total lending book, moderate asset quality & capitalization along with volatile income profile due to high exposure is treasury book. The rating also dwells upon the concentrated resource profile of ARGFL.

Rating Sensitivities

Positive Factors - Factors that could lead individually or collectively lead to positive rating action/upgrade:

- Sustained Improvement in the asset quality of lending book
- Improvement in the capital adequacy and Profitability metrics with ROTA above 1.50% on a sustained basis.
- Improvement in leverage profile.

Negative Factors- Factors that could lead individually or collectively lead to negative rating action/downgrade:

- Deterioration in overall asset quality with GNPA (GNPA/Total Loans and Investments) above 8% on a sustained basis
- Moderation in capital adequacy
- Reduction in liquid assets below 50% of total assets

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management team along with shared brand and Board of Directors

Anand Rathi Group, an established brand has over 25 years of track record in the financial services domain. The group operates in various segments of financial services which consist of non-banking financial services (housed in ARGFL), wealth management business, investment banking, equity, currency and commodity broking and insurance broking business. ARGFL is the non-banking financial company (NBFC) of the Anand Rathi group engaged in the business of loan against securities (shares, mutual funds and bonds), construction finance, small and medium enterprise (SME) loans and loan against property. Board of directors of company includes Mr. Anand Rathi who has enabled the group to develop and implement strong risk management systems and Mr. Jugal Mantri – CFO of the Anand Rathi Group and Chief Executive officer of ARGFL has diversified experience to lead the business across various segments. As on September 30, 2021, Anand Rathi Financial Services Ltd held 89% whereas Anand Rathi Wealth Services Ltd held 11% stake in the company.

Strategic Importance of ARGFL to Anand Rathi Group

ARGFL is the lending arm of the group with diversified product portfolio and also complementing some of the group's product profile through its loan product i.e. loan against securities (LAS). HNI clients of wealth business take the benefit of LAS facility provided by ARGFL. Also, while raising funds through MLDs, major clients to the issues are the wealth business clients who get the access to different investment product and also provide new customer to wealth business. Of the total consolidated net assets of ARFSL as on March 31, 2021, 84% are contributed by ARGFL while of the consolidated profit and loss, 55% is contributed by ARGFL.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Strong Liquidity Profile
As per the ALM statement as on September 30, 2021, there are no cumulative negative mismatches in any of the time buckets. Company has investment and inventories held for trading amounting to Rs.6,551 crore (FY21- Rs.5,706 crore) crore as on September 30, 2021 of which 69% are the government securities (FY21-79%). Company normally raises debt for the period of more than 3 years via Unrated, unlisted, redeemable non-convertible, market linked debenture. Company reported adjusted overall gearing (adjusted for liquid investments) of 1.90 times as on September 30, 2021 (March 31, 2021-2.09).
As on October 31, 2021, the company had cash and bank balances of Rs.833 crore and investment in G-Sec of around Rs.4,922 crore as against the debt obligation of Rs.139 crore for next 3 months indicating sufficient liquidity. The liquidity is sufficient to repay debt obligations for next 1 year which stands at around Rs.1,219 crore.
Given the slowdown in the lending activity, the company increased its investing activities and in order to maintain liquidity most of the investments are done in G-secs. Being part of the Anand Rathi Group, ARGFL also has the strength to mobilise funds through various modes like Term Loan, NCD and CP to meet any liquidity requirements.

Moderate Profitability
For FY21, the company reported a PAT of Rs.42 crore on a total income of Rs.735 crore as against a PAT of Rs.36 crore on a total income of Rs.388 crore in FY20. The increase in total income was supported largely by increase in treasury income i.e.net gain on investments sold. NIM declined and stood at 2.66% during FY21 as against 3.14% during FY20 on account of increase in interest expense.
During H1FY22, the company reported PAT of Rs.39 crore as against a PAT of Rs.75 crore during H1FY21.
Total revenue increased from Rs.350 crore during H1FY21 to Rs.472 crore during H2FY22, however, due to increase in interest expense the PAT declined during H1FY22 over H2FY21. Also, given the reduced proportion of high yield portfolio i.e., CF book in the overall loan book, the interest revenue was also impacted.
On account of high interest expense, NIM declined to 2.41% during H1FY22 from 4.41% during H1FY21.

Rating Weaknesses:
Moderate Track Record and Asset Quality
Company started its Construction Finance (CF) business in the year FY17 while it started its SME business in FY18. Both the loan portfolios constitute 47% of the AUM as on September 30, 2021 (SME-37% and CF-10%) and are relatively unseasoned as they are yet to complete a credit cycle. Given the stress in asset quality, the proportion of CF segment has been declining from 28% in FY20 to 10% as on September 30, 2021 as the company's efforts were primarily towards recovery and collections.
On the asset quality, the Gross NPA ratio improved and stood 9.40% as on September 30, 2021 as against 12.13% as on March 31, 2021 and 14.23% as on March 31, 2020. However, it still remains on a higher side. Net NPA stood at 9.95% as against 12.79% as PCR increased from 10% in FY20 to 21% in FY21. Net NPA as on September 30, 2021, stood at 7.05%. The asset quality has largely remained impacted on account of deterioration seen in the CF book. Total Gross NPA as on September 30, 2021, stood at Rs.179 crore of which around 63% is contributed by CF segment as these are working capital loans and mismatch in the cash flows of the promoter results in stress into this segment. However, around 95% of the company's loan portfolio consists of LAS, CF and SME (LAP) which is secured with collateral cover of around 2x. Considering the limited track record in non-capital market operations, asset quality of the company would be key monitorable while scaling up the portfolio.

High gearing levels
Company reported overall CAR of 24.14% (FY20-16.15%) and Tier I CAR of 16.19% (FY20- 13.15%) as on March 31, 2021, as against the regulatory requirement of 15% and 10% respectively, however, as on September 30, 2021, overall CRAR has declined and stood at 19.20% while Tier I CAR stood at 13.82%. During FY21, the company raised Rs.370 crore of sub-debt as tier-II capital. Company has exposure to real estate and capital market securities whose values can vary significantly depending upon the market conditions. The gearing of the company remains high at 12.77 times as on March 31, 2021 as against 11.59 times as on March 31, 2020. As on September 30, 2021, the gearing stood at 11.87 times. Adjusted gearing (when adjusted for liquid investments) stood at 2.09 times as on March 31, 2021 as against 4.32 times as on March 31, 2020. As on September 30, 2021, adjusted gearing stood at 1.91 times.
The company has plans for equity infusion in next quarter and its ability to bring down the gearing level will remain a key monitorable.

Less Diversified Resource Profile
Company has concentrated resource profile which mainly consists of Secured NCD and Subordinate debenture, which forms around 99% of total borrowings as on March 31, 2021 (FY20: 74%). As on September 30, 2021, the proportion stood at 95%. These NCDs/sub debts are market linked debenture which are mainly Nifty-50 linked and non-principal protected. Investors to these NCDs are HNI and UHNIs clients from wealth business of the group and associated with company from long period. Diversified resource profile would be key for the long-term growth and sustainability.

Volatile Income Profile due to Treasury Book
Company has investment in various securities which accounted around 70% (FY20-55%) of total assets during FY21. As on September 30, 2021, this proportion stood at 69%. Securities mainly includes Government Securities, Mutual Funds – Liquid/Debt/Equity, Bonds/Debenture, REITs and investment in equities of listed entities. Around 69% of the total investments are in G-secs as on September 30, 2021

Investment in debt securities is subject to interest rate risk and investment in listed equities and equity mutual fund are subject to market risk. As on March 31, 2021, company reported net gain on fair value change of Rs.251 crore as compared to net gain on fair value change of Rs.16 crore in FY20 and in FY19 it was Rs.57 crore, which reflects the volatility in the income profile.

Liquidity: Strong

As per the ALM statement as on September 30, 2021, there are no cumulative negative mismatches in any of the time buckets. Company has investment and inventories held for trading amounting to Rs.6,551 crore (FY21- Rs.5,706 crore) crore of which 69% are the government securities (FY21-79%) as on September 30, 2021. Company normally raises debt for the period of more than 3 years via Non principal protected market linked debentures.

As on October 31, 2021, the company had cash and bank balances of Rs.833 crore and investment in G-Sec of around Rs.4,922 crore as against the debt obligation of Rs.139 crore for next 3 months indicating sufficient liquidity. The liquidity is sufficient to repay debt obligations for next 1 year which stands at around Rs.1,219 crore.

Analytical approach: CARE has taken a view based on the standalone financial profile of ARGFL and factoring in its linkages with the Anand Rathi Group

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's policy on default recognition
Financial Ratios- Financial Sector
CARE's Criteria for NBFCs
Factoring Linkages- Parent
Rating Methodology- Market Linked Notes

About the Company

Anand Rathi Global Finance Ltd (ARGFL), the NBFC arm of Anand Rathi Group (ARG) is in the business of offering product like SME Lending, Construction Finance, Loan against Securities such as Equity, Bonds and Mutual Funds and also engaged in treasury activities.

Under SME Lending, ARGFL lends to businesses as well as individual for the purpose like business expansion, working capital requirements, consolidation of other higher debts etc. Under Construction Finance, ARGFL lends to real estate builders who are in needs of funds to complete an on-going project.

Anand Rathi is one of India's leading financial services group covering services such as Wealth Management, Investment Banking, Corporate Finance & Advisory, Brokerage & Distribution in a vast sector of Equities, Commodities, Mutual Funds, Structured Products, Insurance, Corporate Deposits, Bonds & Loans to Institutions, Corporations, High net worth individuals and families.

As on September 30, 2021, Anand Rathi Financial Services & its nominees held 88.83% whereas Anand Rathi Wealth Services Ltd held 11.17% stake in the Anand Rathi Global Finance Ltd (ARGFL). ARGFL has two wholly owned subsidiaries: Anand Rathi Advisors Ltd & Anand Rathi Housing Finance Ltd.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total Income	387.84	735.07	472.45
PAT	35.52	42.18	38.82
Overall Gearing (times)	11.59	12.77	11.87
Adjusted Gearing (times)*	4.32	2.09	1.90
Total Assets	5517	8131	9527
Net NPA (%)	13.07	9.95	7.05
Net NPA to Total Assets (%)	4	2	1
ROTA (%)	0.76	0.62	0.96

A: Audited; UA: Unaudited
**adjusted for liquid investments.*

Status of non-cooperation with previous CRA: Not applicable

Any other information:

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.:

Name of Director	Designation of Director
Adesh Kumar Gupta	Non-Executive - Independent Director

Shri. Adesh Kumar Gupta, Independent Director on the board of CARE Ratings Ltd (CARE) is an Independent Director in Anand Rathi Global Finance Ltd. Independent Directors of CARE Ratings Ltd. are not a part of CARE Ratings Ltd.'s Rating Committee and do not participate in the rating process.

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Market Linked Debentures (Proposed)		-	-	-	75.00	CARE PP MLD A-; 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Commercial Paper-Commercial Paper (Standalone)	ST	50.00	CARE A1	1)CARE A1 (30-Nov-21)	1)CARE A1 (01-Dec-20)	-	-
2	Debentures-Market Linked Debentures	LT	75.00	CARE PP MLD A-; Stable	1)CARE MLD A-; Stable (30-Nov-21)	1)CARE PP MLD A-; Stable (22-Dec-20)	-	-
3	Fund-based-LT/ST	LT/ST*	50.00	CARE A-; Stable / CARE A1	1)CARE A-; Stable / CARE A1 (30-Nov-21)	-	-	-

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Debentures-Market Linked Debentures	Highly Complex

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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