

Morgan Credits Pvt. Ltd.
November 19, 2018

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debenture	950	'Provisional CARE A-; Stable' (Provisional Single A Minus; Outlook: Stable)	Revised from 'CARE A-; Stable' (Single A Minus; Outlook: Stable)
Non-Convertible Debenture	210	'Provisional CARE A-; Stable' (Provisional Single A Minus; Outlook: Stable)	Reaffirmed
Total	1,160 (Rs. One Thousand One Hundred and Sixty Crore only)		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The rating primarily factors in the financial flexibility of Morgan Credits Pvt. Ltd. (MCPL) owing to its investment in shares of Yes Bank Limited (YBL) that have a significantly higher market value as compared to book value. Furthermore, the rating considers that there will be no encumbrance on YBL shares held by MCPL and the total borrowings of MCPL will not exceed Rs.1160 crore (excluding accrued interest). While calculating the limit of Rs.1160 crore, total outstanding borrowings (excluding accrued interest) as well as all future contingent exposures (including but not limited to corporate guarantee, undertaking etc.) of MCPL shall be taken into account, while the debt cap (i.e. ratio of total borrowings of MCPL to market value of Yes Bank Ltd (YBL) shares held by MCPL plus market value of unencumbered YBL shares held by MCPL's promoters and its relatives) shall not exceed 0.5x at all times. The accrued interest at the end of each year will be added to total borrowing to arrive at debt cap of 0.5x on YBL shares for the ensuing year due to zero coupon structure of NCD issuance. The borrowing limit excludes promoter sub-debt which MCPL proposes to raise to meet its business requirements. The rating is constrained by limited income since MCPL is an investment company with primary source of income being dividend from YBL. Substantial diminution in the value of investment in YBL's shares and adherence to the below mentioned conditions is the key rating sensitivity.

The above rating is based on the following conditions to be maintained:

- i. Total borrowings of MCPL will be capped at Rs.1,160 crore (excluding accrued interest). Total borrowings exclude promoter sub-debt (including any present outstanding amount) which MCPL proposes to raise to meet its business requirements. While calculating the limit of Rs.1,160 crore, total outstanding borrowings (excluding accrued interest) as well as all future contingent exposures (including but not limited to corporate guarantee, undertaking etc.) of MCPL shall be taken into account.
- ii. The debt cap (i.e. ratio of total borrowings of MCPL to market value of Yes Bank Ltd (YBL) shares held by MCPL plus market value of unencumbered YBL shares held by MCPL's promoters and its relatives) shall not exceed 0.5x at all times. In the scenario of a zero coupon NCD issuance, accrued interest at the end of each year will be added to total borrowing to arrive at debt cap of 0.5x for the ensuing year.

Top Up Mechanism:

 - a) Transfer or purchase of additional YBL shares to MCPL to the extent of the shortfall such that debt cap does not exceed 0.5x.
 - b) Infusion of cash / liquid funds in designated account to the extent of the shortfall such that debt cap does not exceed 0.5x.
 - c) At the option of debenture holder, redeem such number of NCDs such that debt cap does not exceed 0.5x.
 - d) The time limit for the top up mechanism will be 14 working days
- iii. No encumbrance on shares of YBL held by MCPL

Further, the rating of NCDs aggregating to Rs.1,160 crore is 'Provisional' and the final rating would be assigned subject to the fulfillment of the following conditions and submission of the relevant documents to the satisfaction of CARE:

- On receipt of Revised and Amended Debenture Trust Deed along with a legal opinion

Detailed description of the key rating drivers**Key Rating Strengths****Financial flexibility owing to investment in YBL**

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

MCPL has financial flexibility due to its investment in YBL. MCPL held 3.05% stake in YBL as on March 31, 2018. MCPL with its associate entities held 10.67% (fully unencumbered) stake in Yes Bank Limited as on March 31, 2018. Further, MCPL is subject to maintaining a debt cap (i.e. ratio of total borrowings of MCPL to market value of YBL shares held by MCPL plus market value of unencumbered YBL shares held by MCPL's promoters and its relatives) of 0.5x at all times.

Key Rating Weakness

No income from business operations; income dependent on dividend declared by Yes Bank Limited

Currently, the dividend from YBL is MCPL's primary source of income. Hence, income could fluctuate in case of any deterioration in the performance of YBL. In the past four years, MCPL has received Rs.54.80 crore (Rs.16.86 crore in FY18, Rs. 14.05 crore in FY17, Rs.12.65 crore in FY16 and Rs.11.24 crore in FY15) as dividend income. However, comfort can be drawn from performance of YBL which enjoys good credit worthiness. Substantial diminution in the value of investments held by MCPL in YBL is the key rating sensitivity.

Analytical approach: The rating is based on the strength of the investment of MCPL in YBL and the extent of debt cap being maintained. Further, the financial flexibility of MCPL due its holding of YBL shares is also factored in the rating.

Applicable Criteria

[Criteria on assigning outlook to Credit Ratings](#)

[CARE's policy on default recognition](#)

[Financial Ratios-Financial Sector](#)

[Factor Linkages in Ratings](#)

About The Company

Morgan Credits Pvt. Ltd.

MCPL is one of the promoter entities of Yes Bank holding 3.05% stake in Yes Bank Limited as on March 31, 2018. MCPL with its associate companies held 10.67% (fully unencumbered) stake in Yes Bank Limited as on March 31, 2018. The Directors of the Company are Mrs Radha Kapoor Khanna, Mrs Raakhe K Tandon and Ms. Roshini Kapoor. It is primarily a core-investment company. In FY18, the loss was Rs.25.93 crore on total income of Rs 22.18 crore.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total income	20.71	22.18
PAT	(14.27)	(26.08)
Interest coverage (times)	0.59	0.45
Total Assets	504.36	1,106
ROTA (%)	NM	NM

A: Audited

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

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service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure I- Instrument Details

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-Convertible Debenture	19-04-2018	Zero Coupon Bond	19-04-2021	950	Provisional CARE A-; Stable
Non-Convertible Debenture	13-07-2018	Zero Coupon Bond	13-07-2021	210	Provisional CARE 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 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.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (27-Apr-18)	1)CARE AA; Stable (25-Sep-17) 2)Provisional CARE AA; Stable (27-Jul-17)	-	-
2.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (27-Apr-18)	1)CARE AA; Stable (20-Mar-18) 2)Provisional CARE AA; Stable (16-Oct-17)	-	-
3.	Debentures-Non Convertible Debentures	LT	950.00	Provisional CARE A-; Stable	1) CARE A-; Stable (18-July-18) 2) Provisional CARE A-; Stable (20-Apr-18)	-	-	-
4.	Debentures-Non Convertible Debentures	LT	210.00	Provisional CARE A-; Stable	1)Provisional CARE A-; Stable (18-July-18)	-	-	-

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