ICRA

September 25, 2017

Altico Capital India Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	250.00	[ICRA]A1+; assigned
Total	**250.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 250 crore[1] commercial paper programme of Altico Capital Private Limited (Altico).

Rationale

The assigned rating favourably factors in Altico's strong parentage by virtue of being promoted by Clearwater Capital Partners LLC (Clearwater, holding 44.2% share), in partnership with Abu Dhabi Investment Council (ADIC, 33.6% share) and Varde Partners (Varde, 22.2% share). The company benefits from the rich experience of the sponsors in the real estate space, their close engagement in the entity's operations and financial support as demonstrated by the USD 300 million of equity infused upfront. The rating also takes into account the company's strong board composition with participation from all shareholders, its strong management team including seasoned industry professionals, and its robust risk management and compliance processes. While the company has expanded its portfolio over the past two years, its capital structure remains healthy with gearing and capital adequacy ratio of 1x and 59.46% respectively as on June 30, 2017. The company also has a sound liquidity profile with adequate unencumbered liquid assets and presence of undrawn bank lines for meeting near term operational and debt servicing obligations. While assigning the rating, ICRA has also taken note of the company's limited track record and highly concentrated portfolio in terms of sector-wise and borrower-wise exposure. The company's strong risk management and monitoring processes, however, provide comfort in this regard. Going forward, the company's ability to maintain asset quality while achieving the planned growth will remain a key rating monitorable.

Key rating drivers

Credit strengths

- **Strong parentage; strategic importance to the sponsors:** Altico was incorporated by Clearwater (holding 44.2% share), in partnership with ADIC (33.6% share) and Varde (22.2% share). The sponsors have significant expertise and track record in the real estate space. Altico is the largest investment made by the sponsors in India and has a strategic role in helping the sponsors assess the potential and gain from the Indian markets. The sponsors have together infused USD 300 million of equity into the company, with an investment horizon of at least five years; there is no dividend expectation during this period. Further, the board members are actively engaged in the day-to-day operations of the company and are part of various committees from a managerial perspective.
- **Experienced management team with an established track record in lending**: The senior management team has experience in real estate investments and wholesale lending in India. The CEO has longstanding experience (~25 years) in wholesale lending, with focus on infrastructure and commercial real estate. The other management team has been associated with Altico for about ten years and has significant experience in wholesale lending and real estate.

[1] *100 lakh = 1 crore = 10 million*

- **Strong risk management and compliance processes in place**: Altico performs extensive financial, legal, title and technical diligence. All credit decisions require the approval of the Credit Committee which consists of six directors. The company employs independent external agencies for security valuation. Altico has a dedicated asset management team that closely monitors exposures on a daily basis and works with the structured finance team to provide solutions in case of any foreseeable stress on the portfolio. The company also employs an in-house legal counsel to advise on various regulatory requirements and legal matters. Further, the company has adopted a compliance tool designed by a renowned consultancy firm for governance and reporting.
- **High level of capitalisation and networth:** The company is strongly capitalised with a high net worth of Rs 2,380 crore as on June 30, 2017. While the company has ramped up its portfolio in the past two years, its capital structure remains healthy with gearing and capital adequacy ratio of 1x and 59.46% respectively as on March 31, 2017. The company has a maximum target gearing of 2.7x over the long term (FY2020).
- **Sound liquidity profile with adequate undrawn bank lines**: As a conscious strategy, the company has endeavored to raise long term borrowings to match the tenure of assets on the balance sheet. Consequently, the share of commercial paper in overall borrowings declined to 19% as on August 31, 2017 from 32% as on March 31, 2017. The extended debt maturity profile coupled with the high level of equity funding has resulted in a comfortable asset liability profile. The company has a sound stated liquidity policy of maintaining adequate liquid funds with modest gearing targets. The company endeavors to maintain sufficient cash on hand and undrawn bank limits to cover the operating cost and debt servicing obligations for the next six months and fresh disbursements for next three months.

Credit weaknesses

- **Limited track record with low seasoning of portfolio**: The company changed its strategy in 2013 to focus on senior secured lending in the real estate sector. Given the limited track record in senior secured lending, the portfolio remains unseasoned and is yet to witness an economic downturn or stress. Given the typical maturity profile of the loans in the real estate sector coupled with the developers' ability to refinance the loans, the share of loan-book under moratorium remains high, in line with industry trends. Also, track record of the sponsors and their commitment to Altico provides comfort in this regard.
- **Highly concentrated portfolio owing to wholesale lending model**: The portfolio concentration remains high, though the extent of concentration has reduced with the growth in loan book. While Altico has the ability to extend large ticket size loan supported by its high net worth, the company has been progressively moving to medium-lower ticket size loans. The company has funded a bouquet of projects in some of the exposures, which reduces the dependence on specific projects. However, the concentration risk remains high with any slippage in key borrowers' credit profiles resulting in lumpy asset quality deterioration.
- **High sectoral concentration risk with real estate accounting for 100% of loan book outstanding**: Within real estate, exposure has been mainly to the less volatile residential project segment comprising majority of the loan book. However, the company has ventured into financing commercial projects and envisions 15% of the portfolio comprising commercial projects with balance being residential project loans. The company plans to foray into wholesale funding to non real estate segments in the medium term for further diversification. The risks in real estate lending are accentuated considering the early stages of development for a sizeable share of the underlying projects. The company, however, as a conscious strategy has increased its focus on projects in advanced stages of development. The strong asset management team and robust risk management practices helps provide some comfort in this regard.

- **Ability to achieve a healthy growth while maintaining asset quality**: The company has hitherto reported zero non-performing assets (NPAs). While there have been instances of over-dues in certain accounts in the current fiscal, the company's risk management processes and the prior track-record provides comfort. Going forward, with high growth plans with target AUM of Rs. 12,650 crore by March 2020 from Rs. 3,676 crore as on March 31, 2017, the company's ability to sustain asset quality while growing remains a key monitorable. While the current capital is adequate for the proposed ramp up, adequacy of internal capital generation will depend upon sustainability of net interest margins (NIMs) and containment of provisioning requirements.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
ICRA's Credit Rating Methodology for Non-Banking Finance Companies
ICRA's Approach for Rating Commercial Papers

About the company:
Altico Capital India Pvt Ltd (Altico, erstwhile Clearwater Capital Partners India Pvt Ltd) is a real estate focused non-deposit taking non-banking finance company. The company was established in 2004 by Clearwater Capital Partners LLP (Clearwater), a full spectrum private/public debt and equity investment firm operating out of Hong Kong, Singapore, Mumbai, Seoul and Beijing. The other sponsors of Altico include Abu Dhabi Investment Council (ADIC), the sovereign wealth fund of Abu Dhabi and Varde Partners (Varde), an investment management firm based out of Minneapolis, USA. The company is engaged in wholesale lending to companies in India, with a focus on lending to real estate developers against strong collateral.
In FY2017, Altico reported a net profit of Rs. 270.83 crore on an asset base of Rs. 4,201.32 crore (RoA of 8.68%) as against a net profit of Rs. 144.83 crore on an asset base of Rs. 2,041.30 crore in FY2016 (RoA of 9.03%).

Key financial ratios

	FY2016	FY2017	Q1FY2018
Total income	261.8	588.2	212.3
Profit after tax	144.8	270.8	84.5
Net worth	2,022.0	2,292.8	2,380.4
Total managed portfolio	1,868.2	3,676.2	4,172.8
Total assets	2,041.3	4,201.3	4,855.2
Return on assets	9.0%	8.7%	7.7%
Return on equity	9.1%	12.6%	15.0%
Gearing (times)	-	0.8x	1.0x

Amounts in Rs. crore
Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	September 2017	FY2017	FY2016	FY2015
						-	-	-
1	Commercial paper programme	Short Term	250.00	250.00	[ICRA]A1+	-	-	-

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Commercial paper programme	**-**	**-**	**7-365 days**	250.00	[ICRA]A1+

Source: the company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit **www.icra.in**

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