

## Correction: India Ratings Assigns Altico Capital's Additional NCDs and Loans 'IND AA-/Stable; Rates New CP 'IND A1+'

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The announcement corrects the version published on 27 June 2016, to correct the committee chairperson's details and clearly state the issuer's liquidity management policy. An amended version follows:

India Ratings and Research (Ind-Ra) has assigned Altico Capital India Private Limited's (Altico) additional INR2.5bn non-convertible debentures (NCDs) and INR1.5bn bank loans a rating of 'IND AA-' with a Stable Outlook. The agency also assigned Altico's additional INR1.5bn commercial paper programme (CP) an 'IND A1+' rating. This brings the total rated NCDs, bank loans and CPs to INR12.5bn, INR6.5bn and INR4bn, respectively. A list of outstanding ratings is at the end of this commentary.

### KEY RATING DRIVERS

The ratings on Altico's debt instruments draw comfort from Ind-Ra's expectation of timely support from Altico's ultimate shareholders - Clearwater Capital Partners, Abu Dhabi Investment Council (Fitch Ratings Ltd – Issuer Default Rating 'AA') and Varde Partners, if required. The ratings also reflect Altico's robust capitalisation, conservative leverage philosophy (target debt-equity below 2x) and prudent liquidity management policy (maintaining sufficient liquidity in the form of unencumbered liquid assets on its balance sheet in addition to having unutilised cash credit lines, to support payment obligations and operating costs). Altico's strong profitability is also likely to drive healthy accruals supporting its capitalisation. Its robust capitalisation (INR20.2bn in net worth as of FYE16) is sufficient to drive growth over the medium term and also provides a buffer against the asset quality challenges inherent in the business.

Altico derives strength from its marquee shareholder background, their articulated commitment towards Altico over the medium term including liquidity support if required and their cohesive vision. In addition, the management's proven record in managing wholesale credit (their earlier business) and their sound risk management systems and processes to help structure and manage these exposures offer further comfort. Altico has showcased its ability to cherry-pick deals from a huge pipeline and to maintain strong cash flow as well as collateral cover against its exposures. However, its asset quality remains exposed to the risk of slippages in large exposures that could result in a sharp increase in delinquencies, especially in the event of stress in the economy.

The company's credit profile is constrained by its shorter operating history than established non-banking finance companies', highly concentrated and unseasoned lending book, and moderate scale of operations (FYE16 loan book of INR15.9bn; FYE15: INR5.6bn) . Also, by design Altico has high sectoral concentration with focussed exposure in the residential real estate sector. The company's operating performance remains vulnerable to slippages on its sizeable single-borrower exposures. Although capital buffers remain strong even a couple of defaults may significantly

impact its operating performance in the near term. At FYE16, Altico did not have any non-performing or restructured assets on its book.

Ind-Ra conducted a stress test on the company, factoring in the median credit rating of its borrowers and multiplying historical default experience for the rating category. The agency also tested the high single-name concentration risk by assuming additional two defaults out of top 20 borrowers (by FY20), over and above the stress based on rating migration, which is consistent with the stress test that Ind-Ra conducts on lenders with concentrated exposures. The resultant equity remains reasonably strong after absorbing losses and is favourable compared to peers.

Altico was wholly equity funded till FY16 and plans to expand and scale up significantly over the next few years with target leverage of 2x by FY20. It may also diversify its funding mix by drawing down loans from multilateral agencies, banks and capital markets.

## **RATING SENSITIVITIES**

Positive: Altico's ability to expand its franchise while managing the inherent risks in its niche business over the economic cycles will be demonstrated only over the medium term and this would drive a positive rating action if any.

Negative: Any weakness in Altico's credit profile, which, among other factors, could result from dilution of capital buffers or from inadequate liquidity buffers could result in a negative rating action. The ratings could also be downgraded in case a sustained weak operating performance leads to reduced importance of this business to its shareholders.

## **COMPANY PROFILE**

Altico was established in 2004 by the funds managed by Clearwater Capital Partners LLC as Clearwater Capital Partners India Private Limited for wholesale lending to capital-constrained Indian small and medium enterprises. It was registered as a non-deposit accepting non-banking finance company with the Reserve Bank of India in January 2005. Its business strategy initially focused on special situation opportunities across capital structure. In FY15, the company was rebranded to Altico Capital India Pvt. Ltd embarking a change in the business strategy. Clearwater Capital Partners, Abu Dhabi Investment Council and Varde Partners have infused a combined capital of USD300mn. Currently, the company is focusing on high-yielding asset-backed senior secured credit opportunities in the real estate sector.

Altico's ratings (including the enhancements):

- Long-Term Issuer Rating: 'IND AA-'; Outlook Stable
- Short-Term Issuer Rating: 'IND A1+'
- INR12.5bn NCDs: 'IND AA-'; Outlook Stable
- INR6.5bn bank loan rating: 'IND AA-'; Outlook Stable
- INR4bn CP programme: 'IND A1+'

## **SOLICITATION DISCLOSURES**

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Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell,

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## Applicable Criteria

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[Financial Institutions Rating Criteria](#)  
[Rating FI Subsidiaries and Holding Companies](#)

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