

India Ratings Downgrades Altico Capital India to 'IND D'

13

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By Pankaj Naik

India Ratings and Research (Ind-Ra) has downgraded Altico Capital India Limited's (Altico) Long-Term Issuer Rating to 'IND D' from 'IND A+' and Short-Term Issuer Rating to 'IND D' from 'IND A1'. The Outlook was Negative. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating	Rating Action
Non-convertible debentures (NCDs)* (Long-term)	-	-	-	INR30.5	IND C	Downgraded
Bank loans (Long-term)	-	-	-	INR44	IND D	Downgraded
Commercial paper (Short-term)	-	-	Up to 1 year	INR8.5	IND A4	Downgraded
Principal protected market-linked debenture# (Long-term)	-	-	-	INR1	IND PP-MLD C emr	Downgraded

* Details in Annexure

#The suffix emr denotes the exclusion of the embedded market risk from the rating. The rating of market-linked debentures is based on an ordinal assessment of the underlying credit risk of the instrument and does not factor in the market risk that investors in such instruments will assume. This market risk stems from the fact that the coupon payment on these instruments will be based on the performance of a reference index or equity share (detailed in the information memorandum of the issue).

PP-MLD refers to full principal protection in the equity-linked notes, wherein the issuer is obligated to pay the full principal upon maturity.

The downgrade reflects Altico's default on interest payment of INR0.2 billion on the external commercial borrowings (ECBs), which had principal outstanding of INR3.4 billion, on 12 September 2019.

KEY RATING DRIVERS

Liquidity Indicator - Poor: As communicated by the company to India Ratings, on 12 September 2019, the company had unencumbered cash balance of INR4.9 billion. As per the management, Altico faced pressure of accelerated debt repayment from some lenders and also experienced difficulty in mobilising fresh funds. While the existing cash balance was sufficient to meet the present obligation, the company defaulted on this. Shareholders (Fiera Capital (erstwhile Clearwater Capital Partners LLC acquired by Fiera Capital), Abu Dhabi Investment Council, and Varde Partners) had earlier articulated that they would ensure adequate liquidity for Altico (as per the board approved policy). However, the shareholders were not forthcoming to shore up the liquidity buffers of the company.

Given the recent developments, Ind-Ra opines that it may be difficult for Altico to service its debt obligations in a timely manner from hereon.

Asset Quality Challenges Could Increase: Given the tight liquidity it would be challenging for Altico to meet the disbursement commitment to its borrowers. This can delay the project completion of its borrowers and in turn impact the developers' sales realisation impacting Altico's asset quality.

Altico's loan book (June 2019: INR69 billion) has exposure to real estate developers, many of which have weak and stretched credit profiles. In terms of the lifecycle, 31% of Altico's loan book was attributable to early stage funding of projects as of July 2019 (FY18: 26%, 1HFY19: 28%), and about 70% of the loan book was under moratorium as of June 2019. Headline non-performing assets (NPAs) remained under control till March 2019 (gross NPA: 1.8%); although incremental pressure could build up as the loan book comes out of moratorium.

Concentrated Loan Book: Altico's loan book is concentrated, given the high single party exposures. The top 10 individual exposures accounted 39% of the loan book (90% of the net worth) and the top 10 group exposures accounted 60% of the loan book (139% of net worth) at end-FY19. With this high concentration, the impact could be disproportionate in the event of any major defaults.

Capital Buffers Intact: Altico's leverage continues to be modest (equity to assets: 36% at FYE19), in line with its higher concentrated portfolio. 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 high single-name concentration risk was also tested by assuming additional defaults of the top two exposures, 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, post the test, remains reasonable after absorbing losses.

RATING SENSITIVITIES

Positive: Timely debt servicing for at least three consecutive months could be a credit positive.

COMPANY PROFILE

Altico was established in 2004 by the funds managed by Clearwater Capital Partners 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 renamed Altico Capital India Limited, and its business strategy was changed. Altico is focused on high-yield asset-backed senior secured credit opportunities in the real estate sector.

FINANCIAL SUMMARY

Particulars	FY19	FY18
Total assets (INR billion)*	83.3	66.8
Total equity (INR billion)*	29.6	24.4
Profit after tax (INR billion)	1.5	2.6
Return on average assets (%)	1.9	4.9
Tier 1 capital (%)	42.0	40.3
Source: Company, Ind-Ra's analysis		
*Excluding deferred tax assets and intangible assets		

RATING HISTORY

Instrument Type	Current Rating			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	3 September 2019	24 August 2018	27 February 2018
Issuer rating	Long-term/Short-term	-	IND D	IND A+/Negative /IND A1	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+
NCDs	Long-term	INR30.5	IND C	IND A+/Negative	IND AA-/Stable	IND AA-/Stable
Bank loans	Long-term	INR44	IND D	IND A+/Negative	IND AA-/Stable	IND AA-/Stable
Commercial paper	Short-term	INR8.5	IND A4	IND A1	IND A1+	IND A1+
Principal protected market-linked debenture	Long-term	INR1	IND PP-MLD Cemr	IND PP-MLD A+emr/Negative	IND PP-MLD AA-emr/Stable	IND PP-MLD AA-emr/Stable

ANNEXURE

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Issue Subscribed/Outstanding (billion)	Rating
NCD	INE587O07016	18 April 2016	9.95	28 May 2021	INR1.54	INR1.54	IND C
NCD	INE587O07024	18 April 2016	9.95	28 May 2021	INR1.54	INR1.54	IND C
NCD	INE587O07040	19 December 2016	9.11	28 May 2021	INR1.55	INR1.55	IND C
NCD	INE587O07073	6 July 2017	10.25	2 September 2020	INR0.285	INR0.285	IND C
NCD	INE587O07099	24 August 2017	10.5	23 August 2020	INR1.625	INR1.625	IND C
NCD	INE587O07149	26 March 2018	10.5	26 September 2019	INR0.75	INR0.75	IND C

NCD	INE587O07156	26 March 2018	10.5	26 March 2021	INR0.75	INR0.75	IND C
NCD	INE587O07164	29 June 2018	10.5	29 September 2019	INR0.20	INR0.20	IND C
NCD	INE587O07172	29 June 2018	10.5	29 December 2019	INR0.30	INR0.30	IND C
NCD	INE587O07180	29 June 2018	10.5	29 March 2020	INR0.20	INR0.20	IND C
NCD	INE587O07198	29 June 2018	10.5	29 June 2020	INR0.30	INR0.30	IND C
NCD	INE587O07214	20 July 2018	Zero Coupon	15 July 2021	INR0.382	INR0.382	IND C
NCD	INE587O07222	20 July 2018	Zero Coupon	12 August 2021	INR0.262	INR0.262	IND C
NCD	INE587O07230	16 August 2018	SBI 1 year MCLR + 258bp	16 August 2021	INR2.0	INR2.0	IND C
NCD	INE587O07222	4 September 2018	Zero Coupon	12 August 2021	INR1.00	INR0.265	IND C
NCD	INE587O07222	26 September 2018	Zero Coupon	12 August 2021	INR1.00	INR0.285	IND C
NCD	INE587O07271	9 October 2018	Zero Coupon	10 May 2022	INR0.732	INR0.732	IND C
NCD	INE587O07222	31 October 2018	Zero Coupon	12 August 2021	INR1.00	INR0.115	IND C
NCD	INE587O07297	18 February 2019	12.5	18 November 2020	INR2.5	INR2.5	IND C
NCD	INE587O07289	18 February 2019	-	18 November 2020	INR2.5	INR2.5	IND C
Total utilised						INR18.081	
Total unutilised						INR12.419	
Principal protected market-linked debenture	INE587O08030	10 April 2017	Zero coupon	9 April 2021	INR0.50	INR0.096	IND PP-MLD Cemr
Total utilised						INR0.096	
Total unutilised						INR0.904	

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Applicable Criteria

Analyst Names

Primary Analyst

Pankaj Naik

Associate Director

India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block. Bandra Kurla Complex
Bandra (East), Mumbai 400051

+91 22 40001723

Secondary Analyst

Karan Gupta

Associate Director

+91 22 40001744

Committee Chairperson

Prakash Agarwal

Director and Head Financial Institutions

+91 22 40001753

Media Relation

Namita Sharma

Manager – Corporate Communication

+91 22 40356121
