March 28, 2023

Caspian Impact Investments Private Limited: Ratings reaffirmed; Rating simultaneously withdrawn for Rs. 15-crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	40.00	40.00	[ICRA]BBB (Positive); reaffirmed
Non-convertible debenture programme	15.00	-	[ICRA]BBB (Positive); reaffirmed and simultaneously withdrawn
Long-term fund-based lines	190.00	190.00	[ICRA]BBB (Positive); reaffirmed
Fund based – Working capital facilities	40.00	40.00	[ICRA]A2; reaffirmed
Total	**285.00**	**270.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation with a Positive outlook for Caspian Impact Investments Private Limited (CII) factors in its track record of maintaining a prudent financial risk profile as reflected by the steady increase in its scale of operations, its adequate capitalisation profile, and the improving funding diversity. CII's assets under management (AUM) grew 2% (annualised) to Rs. 561 crore as on December 31, 2022 from Rs. 554 crore as on March 31, 2022 after growing 21% in FY2022. While ICRA notes that the growth rate of the AUM in 9M FY2023 was lower than FY2022, it expects the same to improve in Q4 FY2023. In addition, ICRA expects the company to witness further improvement in its profitability, going forward.

ICRA also notes that the company remains adequately capitalised with a gearing of 2.9 times as on December 31, 2022 (2.8 times as on March 31, 2022) while the capital adequacy ratio of 37.56% was well above the regulatory requirement of 15%. Further, it enjoys a favourable asset-liability mismatch profile with no cumulative negative mismatches in the up to 1-year bucket. It had a lender base of 17 lenders as on December 31, 2022 (8 banks, 7 non-banking financial companies (NBFCs), 1 small finance bank (SFB) and 1 external commercial borrowing (ECB) lender). Along with the increasing lender base, CII has been able to keep its average cost of borrowings under control in 9M FY2023, aided by the redemption of high-cost debt/borrowings. This, along with increase in lending rates to some extent helped it report some improvement in its margins. Going forward, with the impact of the interest rate resets, the overall cost of borrowings is expected to increase. Nevertheless, CII is expected to maintain steady margins.

The ratings continue to factor in CII's experienced management team and good expertise in its areas of operations as well as its strong loan appraisal, due diligence and portfolio monitoring mechanisms. The ratings also consider the risk coverage in the form of guarantees from Rabo Foundation, United States Development Finance Corporation (USDFC), Michael & Susan Dell Foundation (MSDF), Villgro and National Credit Guarantee Trustee Company Limited (NCGTC) among others, which mitigate the credit risk to an extent.

The ratings, however, remain constrained by CII's moderate scale of operations. Moreover, the concentrated nature of the loan book and the subdued earnings profile (despite some improvement in 9M FY2023) constrain the ratings. CII's portfolio is primarily concentrated towards the small business finance (SBF), microfinance institution (MFI) and food and agriculture (F&A) segments, which accounted for 38%, ~10% and ~13%, respectively, of the overall portfolio as on December 31, 2022.

Also, the top 15 exposures accounted for 35% of the loan book and 116% of the company's net worth as on September 30, 2022 (35% and 120%, respectively, as on March 31, 2022). The company's earnings profile improved with the increase in the net interest margin, though the operating expenses and credit costs remained high. CII reported a return of 0.49% on average managed assets (AMA) and 1.93% on average net worth in 9M FY2023 compared to 0.03% and 0.12%, respectively, in FY2022.

Nevertheless, the profitability metrics remain subdued and CII's ability to improve its profitability, going forward, while growing its scale of operations and keeping its credit cost under control, would be important from a credit perspective.

ICRA has simultaneously reaffirmed and withdrawn the rating for the Rs. 15-crore non-convertible debenture programme as the instrument has been repaid by the company and there is no amount outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

The Positive outlook reflects ICRA's opinion that the company would be able to improve its financial profile further, while increasing its scale of operations and improving its profitability metrics.

Key rating drivers and their description

Credit strengths

Adequate capitalisation profile – CII reported a growth of 2% in its portfolio in 9M FY2023 and the AUM stood at Rs. 561.3 crore as on December 31, 2022 (Rs. 554.2 crore as on March 31, 2022). It has also entered into a platform lending arrangement with a fintech partner to diversify its business operations and build a granular book. Given the moderate growth in 9M FY2023, the leverage has not increased materially. CII remains adequately capitalised with a gearing of 2.9 times as on December 31, 2022 (2.8 times as on March 31, 2022) and a capital-to-risk weighted assets ratio (CRAR) of 37.6% as on December 31, 2022 (37.2% as on March 31, 2022). Although the current gearing is low, it is expected to increase with incremental business being funded through fresh borrowings. However, ICRA expects CII to maintain a prudent capitalisation level, going forward as well.

Healthy asset-liability mismatch profile and improving funding profile – CII's liquidity profile is supported by the relatively shorter tenure of its advances vis-à-vis its liabilities as reflected by the absence of cumulative negative mismatches as per its asset-liability mismatch profile for the up to 1-year bucket. The liquidity profile remains adequate with sufficient on-book liquidity, the presence of unutilised funding lines and good collection efficiency. The company has shown good traction in terms of fund-raising from various sources and had a base of 17 lenders as on December 31, 2022 (8 banks, 7 NBFCs, 1 SFB and 1 ECB lender). The company was able to keep its cost of borrowings under control in 9M FY2023, aided by redemption of high-cost debt/borrowings, however, some increase is expected going forward.

Good due diligence, monitoring mechanisms and risk management systems – CII, with an experienced management team, Credit Committee and board of directors, has good domain knowledge and a track record of funding early-stage companies. It has developed good underwriting and risk management systems and has exhibited a relatively stable asset quality. ICRA also notes the technological upgradation by the company in FY2022 to optimise the credit processes and manage the risk effectively in the current operating environment.

Guarantee facilities mitigate risk of exposure towards relatively weaker entities, to some extent – CII has access to guarantee facilities from Rabo Foundation, USDFC, MSDF, Villgro and NCGTC, which helps in de-risking its balance sheet to some extent. These facilities are used on a need basis to extend financing support to companies with high potential but volatile cashflows. These facilities act as a credit risk mitigant in addition to the company's good underwriting and risk management norms. The portfolio under guarantee stood at around 30% of the overall portfolio as on December 31, 2022 compared to around 38% as on March 31, 2022.

Credit challenges

Moderate, albeit growing, scale of operations with portfolio focused on MFI, SBF, and F&A segments – While the company continues to scale up its portfolio with a growth of 2% in 9M FY2023, the scale of operations remains moderate with the AUM at Rs. 561.3 crore as on December 31, 2022 (Rs. 554.2 crore as on March 31, 2022). Moreover, the portfolio is primarily concentrated towards the SBF, MFI and F&A segments, which accounted for 38%, 10% and 12%, respectively, of the overall portfolio as on December 31, 2022. Over the past few years, CII has been diversifying its portfolio by increasing its exposure to other impact sectors like clean energy and efficiency (CLE), healthcare (HEA), platform lending (co-lending), sector agnostic funding to women entrepreneurs, etc. It provides loans primarily to companies, which are in the growth phase. While credit risk will persist on account of lending to a segment of borrowers with a modest credit profile, ICRA takes comfort from CII's calibrated and conservative lending approach as well as the guarantee facilities, which mitigate the risk to some extent.

Concentrated loan book – CII's loan book remains concentrated, given the high share of the top exposures. The top 15 exposures accounted for 35% of the loan book and 116% of the company's net worth as on September 30, 2022 (35% and 120%, respectively, as on March 31, 2022). Nevertheless, there were no overdues in the top 15 exposures as on September 30, 2022.

Subdued profitability, given high operating expenses – CII reported a return of 0.49% on AMA and 1.93% on average net worth in 9M FY2023 compared to 0.03% and 0.12%, respectively, in FY2022. With the increase in yields and the decline in the cost of average interest-bearing funds, the net interest margin improved to 5.2% of AMA (excluding goodwill) in 9M FY2023 from 3.8% in FY2022. The operating expenses remained high at 3.7% of AMA in 9M FY2023 (3.6% in FY2022), thereby impacting the company's profitability.

CII's ability to improve its operational efficiency and contain its credit costs will be key for a sustained improvement in its earnings profile. It wrote off Rs. 8.04 crore in 9M FY2023, which led to higher credit costs despite some write-back of provisions and bad debt recovery of Rs. 4 crore. The company's ability to bring down its operating costs and keep the credit costs under control will be critical from a credit perspective.

Liquidity position: Adequate

CII's liquidity profile remains adequate with sufficient on-book liquidity, the presence of unutilised funding lines and good collection efficiency. As on September 30, 2022, the company had an unencumbered cash and bank balance of Rs. 17 crore against scheduled debt obligations of Rs. 180 crore and scheduled collections of Rs. 299 crore till March 31, 2023. Factoring in the expected collections from advances, the liquidity profile is adequate for meeting the debt obligations in a timely manner. It is also supported by the availability of cash credit lines from banks.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company continues to report a healthy growth in its scale of operations along with a sustainable improvement in its profitability indicators. This, along with good asset quality and continued prudent capitalisation, could result in a rating upgrade.

Negative factors – Pressure on the company's ratings could arise if there is a deterioration in the asset quality, which could affect its profitability. Continued pressure on the earnings profile, the weakening of the capitalisation profile or a stretched liquidity position could also exert pressure on the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Caspian Impact Investments Private Limited (CII) is a non-deposit taking non-banking financial company (NBFC), which was launched in 2013. CII is the third fund to be set up and managed by Caspian Impact Investment Adviser Private Limited (CIIA). CII extends debt to enterprises with businesses that strive to create a social and/or environmental impact in a responsible, transparent and sustainable manner. It offers term loans, working capital loans and subordinated loans with ticket sizes ranging from Rs. 0.5-15 crore (Rs. 0.05-0.20 crore for its granular book) and tenures ranging from 0.5-5 years. CII's focus sectors include SBF, MFI, F&A, general impact institutions (GII), HEA, CLE, affordable housing finance and development (AHFD) and financial inclusion enablers (FIE).

Key financial indicators (audited)

Caspian Impact Investments Private Limited	FY2020	FY2021	FY2022	9M FY2023^
Accounting as per	IndAS	IndAS	IndAS	IndAS
Profit after tax	4.8	2.5	0.2	2.4
Net worth*	152.6	158.7	161.6	163.7
Gross managed portfolio	407.7	456.2	554.2	561.3
Total assets*	475.8	558.5	624.0	655.0
Return on average managed assets	0.98%	0.48%	0.03%	0.49%
Return on average net worth	3.14%	1.58%	0.12%	1.93%
Gearing (times)	2.0	2.4	2.8	2.9
Gross NPA	2.54%	2.39%	2.59%	1.54%
Net NPA	2.05%	1.83%	1.95%	0.62%
Solvency (Net NPA/Net worth)	5.44%	5.23%	6.64%	2.12%
CRAR	31.9%	44.6%	37.2%	37.6%

*Source: Company, ICRA Research; * Excluding goodwill; ^ Limited review; All ratios as per ICRA's calculations*
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: A member of the board of directors of ICRA Limited (ICRA) is also a shareholder of CII. The said director is not engaged in any of the discussions, processes and committee meetings related to the rating of the instrument(s) carried out by ICRA.

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="5">Current Rating (FY2023)</th><th colspan="4">Chronology of Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding as of Jan 31, 2023 (Rs. crore)*</th><th colspan="2">Date & Rating in FY2023</th><th>Date & Rating in FY2022</th><th>Date & Rating in FY2021</th><th colspan="2">Date & Rating in FY2020</th></tr>
<tr><th>Mar 28, 2023</th><th>Jul 1, 2022</th><th>Jul 05, 2021</th><th>Jul 06, 2020</th><th>Sep 30, 2019</th><th>Aug 02, 2019</th></tr>
<tr><td>1</td><td>Non-convertible debentures</td><td>Long term</td><td>40.00</td><td>30.42</td><td>[ICRA]BBB (Positive)</td><td>[ICRA]BBB (Positive)</td><td>[ICRA]BBB (Stable)</td><td>[ICRA]BBB (Stable)</td><td>-</td><td>-</td></tr>
<tr><td>2</td><td>Non-convertible debentures</td><td>Long term</td><td>15.00</td><td>0.00</td><td>[ICRA]BBB (Positive)^</td><td>[ICRA]BBB (Positive)</td><td>[ICRA]BBB (Stable)</td><td>[ICRA]BBB (Stable)</td><td>-</td><td>-</td></tr>
<tr><td>3</td><td>Non-convertible debentures</td><td>Long term</td><td>0.00</td><td>0.00</td><td>-</td><td>[ICRA]BBB (Positive) (withdrawn)</td><td>[ICRA]BBB (Stable)</td><td>[ICRA]BBB (Stable)</td><td>-</td><td>-</td></tr>
<tr><td>4</td><td>Long-term fund-based lines</td><td>Long term</td><td>190.00</td><td>139.94</td><td>[ICRA]BBB (Positive)</td><td>[ICRA]BBB (Positive)</td><td>[ICRA]BBB (Stable)</td><td>[ICRA]BBB (Stable)</td><td>[ICRA]BBB (Positive)</td><td>[ICRA]BBB (Positive)</td></tr>
<tr><td>5</td><td>Working capital demand loan</td><td>Short term</td><td>40.00</td><td>19.16</td><td>[ICRA]A2</td><td>[ICRA]A2</td><td>[ICRA]A2</td><td>[ICRA]A2</td><td>[ICRA]A2</td><td>[ICRA]A2</td></tr>
</table>

**Source: Company; ^Rating reaffirmed and withdrawn as instrument has been repaid*

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD programme	Simple
Long-term fund-based lines	Simple
Working capital demand loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term fund-based lines**	Aug 18 to Jan 23	9.00-13.40%	Feb 23 to Dec 25	139.94	[ICRA]BBB (Positive)
NA	**Long-term bank lines – Unallocated**	NA	NA	NA	50.06	[ICRA]BBB (Positive)
NA	**Working capital demand loan**	Jan 22	10.80%	1 year	40.00	[ICRA]A2
INE059K07089	**NCD 1**	Mar 21	11.50%	Sep 22	15.00	[ICRA]BBB (Positive); withdrawn
INE059K07055	**NCD 2**	Jul 20	10.56%	Jul 23	25.00	[ICRA]BBB (Positive)
INE059K07063	**NCD 3**	Jul 20	11.50%	Jul 23	15.00	[ICRA]BBB (Positive)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable.

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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