

April 16, 2021

## Xander Finance Private Limited: Ratings downgraded by one notch; outlook revised to Negative

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	500.00	500.00	[ICRA]A (Negative); downgraded from [ICRA]A+ (Stable)
Long-term Bank Lines – Term Loans	325.00	225.00	[ICRA]A (Negative); downgraded from [ICRA]A+ (Stable)
Long-term Borrowing Programme	600.00	200.00	[ICRA]A (Negative); downgraded from [ICRA]A+ (Stable)
Commercial Paper	100.00	0.00	[ICRA]A1; downgraded from [ICRA]A1+ and withdrawn
<b>Total</b>	<b>1,525.00</b>	<b>925.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has downgraded and withdrawn the ratings assigned to the Rs. 100 crore unutilized commercial paper programme from [ICRA]A1+ to [ICRA]A1 as there is no amount outstanding against the rated instruments<sup>1</sup>. The ratings have been withdrawn at the request of the company and as per ICRA's policy on the withdrawal and suspension of credit ratings.

The rating revision and the change in the outlook take into account XFPL's declining assets under management (AUM) given the curtailed disbursements, heightened portfolio stress and limited growth outlook for the medium term. XFPL's AUM declined to Rs. 513 crore as of March 31, 2021 from a peak of Rs. 1,603 crore as of March 31, 2018. While the company collected Rs. 1,277 crore during March 31, 2018 to December 31, 2020, fresh disbursements were limited with XFPL adopting a cautious approach in light of the adverse industry environment. The collections, however, have witnessed a slowdown compared to the pre-Covid-19 level, post completion of the Reserve Bank of India's (RBI) moratorium. XFPL reported gross non-performing assets (GNPAs) of nil as of March 31, 2021 and December 31, 2020. However, XFPL had security receipts (SRs) and asset swaps aggregating to ~18% of AUM (adjusted basis)<sup>2</sup> as of December 31, 2020 compared to ~5% as of March 31, 2020. Additionally, the company had adopted one-time restructuring in line with the RBI circular on Resolution framework for Covid-19 stress, with restructured assets aggregating to ~21% of the AUM (adjusted basis) as of December 31, 2020.

The ratings continue to take into account the company's healthy capitalisation levels, adequate liquidity and the domain experience of the sponsor. With the rundown in the book, XFPL's debt levels moderated to Rs. 308 crore as on March 31, 2021 from a peak of Rs. 1,121 crore as of March 31, 2018 while the gearing improved to 0.59 times from 2.27 times during this period. The company has further prepaid Rs.32 crore of debt, and issued a prepayment notice for an additional Rs. 25 crore of term loan, post March 31, 2021. The company has a scheduled repayment of Rs. 25 crore towards NCD in April 2021, following which the debt is expected to reduce to Rs. 225 crore by end of April 2021. The liquidity position remains adequate with unencumbered cash balances and fixed deposits of ~Rs. 165 crore as of March 31, 2021.

<sup>1</sup> The company has not raised borrowings through commercial paper till date.

<sup>2</sup> AUM inclusive of SRs and asset swaps

The company has inducted three senior external Directors having long experience in financial services space on its board and has established teams across independent specialized functions which are managed by experienced professionals under the guidance from the board. ICRA also notes the recent changes in senior management with the resignation of company's Managing Director & Chief Executive Officer (MD & CEO), Chief Financial Officer (CFO) and General Counsel. Going forward, the company plans to explore other structures like syndication of larger real estate project loans for incremental business as its new business strategy. The AUM is expected to moderate further over the near-term, given the limited disbursements and the company's focus on collections, in line with its new strategy. This, coupled with credit costs owing to higher provisioning due to potential restructuring and/or deterioration in the asset quality, would continue to keep the profitability under pressure. The presence of adequate cover and collateral provides comfort.

Going forward, the company's ability to successfully implement its revised strategy and achieve a meaningful growth in its AUM would remain critical from a credit perspective. XFPL's ability to improve its collections profile and maintain sound asset quality and profitability would be a monitorable.

## Key rating drivers and their description

### Credit strengths

**Domain expertise of sponsor** – XFPL is the credit arm of Xander Group Inc., an institutional investment firm focused on long-term value investing. Xander primarily invests in companies which operate in the infrastructure, hospitality, entertainment, retail and real estate sectors, with an equity portfolio of over USD 2.3 billion currently under management. XFPL draws the advantage of leveraging the Group's network and domain expertise.

ICRA also notes the recent changes in senior management with the resignation of company's Managing Director & Chief Executive Officer (MD & CEO), Chief Financial Officer (CFO) and General Counsel. ICRA notes that the company has inducted three senior external Directors having long experience in financial services space on its board and has established teams across independent specialized functions which are managed by experienced professionals under the guidance from the board. The board is chaired by the Senior Partner of Xander Group Inc., who has served company's Board for over a decade, is actively involved in running the key affairs of XFPL.

**Comfortable capitalisation level, low gearing and adequate liquidity** – XFPL remains adequately capitalised with a capital adequacy ratio of 75.84% as on March 31, 2021 (54.28% as of March 31, 2020 and 36.69% as of March 31, 2019) supported by internal capital generation. With the rundown in the book, XFPL's debt levels moderated to Rs. 308 crore as on March 31, 2021 from a peak of Rs. 1,121 crore as of March 31, 2018 while the gearing improved to 0.59 times from 2.27 times during this period. ICRA expects the gearing to moderate further over the near term with the gradual amortisation of the book. XFPL's liquidity profile has improved in the last one year with cash and cash equivalents of Rs. 165 crore as of March 31, 2021 against repayment obligations of ~Rs. 208 crore (principal) for the next 12 months. Furthermore, the undrawn bank lines of ~Rs. 125 crore as of March 31, 2021 and the contractual inflows expected from its borrowers enhance its liquidity.

### Credit challenges

**Increased portfolio vulnerability and high borrower and sectoral concentration risks** – The company is engaged in wholesale lending with real estate accounting for 86% of the total portfolio as of December 31, 2020. Client concentration remains high with the top 5 borrower groups (of the total 13 borrower groups) accounting for 58% of the portfolio as of December 31, 2020. The concerns over the asset quality have heightened, given the challenging operating environment for real estate developers due to the prolonged slowdown in sales and the funding constraints over the past two years.

XFPL reported gross non-performing assets (GNPAs) of nil as of March 31, 2021 and December 31, 2020. However, XFPL had security receipts (SRs) and asset swaps aggregating to ~18% of AUM (adjusted basis) as of December 31, 2020 compared to ~5% as of March 31, 2020. Additionally, the company had adopted one-time restructuring in line with the RBI circular on

Resolution framework for Covid-19 stress, with restructured assets aggregating to ~21% of the AUM (adjusted basis) as of December 31, 2020. The company had written off loans worth Rs. 39.75 crore in FY2020.

**Contracting AUM with limited growth outlook and subdued earnings profile** – The company's gross loan book declined to Rs. 513 crore as of March 31, 2021 from Rs. 965 crore as of March 31, 2020 and Rs. 1,442 crore as of March 31, 2019 (peak level of Rs. 1,603 crore as of March 31, 2018). XFPL witnessed healthy repayments and prepayments in FY2020 amounting to Rs. 577.65 crore compared to Rs. 404.04 crore in FY2019. The collections witnessed a slowdown in the post September 2020 compared to the pre-Covid level, post the completion of the RBI moratorium. The collection efficiency, including scheduled collections as well as prepayments, from September 2020 to February 2021 was ~145% whereas the contractual efficiency was ~45%. In 9M FY2021, the company received collections amounting to Rs. 295 crore (repayments and prepayments). The company has utilized the collections to retire their debt. With the rundown in the book and limited disbursements, XFPL's debt levels, however, have moderated from a peak of Rs. 1,121 crore as of March 31, 2018 to Rs. 308 crore as March 31, 2021.

XFPL reported a profit after tax of Rs. 40.69 crore (FY2019: Rs. 68.49 crore) with a return on assets (RoA) of 3.0% (FY2019: 4.4%) and a return on equity (RoE) of 7.5% (FY2019: 13.5%) in FY2020. The profitability further moderated in FY2021 with the company reporting a profit after tax (provisional) of Rs. 10.17 crore (RoA of 0.96%). ICRA expects the company's profitability to be impacted in FY2022 by the decline in the loan book and the higher provisioning due to potential restructuring and/or deterioration in the asset quality, given the challenging environment in the real estate sector. As a strategic direction, XFPL plans to explore other structures like syndication of larger real estate projects loans for incremental business going forward. The AUM growth is likely to be muted in the near term while the company focuses on collections and on building the pipeline in a calibrated manner, in line with the company's new strategy.

**Ability to raise funds remains critical** – With increasing challenges in resource mobilisation stemming from the current operating environment and the risk-averse sentiment of domestic investors towards non-banks, particularly wholesale-oriented entities, the ability of non-banks, including XFPL, to mobilise resources at reasonable rates is expected to remain constrained over the near to medium term. Further, the ability to maintain a healthy asset-liability management (ALM) profile, given the long-term nature of the loan book, remains a key monitorable. XFPL has a diversified borrowing profile with a demonstrated ability to raise funds from banks and the debt capital market (the company raised Rs. 225 crore via targeted long term repo operations (TLTRO) and the Partial Credit Guarantee Scheme (PCGS) in H1 FY2021). The company also has sanctioned but unutilised facilities amounting to ~Rs. 125 crore as of March 31, 2021, which provide comfort on the liquidity front.

## Liquidity position: Adequate

The company's liquidity is adequate. As per information provided by it, XFPL had cash and cash equivalents of ~Rs. 165 crore as of March 31, 2021 and its obligations amount to ~Rs. 208 crore (principal) for the next 12 months. It also has sanctioned but unutilised facilities amounting to ~Rs. 125 crore, which provide comfort on the liquidity front.

## Rating sensitivities

**Positive factors** – Given the Negative outlook, an upgrade is unlikely in the near term. ICRA could revise the outlook in case of a significant and sustained improvement in the XFPL's loan book, asset quality and profitability on a sustained basis.

**Negative factors** – The ratings could be revised if there is a significant deterioration in the asset quality or portfolio vulnerability, resulting in the weakening of collections and a subdued profitability level on a sustained basis. Pressure on the ratings could also arise on a sharp decline in liquidity.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies Policy on Withdrawal of Credit Ratings</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

Xander Finance Private Limited (XFPL) is the credit arm of Xander Group Inc., an institutional investment firm focused on long-term value investing. Xander primarily invests in companies which operate in the infrastructure, hospitality, entertainment, retail and real estate sectors, and currently manages equity capital in excess of USD 2.3 billion. The firm's experienced investment, venture and asset management teams, supported by a dedicated advisory and operations group, operate from a network of offices in London, Mauritius, New Delhi, Mumbai, Bengaluru and Singapore.

XFPL is registered as a non-deposit accepting non-banking financial company (NBFC) in India and commenced lending operations in FY2011. It is engaged in wholesale lending to companies in India, with a focus on lending to real estate developers against strong collateral and steady cashflows. XFPL is almost entirely held by Xander Credit Pte Limited, Singapore.

## Key financial indicators (audited)

Xander Finance Private Limited	FY2019	FY2020	FY2021*
Total income	245.57	221.55	140.64
Profit after tax (PAT)	68.49	40.69	10.17
Net worth	526.09	557.20	552.13
Loan book	1,442.20	965.49	512.56
Total assets	1,476.75	1,234.58	894.20
Return on assets (PAT/Avg. assets)	4.42%	3.00%	0.96%
Return on average net worth (PAT/Avg. net worth)	13.55%	7.51%	1.83%
Gearing (times)**	1.79	1.20	0.59
Gross NPA%	0.78%	0.00%	0.00%
CRAR%	36.69%	54.28%	75.84%

**Source:** Company, ICRA research; Amount in Rs. crore; \*Provisional, \*\* Includes interest accrued but not due; Excluding this, the gearing stood at 1.78x, 1.19x and 0.56x as of March 31, 2019, March 31, 2020 and March 31, 2021, respectively

Any other information: None

### Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of April 07, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				Apr 16, 2021	Nov 03, 2020	Aug 05, 2019	Aug 27, 2018	
1 Non-convertible debenture programme	Long term	500	250.00	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2 Long-term bank lines	Long term	225 (amount reduced from Rs. 325 crore)	0.00	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
3 Long-term borrowing programme	Long term	200 (amount reduced from Rs. 600 crore)	25.00	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
4 Commercial paper	Short term	100	0.00	[ICRA]A1; withdrawn	[ICRA]A1+	[ICRA]A1+	[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](http://www.icra.in)

**Annexure-1: Instrument details-**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
INE252T07057	NCD	May-02-2018	9.70%	Apr-30-2021	100.00	[ICRA]A (Negative)
INE252T07065	NCD	May-26-2020	10.25%	May-26-2023	25.00	[ICRA]A (Negative)
INE252T07073	NCD	Jul-17-2020	9.00%	Jan-14-2022	100.00	[ICRA]A (Negative)
INE252T07081	NCD	Jul-24-2020	10.25%	Apr-21-2023	50.00	[ICRA]A (Negative)
INE252T07099	NCD	Jul-30-2020	9.10%	Jan-28-2022	50.00	[ICRA]A (Negative)
-	NCD - Unallocated	NA	NA	NA	175.00	[ICRA]A (Negative)
-	Long-term Borrowing Programme -Long-term Bank Lines	NA	NA	NA	200.00	[ICRA]A (Negative)
-	Commercial Paper - Unutilised	NA	NA	NA	100.00	[ICRA]A1; withdrawn
-	Long-term Bank Lines - Term Loans - Unallocated	NA	NA	NA	225.00	[ICRA]A (Negative)

Source: Company

**Annexure-2: List of entities considered for consolidated analysis**

Not applicable

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