March 27, 2024

Adani Capital Private Limited: [ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	50.00	[ICRA]A1+; assigned
Total	**50.00**	

**Instrument details are provided in Annexure-I*

Rationale

To arrive at the rating, ICRA has taken a consolidated view of Adani Capital Private Limited (ACPL) and Adani Housing Finance Private Limited (AHFPL). These companies were promoted by the Adani Group through Adani Finserv Private Limited (AFPL). In July 2023, Bain Capital, through BCC Atlantis II Pte Ltd (BCC Atlantis), entered into a definitive agreement with AFPL for the acquisition of ACPL and AHFPL ("Bain Transaction"). The transaction involves BCC Atlantis acquiring a 93.4% stake in ACPL, which, in turn, will acquire AHFPL, making it a wholly-owned subsidiary. BCC Atlantis is expected to infuse total capital of ~Rs. 1,200 crore into ACPL as a part of this transaction, of which Rs. 900 crore would be infused via the issuance of fresh equity shares (including ~Rs. 200 crore for the acquisition of AHFPL from AFPL) while Rs. 75 crore would be through the issuance of warrants by March 2024. The remaining Rs. 225 crore would be infused within the next 18 months upon the conversion of the warrants into equity shares.

The rating notes that the consolidated capitalisation profile will improve (consolidated net worth and managed gearing of Rs. 834 crore and 4.9 times, respectively, as of December 2023) sizeably from the current levels and will remain comfortable, post the equity infusion, supporting the envisaged business expansion over the near to medium term. Reserve Bank of India (RBI) approval for change in control, management and shareholding has been received for both ACPL and AHFPL. Bain Capital would have three representatives each on the boards of ACPL and AHFPL. Further, Bain capital is expected to maintain majority stake and provide support in augmenting ACPL and AHFPL's processes, systems and governance as well as financial support, if required.

The rating considers the moderate track record of ACPL and AHFPL, which commenced operations in 2017 and 2018, respectively, and the subdued earnings profile, notwithstanding the improvement (return on managed assets (RoMA) of 1.6% in 9M FY2024 and 2.8% in FY2023 vis-à-vis 0.5% in FY2022). The consolidated assets under management (AUM) witnessed a robust compound annual growth rate (CAGR) of 49% over the last three years, reaching Rs. 3,977 crore as of March 2023 (Rs. 4,566 crore as of December 2023). However, the growth moderated in 9M FY2024 due to the slowdown in obtaining incremental funding, following the Hindenburg report on the Adani Group. Nevertheless, the asset quality continued to remain healthy with the consolidated 90+ dpd at 2.5% as of December 2023, though slightly increased from 1.5% as of March 2023. The companies are expected to continue with the existing target asset segments and business strategy without any significant changes, post the transaction.

Key rating drivers and their description

Credit strengths

Capitalisation profile shall improve after imminent equity infusion in the near term – The consolidated managed gearing[1] is adequate and stood at 4.4 times as of March 2023 (4.9 times as of December 2023). It has increased steadily over the past few years (2.6 times as of March 2021) due to the robust portfolio growth.

On the completion of the Bain transaction, a primary capital infusion will be made in ACPL (~Rs. 1,200 crore, of which Rs. 200 crore would be used by ACPL to acquire AHFPL while the balance would be growth capital for ACPL and AHFPL) in the near-to-medium term (Rs. 975 crore immediately after the completion of the transaction and Rs. 225 crore within 18 months from the completion of the transaction). The capital infusion is expected to support the consolidated portfolio growth (CAGR of 30-35%) in the next 2-3 years. ICRA expects the consolidated managed gearing to remain below 5 times during this period.

Healthy asset quality indicators – The consolidated asset quality has remained healthy in the past (including during the COVID pandemic) with its 30+dpd between 3.5-6.0% and 90+dpd between 0.4-1.6% during FY2020-FY2023. It registered some increase during 9MFY2024 in 90+ dpd to 2.5% as of December 2023 (1.5% as of March 2023) on account of sluggish collections and moderate portfolio growth. The stage 3 provision coverage improved to 43% as of December 2023 from 39% as of March 2023 while net stage 3/net worth was also comfortable at 6.0% as of December 2023 (3.6% as of March 2023). Write-offs were moderate at 0.3% in 9M FY2024 (1.0% in FY2023), largely due to losses on the repossession of vehicles in the tractor/commercial vehicle segment. ICRA expects the asset quality metrics and credit costs to remain range-bound as the company shall remain focussed on its core asset segments while targeting an improvement in its operational efficiency.

Credit challenges

Moderate track record of operations – ACPL and AHFPL have a moderate track record as they commenced operations in 2017 and 2018, respectively. The consolidated AUM rose at a robust CAGR of 49% over the last three years, resulting in an AUM of Rs. 3,977 crore as of March 2023 (Rs. 4,566 crore as of December 2023), supported by healthy disbursements across segments. Business loans constituted the largest segment at 35% of the consolidated AUM as of December 2023, followed by tractor loans at 27%, commercial vehicle loans at 16%, housing loans at 14%, loan against property (LAP) at 5% and supply chain financing at 3%.

ICRA notes the constraints in obtaining incremental funding following the Hindenburg report on Adani Group in January 2023, which resulted in a slowdown in the disbursements. Since January 2023, the management team raised about of ~Rs. 2,795 crore till date by way of term loans, pass through certificates, NCDs, direct assignments and co-lending transactions. Bain Capital had also extended a liquidity line of USD 50 mn available for the transition period, when the transaction was awaiting regulatory approval. ACPL however did not avail this facility during that period. Bain capital is expected to provide support in augmenting ACPL and AHFPL' processes, systems and governance and also extend financial support, if required. The current management {including the Managing Director (MD) and Chief Executive Officer (CEO)} would continue to run the business. The board would be further strengthened to include a few independent directors, in addition to the three nominees of Bain Capital.

Incrementally, ICRA expects disbursements to pick up again, post the completion of the acquisition by Bain Capital. ACPL and AHFPL are envisaged to revert to a robust pace of growth with a targeted portfolio of Rs. 7,000 crore and Rs. 2,000 crore, respectively, by March 2026. ICRA notes that the companies have been focussed on aggressive branch expansion in the last few years, with many of the new branches yet to achieve the desired scale of operations. The companies will focus on improving the scale and operational efficiency of these branches and new branch expansion in existing geographies. An uptick

[1] Managed gearing = (On-book debt + Off-book portfolio) / Net worth

in the share of mortgage backed business loans and home loans to 65-70% of the overall AUM could be seen in the medium term while vehicle loans and other loans would contribute the balance.

Subdued core profitability indicators, improvement however seen in the recent past – The consolidated profitability (profit after tax/average managed assets) was negative in FY2019 and FY2020 due to losses from the housing finance business and high operating expenses. Although the profitability improved subsequently, it remained subdued as the operating expense ratio stayed elevated at 5.5-6.0% (operating expenses/average managed assets) in FY2022 and FY2023 despite improving from 6.4% in FY2021. The net profitability witnessed an uptick in FY2023 to 2.8% from 0.5% in FY2022, largely supported by the gain of Rs. 98.7 crore on the assignment of assets. Although the operating expense ratio improved to 5.0% in 9M FY2024, the profitability moderated to 1.6% in 9M FY2024 due to limited assignment transactions vis-à-vis last fiscal, the unwinding of the previously recorded assignment gains on account of loan foreclosures and some compression in the excess interest spreads. Going forward, 15-20% of the total AUM is expected to be contributed by the off-balance sheet managed book.

ACPL and AHFPL have witnessed robust branch expansion to 170 branches (9 states) as of March 2023 and 172 branches (9 states) as of December 2023 from 69 branches (6 states) as of March 2021, resulting in high operating expenses. The companies are expected to slow down their branch expansion while targeting an improvement in the AUM growth of their existing branches. ICRA notes that the companies would be required to demonstrate a steady improvement in their operating efficiency, going forward, to enhance their profitability indicators in a sustained manner.

Liquidity position: Adequate

The consolidated liquidity is characterised by cash and cash equivalents of Rs. 134 crore and undrawn sanctions of Rs. 160 crore as of January 2024. The group has repayments of Rs. 368 crore due during February-April 2024 (including interest of Rs. 75 crore). The primary capital raise of Rs. 775 crore (excluding Rs. 200 crore, which would be used for the acquisition of AHFPL), which is planned to be infused by the end of March 2024, would strengthen the liquidity profile of the companies further and remains comfortable in the near term.

Funding at present has been largely through bank borrowings, which constituted about 67% of the overall borrowings as of December 2023. This was followed by pass-through certificates (PTCs; 14%), borrowings from non-banking financial companies (NBFCs)/financial institutions (FIs; 9%), NCDs (5%; including subordinated debentures), Inter corporate deposit (3%) and National Housing Bank (NHB) refinance (1%). The group has 27 lending relationships as of December 2023 and has raised about Rs.2,365 crore over the period January 2023 to December 2023 (subsequent to the Hindenburg report) by way of term loans, pass through certificates, NCDs, direct assignments and co-lending transactions. ICRA expects the consummation of the transaction and change in ownership to broaden the funding sources and strengthen their fund raising ability going forward.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A sustained increase in the managed gearing beyond 5 times and a deterioration in the asset quality profile (90+ dpd increasing beyond 5.0%), impacting the earnings profile, would lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-Banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of ACPL and AHFPL

About the company

ACPL is a non-deposit taking systemically important NBFC, classified in the middle layer of the scale-based regulations. It was incorporated in 2016 and primarily provides business loans, tractor loans, commercial vehicle loans and supply chain financing. AHFPL obtained its housing finance company (HFC) licence in 2018 and is focussed on housing loans and loan against property.

ACPL and AHFPL were promoted by Adani Group through Adani Finserv Private Limited (AFPL). In July 2023, Bain Capital, through BCC Atlantis II Pte Ltd, entered into a definitive agreement with AFPL for the acquisition of ACPL and AHFPL. Following the transaction, BCC Atlantis would hold a 93.4% stake in ACPL while AHFPL would become a subsidiary of ACPL. The transaction has received the requisite approvals from the regulator and is expected to be concluded before the end of March 2024. The companies are also expected to undergo a rebranding exercise after this, though they would continue using their existing names/branding until the same is concluded.

Bain Capital is a private investment firm founded in 1984 with approximately $180 billion in assets under management. It is focussed on private equity, public equity, fixed income, credit, venture capital and real estate investments across multiple sectors, industries, and geographies. Bain Capital has experience in investing in a diversified set of financial services businesses in India and across the globe, including Axis Bank, 360 One WAM Limited (formerly known as IIFL Wealth), Judo Bank, Kbank, L&T Finance Holdings, Legacy Corporate Lending, etc.

ACPL's AUM stood at Rs. 3,336.9 crore as of March 2023 (Rs. 3,683.1 crore as of December 2023). The consolidated AUM stood at Rs. 3,977.3 crore as of March 2023 (Rs. 4,565.7 crore as of December 2023). ACPL and AHFPL reported a consolidated net profit of Rs. 105.1 crore on a managed asset base of Rs. 4,358.6 crore in FY2023 compared with Rs. 13.0 crore and Rs. 3,147.2 crore, respectively, in FY2022. It reported a provisional net profit of Rs. 56.1 crore on a managed asset base of Rs. 5,228.9 crore in 9M FY2024.

Key financial indicators (audited)

ACPL – Standalone	FY2022	FY2023	9M FY2024*
Total income	254.2	517.5	428.4
PAT	7.2	90.7	49.5
Total managed assets	2,678.7	3,668.2	4,310.1
Return on managed assets	0.3%	2.9%	1.7%
Managed/Adjusted/Reported gearing (times)	4.0	4.6	5.0
Gross stage 3	1.5%	1.5%	2.7%
CRAR	24.7%	20.3%	18.7%

*Source: Company, ICRA Research; Amount in Rs. crore; *Provisional; Managed gearing = (on-book debt + off-book portfolio) / net worth*

ACPL – Consolidated	FY2022	FY2023	9M FY2024*
Total income	303.6	603.7	497.7
PAT	13.0	105.1	56.1
Total managed assets	3,147.2	4,358.6	5,228.9
Return on managed assets	0.5%	2.8%	1.6%
Managed/Adjusted/Reported gearing (times)	3.7	4.4	4.9
Gross stage 3	1.4%	1.5%	2.5%
CRAR	NA	NA	NA

*Source: Company, ICRA Research; Amount in Rs. crore; *Provisional; Managed gearing = (on-book debt + off-book portfolio) / net worth*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 27, 2024			
1	**Commercial paper**	Short term	50.0	0.0	**[ICRA]A1+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Yet to be placed	**Commercial paper**	NA	NA	NA	50.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Adani Capital Private Limited	-	Full consolidation
Adani Housing Finance Private Limited	-*	Full consolidation

**Expected to become a wholly-owned subsidiary of ACPL by end of March 2024*

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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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