ICRA

July 18, 2017

Xander Finance Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long Term Borrowing Programme	1,000.00	Upgraded to [ICRA]A+ from [ICRA]A; outlook revised to stable from positive
Commercial Paper/Short Term Debt Programme	300.00	[ICRA]A1+; reaffirmed
Total	**1,300.00**	

*Instrument Details are provided in Annexure-1

Rating action

ICRA has upgraded the long term ratings for the Rs. 1,000 crore long term borrowing programme of Xander Finance Private Limited (XFPL) to [ICRA]A+ (pronounced ICRA A plus) from [ICRA]A (pronounced ICRA A). The outlook on the long term rating has been revised from positive to stable. ICRA has also reaffirmed the short term rating of [ICRA]A1+ outstanding on the Rs. 300 crore commercial paper/short term debt programme of XFPL.

Rationale

The rating upgrade takes into account the healthy performance of the company with a scaling up of loan book, consistent profitability metrics, its improved funding profile with sizeable borrowings raised from public, private banks (borrowings from twelve banks as on March 31, 2017 as compared to seven as on March 31, 2016), strong process orientation, comfortable gearing and strong capitalization levels. The rating continues to factor in the sponsor profile of XFPL, the entity is owned by the Xander Group Inc., an institutional investment firm having considerable experience, knowledge and investment exposure in the Indian market. The ratings also take into account XFPL's leadership, strong core management team comprising seasoned industry professionals, its sound credit assessment, underwriting and risk management processes, experienced credit committee, robust borrowing profile through leading banks and its focus on secured lending with emphasis on strong cash flow visibility and adequate security cover from the project. ICRA has also taken comfort from the expectation of further equity support being available to XFPL from its parent group or other institutional investors as it expands its portfolio. Furthermore, the company's healthy capitalization levels, demonstrated ability to mobilise debt funding and healthy liquidity profile with the presence of undrawn bank lines provides the company with headroom to grow given the strong deal pipeline; XFPL's leveraging plans remain modest with peak expected gearing of around 3 times.

These strengths are however offset by the moderate operating track record of the entity in the Indian credit market, its wholesale lending model leading to highly concentrated nature of its portfolio which exposes asset quality to sharp deterioration in case of any slippages, and high sectoral concentration with predominant portion of the exposures being to real estate sector (78% as on March 31, 2017). However the company has built-up a lending team for corporate lending with the objective to diversify its loan book outside real estate. Going forward, the ability of the company to manage its growth while maintaining sound asset quality profile would be a key monitorable. Other key sensitivities for the company include the ability to diversify its exposures both borrower-wise and sectorally, mobilise funding resources at cost effective rates to fund its growth requirements and maintain prudent capitalisation.

Key rating drivers

Credit strengths

- Strong sponsor profile being owned by The Xander Group Inc., an institutional investment firm having considerable investment experience in the Indian real estate sector
- Leadership and strong core management team of the company
- Sound composition and experience of credit committee
- Strong credit assessment and risk management processes and focus on secured lending with adequate cover
- Healthy asset quality indicators hitherto with Nil gross and net NPAs as at March 31, 2016 and zero delinquencies in the current portfolio
- Healthy capitalization level (Net worth of Rs. 456 crore as on March 31, 2017); leveraging plans going forward remain moderate with peak gearing of 3x over the long term

Credit weaknesses

- Moderate operating track-record in the Indian credit market, however the past experience of the credit committee members and senior management in the Indian real estate market provides comfort from operational capability perspective
- High credit and borrower concentration due to presence in wholesale lending business which makes the company vulnerable to asset quality related shocks
- High sectoral concentration with real estate accounting for ~78% of current loan book (as on March 31, 2017); however, Xander's prudent underwriting process, continuous effort to further diversify in the non-RE space and rigorous portfolio monitoring provides comfort.

Description of key rating drivers

XFPL is the credit arm of the Xander Group Inc., an institutional investment firm focused on long term, value investing. Xander invests primarily in companies which operate in the infrastructure, hospitality, entertainment, retail and real estate sectors, and currently manages equity capital in excess of US$ 2 billion. XFPL remains an integral part of the Group's growth plans, and draws the advantage of leveraging the group's network and domain expertise. For instance the company enjoys operational support from the group in terms of representation on the credit committee. The company has an experienced senior management team, comprising seasoned industry professionals, at the helm.

XFPL commenced its operations from FY2011 and since then the company has concluded 58 credit transactions of which 34 are outstanding while the others have been closed post repayment/prepayment. As of March 31, 2017, XFPL had a loan-book of Rs. 1,251 crore up from Rs. 984 crore, as on March 31, 2016. In the non-real estate segment, the company has a sector agnostic approach and provides funding for re-financing, working capital, related expansion or acquisition purposes in well-established on ongoing businesses. The company's exposures have been focused on the key metropolitan cities like Mumbai, NCR, Bangalore, Chennai, Hyderabad and Kolkata (recently) due to better opportunity and sales velocity in these markets and going forward, the company's focus is likely to remain in similar geographies.

The company has maintained strong asset quality with nil Gross and Net NPAs as at March 31, 2017 and zero delinquency in its current portfolio. While these reflect favourably on the company's deal selection strategy and sound security and cash flow monitoring mechanisms put into place, given the high concentration of loan book, the company remains inherently more vulnerable to a lumpy deterioration in asset quality in case of any slippages. The company's ability to grow its book while maintaining asset quality remains a key rating sensitivity.

The company remains adequately capitalized with a net worth of Rs. 456 crore and a capital adequacy ratio of 36.28% as on March 31, 2017. XFPL also has a diversified borrowings profile with funds raised from banks and from the debt capital market (accounting for 88% and 12% respectively of total borrowings as on March 31, 2017). XFPL has also demonstrated ability of reducing cost of funds through diversification in its borrowing mix without adversely impacting the overall ALM of the firm. The gearing of XFPL remains moderate at 1.8 times as on March 31, 2017 as compared to 1.3 times as on March 31, 2016. The liquidity profile of XFPL also remains strong on the back of its demonstrated ability to raise funds and is further supported by access to sufficient undrawn term loans and fund based facilities from banks. In the medium to long term, the company plans of keeping their gearing under 3 times giving adequate headroom to grow their portfolio.

Supported by the growth in the advances book, the fund based income for Xander increased by 40% to Rs. 175 crore during FY2017 as compared to Rs. 126 crore during FY2016 with the yields remaining almost stable. The interest expenses of the company however kept pace with increased leverage at lower costs leading to the net interest margins remaining almost stable. With operating expenses increasing marginally from 1.42% to 1.54%, the return on asset (RoA) for XFPL declined to 5.22% during FY2017 from 5.53% during FY2016. There was however an increase in the leverage of the company from 1.3 times as on March 31, 2016 to 1.8 times as on March 31, 2017 which led to the return on equity (RoE) improving to 13.6% during FY2017 from 11.3% during FY2016.

Analytical approach:
For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria
ICRA's Credit Rating Methodology for Non-Banking Finance Companies

About the company:
Xander Finance Private Limited (XFPL) is the credit arm of the Xander Group Inc., a institutional investment firm focused on long term, value investing. Xander invests primarily in companies which operate in the infrastructure, hospitality, entertainment, retail and real estate sectors, and currently manages equity capital in excess of US$ 2 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 NBFC in India and commenced its lending operations in FY 2011. The company is engaged in wholesale lending to companies in India, with a focus on lending to real estate developers against strong collateral. XFPL is almost entirely held by Xander Credit Pte Limited, Singapore.

In FY 2017, XFPL reported a PAT of Rs. 59.6 crore on a loan book of Rs. 1251 crore and net worth of Rs. 456 crore compared to PAT of Rs. 46.3 crore on a loan book of Rs. 984 crore and net worth of Rs. 421 crore in the previous fiscal.

Financial Indicators:

	FY2016	FY2017
Total Income	129.92	175.47
Profit after tax (PAT)	46.34	59.59
Net Worth	420.93	456.47
Total managed portfolio	983.78	1251.31
Total managed assets	996.93	1287.19
Return on managed assets (PAT/AMA)	5.53%	5.22%
Return on average net worth (PAT/Avg. net worth)	11.26%	13.58%
Gearing	1.32	1.76
Gross NPA%	0.00%	0.00%
Net NPA%	0.00%	0.00%
Net NPA/Net worth	0.00%	0.00%
CRAR%	42.76%	36.28%

#AMA – average managed asset
Source: Company; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table:

Sr. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years				
		Type	Rated amount (Rs. crore)	July 2017	FY2017	FY2016	FY2015		
					July 2016	June 2015	October 2014	August 2014	June 2014
1	Long term borrowing programme	Long term	1,000.00	Upgraded to [ICRA]A+(stable) from [ICRA]A (positive)	[ICRA]A reaffirmed; outlook revised to positive	[ICRA]A (stable)	Upgraded to [ICRA]A (stable)	[ICRA]A- (stable)	[ICRA]A- (stable) assigned
2	Commercial paper/Short term debt programme	Short term	300.00	[ICRA]A1+	[ICRA]A1+ assigned	-	-	-	-

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

Annexure-1
Instrument Details

Instrument	**Date of Issuance/ Sanction**	**Coupon Rate**	**Maturity Date**	**Amount Rated (Rs. crore)**	**Current Rating and Outlook**
Term Loans	NA	NA	2017-2021	710.38	[ICRA]A+(stable)
Cash Credit	NA	NA	NA	94.88	[ICRA]A+(stable)
NCD		11.50% (annual)	Feb 3, 2018	50.00	[ICRA]A+(stable)
NCD		11.50% (annual)	Aug 3, 2018	50.00	[ICRA]A+(stable)
Commercial Paper	NA	NA	14-365 days	300.00	[ICRA]A1+

Source: Company

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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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