Xander Finance Private Limited

February 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Bank Lines	-	500.00	[ICRA]A+(stable); assigned
Long-Term Borrowing Programme	1,000.00	1,000.00	[ICRA]A+(stable); outstanding
Commercial Paper	300.00	300.00	[ICRA]A1+; outstanding
Total	**1,300.00**	**1,800.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the rating of [ICRA]A+ (pronounced ICRA A plus) to the Rs. 500.00 crore long-term bank lines of Xander Finance Private Limited (XFPL). The outlook on the long-term rating is 'Stable'.

ICRA also has a rating of [ICRA]A+ (stable) outstanding for the Rs. 1,000 crore long-term borrowing programme and the rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding for the Rs. 300 crore commercial paper programme of XFPL.

Rationale

The rating 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 and private banks, 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, 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 (70% as on December 31, 2017). However, the company has built-up a team for corporate lending with the objective to diversify its loan book outside real estate. During the current fiscal the company reported a marginal deterioration in asset quality with gross non-performing assets to advances (GNPA %) increasing to 0.84% as of December 31, 2017 from nil reported till March 31, 2017 on account of slippage in one real estate account. However, the asset quality continues to remain adequate. ICRA also draws comfort from the measures taken by XFPL's in its proactive resolution, sound credit assessment with conservative underwriting norms, strong process orientation and adequate risk management systems. 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.

Outlook: Stable

ICRA believes XFPL would continue to benefit from the Group's track record in the real estate space (both on the investment and lending fronts) in the Indian markets and its experienced senior management team. The outlook may be revised to 'Positive" if the company is able to increase its scale of operations while maintaining stable asset quality indicators and healthy internal accruals. The outlook may be revised to 'Negative' if there is sharp deterioration in asset quality indicators which would adversely impact its profitability.

Key rating drivers

Credit strengths

Strong sponsor profile and strong core management team - XFPL is the credit arm of the Xander Group Inc. (Xander), 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, with an equity portfolio of over US$ 2 billion currently under management. 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 which further supports its operations.

Sound credit assessment process –XFPL has a multi-step approval process before final sanction underlining the sound and extensive credit assessment framework put in place. As a part of its credit philosophy, XFPL engages only in secured lending with cash flows of the real estate project predominately being the primary security while land mortgage; share pledge; corporate guarantee and promoter personal guarantee are the other collaterals taken along with escrow of cash flows with a pre-designated waterfall mechanism and debt service reserve account (DSRA) and interest service reserve account (ISRA) requirements being built in the deals to enhance credit security. Further, the escrow accounts are monitored on a regular basis while the bank statement and MIS reports monitored on a monthly basis. The company's selective deal selection strategy thus far and secured nature of all exposures; good collateral covers and its high engagement in cash flow monitoring provide comfort from a credit perspective. However, given the focus on the real estate industry, particularly given the slowdown in the real estate sector, the credit risks remain moderate-high.

Healthy capitalisation levels and modest gearing plans in the long term - The company remains adequately capitalized with a net worth of over Rs. 487 crore and a capital adequacy ratio of 36.33% as on December 31, 2017 supported by capital infusion from its parent in the past and the adequate internal capital generation of XFPL. During FY2017, XFPL reported a return on asset (RoA) of 5.2% and a return on equity (RoE) of 13.6%. The leverage of XFPL was 1.79 times as of March 31, 2017. Going forward, the company would look to maintain a gearing of around 3 times with further capital support from its parent or marquee institutional investors expected to remain forthcoming as the company grows its business.

Healthy asset quality indicators; higher than regulatory provision maintained on loan assets – While the private equity arm of the Xander Group has been operational in India since 2005, XFPL has been operational for over 7 years. During its moderate operational period, the company has demonstrated its ability to maintain healthy asset quality indicators with NIL delinquencies as on March 31, 2017. As of December 31, 2017 however, the gross NPA% and the net NPA% stood at 0.84% and 0.75% respectively following slippage in one account during Q2FY2018. XFPL continues to have charge on adequate security on the loan asset and will continue to make provisions as per regulatory requirements. Further, XFPL has been maintaining significantly higher standard asset provisioning than those prescribed under regulations which would further aid in absorbing further provisioning requirements. Going forward, given the high concentration in its loan book, ability of the company to maintain its asset quality indicators which growing its business would remain a rating sensitivity.

Comfortable liquidity position supported by access to unutilised bank lines and fund based limits from banks - XFPL has a diversified borrowings profile with funds raised from banks and from the debt capital market. XFPL has also demonstrated ability of reducing cost of funds through diversification in its borrowing mix (borrowings from thirteen banks as on December 31, 2017 as compared to seven as on March 31, 2016) without adversely impacting its overall asset liability profile. The healthy capitalisation provide further enhances the company's financial flexibility. The liquidity profile of XFPL also remains comfortable supported by access to sufficient undrawn term loans and fund-based facilities from banks and XFPL's demonstrated ability to raise funds from banks and from the capital markets. In the medium to long term, the company plans of keeping their gearing around 3 times giving adequate headroom to grow their portfolio.

Credit challenges

Moderate operating track-record in the Indian credit market - XFPL commenced its operations from FY2011 and since then the company has concluded 70 credit transactions of which 38 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. The loan book further grew to Rs. 1,345 crore as on December 31, 2017. The growth of XFPL thus remains moderate however its past experience in the Indian real estate market provides comfort from operational capability perspective.

High borrower concentration due to presence in wholesale lending business; high sectoral concentration – While the company has a strong and experienced senior management team and a sound credit appraisal process in place, the wholesale nature of its lending business remains inherently vulnerable to asset quality shocks whereby the asset quality indicators can deteriorate sharply in case of slippages in a few accounts. XFPL's portfolio also remains concentrated sectorally, having 70% of its overall portfolio towards the real estate (RE) segment albeit XFPL's efforts to diversify in the corporate lending space provides some comfort on this front.

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 Brokerage Houses
ICRA's Approach for Rating Commercial Papers

About the company

Xander Finance Private Limited (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. 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 profit after tax (PAT) of Rs. 59.59 crore on a loan book of Rs. 1251 crore and net worth of Rs. 456 crore compared to PAT of Rs. 46.34 crore on a loan book of Rs. 984 crore and net worth of Rs. 421 crore in the previous fiscal. During 9MFY2018, XFPL reported a PAT of Rs. 43.63 crore.

Key financial indicators (audited)

	FY2016	FY2017	9MFY2018 (unaudited)
Total Income	129.92	175.47	151.84
Profit after tax (PAT)	46.34	59.59	43.63
Net Worth	420.93	456.47	487.62
Total managed portfolio	983.78	1,251.31	1,345.20
Total managed assets	996.93	1,287.19	1,374.56
Return on managed assets (PAT/AMA)	5.53%	5.22%	4.37%
Return on average net worth (PAT/Avg. net worth)	11.26%	13.58%	12.32%
Gearing	1.32	1.76	1.72
Gross NPA%	0.00%	0.00%	0.84%
Net NPA%	0.00%	0.00%	0.75%
Net NPA/Net worth	0.00%	0.00%	2.08%
CRAR%	42.76%	36.28%	36.33%

Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Name of Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec-17 (Rs Crore)	February 2018	FY2018	FY2017	FY2016
						Jul-17	Jul-16	Jun-15
1	Long term bank lines	Long term	500.00	-	[ICRA]A+(stable) assigned	-	-	-
2	Long term borrowing programme	Long term	1,000.00	840.03	[ICRA]A+(stable)	Upgraded to [ICRA]A+(stable) from [ICRA]A (positive)	[ICRA]A reaffirmed; outlook revised to positive	[ICRA]A (stable)
3	Commercial paper/Short term debt programme	Short term	300.00	-	[ICRA]A1+	[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

ISIN No	Instrument Name		Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore) ^	Current Rating and Outlook
-	Long-term borrowing programme	Term Loans	2015	NA	2021	689.14	[ICRA]A+(stable)
-		Cash Credit	NA	NA	NA	50.89	[ICRA]A+(stable)
		Bank Lines	NA	NA	NA	159.97*	[ICRA]A+(stable)
INE252T07016		NCD #	4-Aug-15	11.50%	3-Feb-18	50.00	[ICRA]A+(stable)
INE252T07024		NCD	4-Aug-15	11.50%	3-Aug-18	50.00	[ICRA]A+(stable)
-	Long-term bank lines		NA	NA	NA	500.00*	[ICRA]A+(stable)
-	Commercial Paper		NA	NA	14-365 days	300.00*	[ICRA]A1+

^ As on December 31, 2017

*Unallocated

NCDs with maturity date falling due on 3-Feb-2018 have been fully repaid

Source: Xander Finance Private Limited

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Samriddhi Chowdhary
+91 22 6114 3462
samriddhi.chowdhary@icraindia.com

Amaan Elahi
+91 22 6114 3448
amaan.elahi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999