

Caspian Impact Investments Private Limited

July 09, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	0.00	80.00	[ICRA]BBB (Positive); Assigned
Non-convertible Debenture Programme	80.00	80.00	[ICRA]BBB (Positive); Reaffirmed, Outlook revised from Stable
Fund based - Term Loan	55.00	90.00	[ICRA]BBB (Positive); Reaffirmed, Outlook revised from Stable
Fund based - Working Capital Facilities	20.00	20.00	[ICRA]A2; Reaffirmed
Total	155.00	270.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 90.00-crore bank facilities (enhanced from Rs. 55 crore) and Rs. 80-crore non-convertible debenture (NCD) programme and assigned the long long-term rating of [ICRA]BBB to the Rs. 80.00-crore NCD programme of Caspian Impact Investments Private Limited (CII)¹. ICRA has also reaffirmed the short-term rating of [ICRA]A2 (pronounced ICRA A two) outstanding on the Rs. 20.00-crore short-term fund-based bank facilities of CII. The outlook on the long-term rating has been revised to Positive from Stable.

Rationale

The revision in outlook factors in CII's calibrated growth and diversification in portfolio while maintaining good asset quality indicators. The ratings continue to factor in CII's experienced management team and good sector expertise in the target segments, as well as its robust loan appraisal, due diligence and portfolio monitoring mechanisms, and the risk coverage through guarantees from Rabo Foundation, Rabo Rural Fund and United States Agency for International Development (USAID), which mitigate the credit risk to an extent. The ratings also positively factor in CII's comfortable capitalisation indicators (gearing of 1.74 times as on March 31, 2018), its strong liquidity profile, and the benefits derived from the sharing of management, processes and resources with Caspian Impact Investment Adviser Private Limited (CIA).

The ratings are, however, constrained by CII's moderate scale of operations (portfolio of Rs. 339.43 crore as on March 31, 2018), and its moderate profitability indicators (return on assets of 2.28% and return on equity of 5.88% during FY2018). ICRA nevertheless takes cognisance of the company's diversification into other asset classes including food & agriculture, healthcare, clean energy & energy efficiency, general impact institutions and financial inclusion enablers. Going forward, achieving the planned portfolio growth while maintaining the asset quality indicators will be critical for CII's credit profile.

¹ For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

Outlook: Positive

The Positive outlook reflects ICRA's confidence that CII will continue to benefit from the extensive experience of its management in the sectors of operations and grow profitability while maintaining good asset quality. The outlook may be revised to Stable or Negative if the asset quality witnesses an unexpected dip, or if any major write-offs impact the company's capitalisation and profitability indicators.

Key rating drivers

Credit strengths

Experienced management team; good due diligence and monitoring mechanisms and strong risk management systems

- CIA has a track record of over a decade as an investment adviser and fund manager. The senior management has established knowledge and expertise in the microfinance, rural finance and housing finance sectors. While the group started with a focus on the microfinance sector, it later ventured into other sectors including small business loans, affordable housing, food & agriculture, healthcare, and clean energy & efficiency. The core management team has good knowledge on the segments of operations and the company has a robust credit evaluation process involving detailed due diligence, on-site visits, centralised credit decision-making, and strict portfolio monitoring mechanisms, which have allowed it to maintain a strong asset quality. However, the company's ability to maintain good asset quality as it grows in scale and ventures into newer segments would be critical from a credit perspective.

Guarantees mitigate risk, to an extent, of exposure towards relatively weaker entities - CII has access to guarantee facilities from Rabo Foundation, Rabo Rural Fund and USAID. The same is used on a need basis for extending financing support to companies with high potential but weaker credit. As on March 31, 2018, the portfolio under guarantee of the overall portfolio was 21% and proportion of unrated portfolio under guarantee was 36% with 50% of the portfolio amount guaranteed.

Adequate capitalisation indicators - CII remains adequately capitalised. Gearing remained comfortable at 1.74 times as on March 31, 2018. Incremental capital requirement over the next three years remains low as the company plans to grow at a modest CAGR of 35-40% with target gearing of up to 4 times.

Strong liquidity profile - CII's liquidity profile remains comfortable with positive cumulative mismatches across all buckets. The company had adequate cash balance, liquid mutual fund investments and unutilised funding lines and has maintained 4 months of liquidity vis-à-vis industry average of 2-3 months.

Credit challenges

Moderate scale of operations - The company's overall portfolio grew 53% to Rs. 339.43 crore as on March 31, 2018 from Rs. 221.28 crore as on March 31, 2017, majorly supported by the scaling up of volumes in the small business financing, food & agriculture, healthcare, and clean energy & efficiency segments. Going forward, the company is expected to scale up volumes in the non-financial segments. The company's ability to continue to add new clients, increase the scale and diversify into newer segments would be critical for future business growth.

Moderate risk profile of portfolio - CII's focus sectors include institutions engaged in microfinance, small business financing, food & agriculture and affordable housing finance and development. However, the share of other segments including healthcare, clean energy & efficiency, general impact institutions and financial inclusion enablers has increased to 23% as on March 31, 2018 from 8% as on March 31, 2017. Although the strong credit evaluation and risk management systems and guarantee cover mitigate credit risk to an extent, the company's ability to scale up volumes in newer segments while maintaining good asset quality will be tested over time.

Lack of diversity in funding mix – CII’s funding profile remains concentrated with relationships with five entities as on March 31, 2018. However, the company has diversified its borrowing profile by adding Bank of Baroda and A.K. Capital during FY2018. The company also has access to short-term facilities from Bank of Baroda and IndusInd Bank. CII has been able to decrease its cost of funds by raising incremental funds at competitive rates and by closing earlier high-cost loans. Cost of funds moderated from 13.15% during FY2017 to 10.07% during FY2018. The company’s ability to reduce its reliance on a few entities and diversify its borrowing profile would be critical from a credit perspective.

Moderate profitability indicators – CII’s profitability indicators, though improving were moderate with ROA of 2.3% and ROE of 5.9% in FY2018 on account of relatively high operating expenses in relation to scale of operations. However, CII’s profitability is expected to improve, going forward, on account of higher yields owing to incremental growth expected from the higher-yielding segments and some moderation in operating expenses. The company’s ability to improve profitability while keeping its credit costs under control would be critical from a credit perspective.

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

Links to applicable criteria:

[Rating Methodology for Non-Banking Finance Companies](#)

About the company

Caspian Impact Investments Private Limited (CII) is registered as a non-deposit taking non-systemically important non-banking finance company (NBFC). Launched in 2013, CII is the third fund to be set up and managed by Caspian Impact Investment Adviser Private Limited (CIA). CII extends debt to enterprises with businesses that strive to create a social and/or environmental impact, in a responsible, transparent and sustainable manner. CII offers term loans, working capital loans, bridge loans, subordinated loans, and securitised papers with ticket sizes varying from Rs. 1 – 15 crore and tenure ranging from 0.5-5 years.

CII’s focus sectors include microfinance (MFI), small business financing (SBF), food & agriculture (F&A), affordable housing finance and development (AHFD) and other segments including healthcare, clean energy & efficiency, general impact and financial inclusion enablers. The company’s overall portfolio grew 52% to Rs. 339.43 crore as on March 31, 2018 from Rs. 221.28 crore as on March 31, 2017, majorly supported by the scaling up of volumes in the SBF, F&A, healthcare, clean energy & efficiency sectors.

CII reported a net profit of Rs. 7.52 crore on a managed asset base of Rs. 365 crore in FY2018 compared to a net profit of Rs. 4.09 crore on a managed asset base of Rs. 294.62 crore in FY2017. The company had a net worth of Rs. 131.91 crore as on March 31, 2018 and gearing of 1.74 times.

Key financial indicators (audited)

	FY2017	FY2018
Total Income (Rs. crore)	38.6	40.6
PAT (Rs. crore)	4.1	7.5
Net worth (Rs. crore)	124.4	131.9
Total Managed Portfolio (Rs. crore)	221.3	339.4
Total Managed Assets (Rs. crore)	294.6	365.1
RoMA (%)	1.6%	2.3%
ROE (%)	4.0%	5.9%
Gearing (times)	1.3	1.7
Gross NPA (%)	0.00%	0.00%
Net NPA (%)	0.00%	0.00%
Net NPA / Net worth (%)	0.00%	0.00%
CAR (%)	50.53%	36,41%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Disclosure: A member of the board of directors of ICRA Limited (ICRA) is also a shareholder of Caspian Impact Investments Private Limited (formerly known as Bellwether Micro Finance Fund Private Limited). 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 last three years:

		Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years					
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2016
				July 2018	January 2018	July 2017	August 2016	March 2016	
1 NCD	Long Term	40.00	33.61	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
2 NCD	Long Term	40.00	33.80	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	
3 NCD	Long Term	63.00	62.05	[ICRA]BBB (Positive)	-	-	-	-	
4 NCD	Long Term	17.00	16.60	[ICRA]BBB (Positive)	-	-	-	-	
5 Term Loan 1	Long Term	30.00	25.00	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	-	-	-	
6 Term Loan 2	Long Term	25.00	20.00	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	-	-	-	
7 Term Loan 3	Long Term	10.00	10.00	[ICRA]BBB (Positive)	-	-	-	-	
8 Term Loan 4	Long Term	20.00	20.00	[ICRA]BBB (Positive)	-	-	-	-	
9 Working Capital Demand Loan	Short Term	20.00	3.90	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	

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
NA	Term Loan – 1	19-Jun-2017	NA	19-Jun-2020	30.00	[ICRA]BBB (Positive)
NA	Term Loan – 2	15-Dec-2017	NA	14-Jun-2020	25.00	[ICRA]BBB (Positive)
NA	Term Loan – 3	28-Jun-2018	NA	28-Dec-2019	10.00	[ICRA]BBB (Positive)
NA	Term Loan – 4	28-Jun-2018	NA	Yet to be drawn	20.00	[ICRA]BBB (Positive)
NA	Working Capital Demand Loan - 1	22-Dec-2017	NA	22-Dec-2018	20.00	[ICRA]A2
INE059K07030	NCD Programme	5-Apr-2016	12.08%	2-Jan-2022	40.00	[ICRA]BBB (Positive)
INE059K07048	NCD Programme	19-Aug-2016	11.41%	2-Jan-2022	40.00	[ICRA]BBB (Positive)
INE059K07014	NCD Programme	9-May-2014	12.00%	9-May-2019	17.00	[ICRA]BBB (Positive)
INE059K07022	NCD Programme	2-Mar-2015	10.00%	2-Jan-2022	63.00	[ICRA]BBB (Positive)

Source: Caspian Impact Investments Private Limited

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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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