Capital First Limited

November 26, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	5,000.00	6,000.00	[ICRA]A1+; assigned
Total	**5,000.00**	**6,000.00**	

Rating action

ICRA has assigned a rating of [ICRA]A1+ (pronounced as ICRA A one plus) for the Rs. 6,000 crore (enhanced from Rs. 5,000 crore) commercial paper programme of Capital First Limited (Capital First).

Rationale

The assigned rating factors in the company's strong institutional investor profile, experienced management team, healthy operational track-record, well-diversified resource profile and adequate liquidity profile. Capital First was engaged in wholesale funding till FY2011, when it realigned its strategy to focus on a retail business model. ICRA takes note that the shift towards retail segment in the last few years has provided more granularity to the portfolio. While assigning the rating, ICRA has also taken note of the moderate seasoning of the company's retail portfolio, relatively riskier profile of some of its product segments like consumer durable and two wheeler loans and increasing share of unsecured lending. However, the company's robust credit appraisal systems and risk management processes, with a focus on analytics, have enabled stable asset quality indicators. The company's wholesale portfolio is exposed to credit risks given the moderate risk profile and large ticket size of these exposures. ICRA also takes note of the higher operating expenses of the company on account of its increasing presence in the more cost intensive retail segment. Going forward, the company's ability to scale up its operations while maintaining asset quality and improving profitability remains critical from a credit perspective. While assigning the rating ICRA has taken note of company's impending merger with IDFC Bank Limited which was announced in January 2018. The proposed merger is in advanced stages and is expected to conclude by Q3 FY2019. ICRA would continue to monitor the developments and take an appropriate rating action as and when required.

Outlook: Not Applicable

Key rating drivers

Credit strengths

Strong institutional investor profile with significant shareholding of affiliates of Warburg Pincus and GIC Pte. Ltd. (Singapore's sovereign wealth fund); seasoned senior management team– In FY2013, Warburg Pincus in partnership with Mr. Vaidyanathan acquired the company from its erstwhile promoters. Over the years, several institutional investors have come on board thus diversifying the company's shareholding profile. As of September 30, 2018, Warburg Pincus remained the largest shareholder in the company holding a 35.52% stake, followed by Government of Singapore along with its affiliates which holds 14% stake. Other prominent institutional investors include National Westminster Bank, Government Pension Fund Global (Norway), Aditya Birla Sun Life Trustee Private Limited and HDFC Asset Management. The company is led by an experienced senior management team consisting of seasoned industry professionals with demonstrated experience in retail lending.

Retail oriented portfolio which provides more granularity to loan book and reduces concentration risk – The company was earlier engaged in wholesale funding and shifted its focus to retail lending in FY2011. The company provides a range of retail loans including micro, small and medium enterprises (MSME) loans, home loans, two-wheeler loans, consumer loans and other retail loans. Over the last few years, the share of retail loans in the company's overall assets under management (AUM) has increased substantially. The company had an asset under management (AUM) of Rs. 32,377 crore as on September 30, 2018 (on a consolidated basis). Retail loans attributed to 91% of the overall loan book as of September 30, 2018 as compared with 84% as of March 31, 2015. Of the retail AUM, MSME loans constitute a sizeable 57% of which over two-thirds are backed by mortgage as collateral while the rest are unsecured. Two-wheeler, consumer durable, home and other retail loans constituted 9%, 5%, 7% and 13% of the AUM respectively as on September 30, 2018. Moreover, the company has increased its focus on strengthening the analytics and risk management system to proactively modify credit policy for the retail loan book.

Stable asset quality indicators – While there was an increase in the reported NPA level for the company in FY2018 with the shift to a 90 days past due (dpd) basis of recognition from 120 dpd in the earlier year, the Gross NPA on 90 dpd basis continue to remain stable. The NPA levels increased in the current fiscal, with the gradual seasoning of the portfolio, with the company reporting gross NPA and net NPA of 1.91% and 0.91% respectively as of September 30, 2018.

Diversified borrowing profile and Comfortable liquidity – Capital First has a well-diversified borrowing profile with a mix of bank and debt market borrowings. The company has relationships with 308 financial institutions (220 as of March 31, 2017) including banks, mutual funds, banks, insurance companies, pension funds, gratuity, superannuation funds, insurance companies, etc. The liquidity profile remains adequate supported by cash and liquid balances and presence of undrawn lines. The company's demonstrated ability of raising funds provides further comfort. The asset liability profile remains favourable with positive mismatches across all buckets.

Credit weaknesses

Higher operating expenses associated with retail product segments – The company's increasing presence in the cost intensive retail segments has resulted in higher operating expenses over the past few fiscals (FY2014 to FY2018). The operating expenses increased to 5.90% of its average total assets (ATA) in FY2018 (on a consolidated basis) from 5.14% in FY2017, with the company expanding its reach and strengthening its employee base. Consequently, the company reported moderate profitability numbers with return on assets of 1.49% and return on equity of 13.31% in FY2018 as compared with 1.48% and 11.92% respectively in FY2017. Given the retail business model, the employee and other operational expenses are expected to remain high. However, scaling up of business coupled with extensive use of analytics is likely to result in cost savings going forward.

Moderate seasoning of the retail book – Given that there has been a significant ramp-up in the company's retail operations in the past three years (especially the two-wheeler, consumer durable and other retail loans), the book is moderately seasoned. As the MSME loans have tenures of 3-5 years, the company is yet to establish a longer-term performance track record in this key product segment.

Ability to maintain asset quality given the relatively risky profile of the asset mix – The MSME segment has emerged as a key business segment for the company with its share stable at around 60% of the loan book (on a consolidated basis) over the previous few fiscals. Within the MSME segment, the unsecured business loan segment is gaining prominence with its share in the loan book increasing to 20% as on September 30, 2018 from 8% as on March 31, 2015. Cashflow assessment, which is an integral part of the credit appraisal process for the MSME sector remains challenging given the inadequacies in the conventional methods when applied to this sector. This, thus, necessitates more detailed understanding and analysis of the borrower cashflows to estimate credit worthiness. Additionally, there is also an increase in the share of other relatively higher risk profile segments like consumer durable loans and two-wheeler loans. The company's ability to maintain healthy asset quality with the scaling up of loan book remains a critical monitorable.

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

Capital First Limited is a non-deposit taking, systemically important, non-banking financial company (NBFC-ND-SI) registered with the Reserve Bank of India. The company is engaged in retail funding and provides debt capital to consumers, self-employed professionals and MSMEs in India. Capital First is listed on both the National Stock Exchange and the Bombay Stock Exchange. Capital First was founded in FY2013 through a management buyout of an existing listed NBFC led by Mr. V. Vaidyanathan and backed by Warburg Pincus. During the change in ownership, the company reconstituted its board, started new business lines, and created a new brand and entity called Capital First. The company provides financing to Indian consumers for home loans, other consumption loans and to small businesses for working capital, business expansion, plant and machinery purchase, office automation and other such purposes. Capital First Limited has three subsidiaries, Capital First Home Finance Limited registered as a housing finance company with the National Housing Bank (NHB), Capital First Commodities Limited and Capital First Securities Limited.

Key Financial Indicators

	FY2017	FY2018	H1 FY2019
Net Operating Income	1,568	2,239	1,270
Profit after tax	239	327	206
Net-worth	2,304	2618	2,928
Loan Book (AUM)	19,936	27,273	32,377
Total assets	17,655	26,168	29,536
Return on assets	1.48%	1.49%	1.48%
Return on equity	11.92%	13.31%	14.86%
Gross NPA	0.94%#	1.64%*	1.91%*
Net NPA	0.29%#	0.98%*	0.91%*
Capital adequacy ratio	20.34%	15.88%	15.75%
Gearing	6.19	8.43	8.56

Note: All numbers are on consolidated basis; Amounts in Rs. Crore
 # 120 days past due NPA recognition
** 90 days past due NPA recognition*

Liquidity position

Capital First Limited, on a consolidated basis, had total liquidity of over Rs. 2,200 crores including cash and fixed deposits of Rs. 1,090 crore and liquid investments of Rs. 1,120 crore. The company also has undrawn lines of Rs. 1,532 crore as of November 12, 2018. The company receives inflows (collections) of ~Rs. 1,300 crore on a monthly basis. The liquidity profile thus remains adequate in terms of near-term maturities (Rs. 6,021 crore of repayment obligations in H2 FY2019). The company has a demonstrated ability of raising funds which provides comfort.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Nov-18	Sep-18	July-18	Chronology of Rating History for the past 3 years FY2018 Jan-18	Jan-18	Oct-17	Jul-17	FY2017 -	FY2016 -
1	Commercial Paper Programme	Short term	6,000	NA	[ICRA]A1+; assigned	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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

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	Commercial Paper Programme	NA	NA	7-365 days	6,000.00	[ICRA]A1+

Source: Capital First Limited

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About ICRA Limited:

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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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