

February 14, 2022

Xander Finance Private Limited: Rating downgraded and outlook revised to Stable; rating downgraded and withdrawn for matured and unutilised NCDs and long-term borrowing programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD Programme	425.00	0.00	[ICRA]BBB+ (Stable); Downgraded from [ICRA]A (negative) and withdrawn
NCD Programme	75.00	75.00	[ICRA]BBB+ (Stable); Downgraded from [ICRA]A (Negative)
Long-term Fund-based TL	225.00	225.00	[ICRA]BBB+ (Stable); Downgraded from [ICRA]A (Negative)
Long-term Borrowing Programme	100.00	0.00	[ICRA]BBB+ (Stable); Downgraded from [ICRA]A (negative) and withdrawn
Long-term Borrowing Programme	100.00	100.00	[ICRA]BBB+ (Stable); Downgraded from [ICRA]A (Negative)
Total	925.00	400.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has withdrawn the rating assigned to the Rs. 425-crore non-convertible debenture (NCD) programme and Rs. 100-crore long-term borrowing programme of Xander Finance Private Limited (XFPL) as no amount is outstanding against the rated instruments. The rating was withdrawn at the request of the company and as per ICRA's policy on the withdrawal of credit ratings.

The rating revision takes into account the continued shrinkage in XFPL's assets under management (AUM), deterioration in asset quality and the limited growth outlook for the medium term. XFPL's AUM declined to Rs. 312 crore as of September 30, 2021 from Rs. 516 crore as of March 31, 2021, in line with company's strategy, and the peak of Rs. 1,603 crore as of March 31, 2018 with the company focusing on collections and curtailing disbursements in light of the challenging operating environment. This, coupled with incremental slippages, resulted in a deterioration in the company's asset quality with the reported gross non-performing assets (GNPAs) increasing to 4.6% of advances as of September 30, 2021 from nil as of March 31, 2021. Additionally, XFPL had security receipts (SRs), asset swaps and restructured assets (including one-time restructuring in line with the Reserve Bank of India's (RBI) circular on the Resolution Framework for Covid-19 Stress) aggregating ~62% of the AUM (adjusted basis)¹ as of September 30, 2021 compared to ~40% as of March 31, 2021 and ~5% as of March 31, 2020.

The revision in the outlook to Stable from Negative factors in the comfortable capitalisation and low gearing level. The rating continues to factor in the company's healthy capitalisation levels, low gearing and the domain experience of the sponsor. With the rundown in the book, XFPL's debt level moderated to Rs. 250 crore as of September 30, 2021 from a peak of Rs. 1,121 crore as of March 31, 2018 while the gearing improved to 0.6 times from 2.3 times during this period. XFPL has repaid Rs. 150 crore of borrowings in the month of January 2022 resulting into gearing ratio of 0.3 times as of January 31, 2022.

¹ AUM inclusive of SRs and restructured book

XFPL plans to explore other structures like syndication of larger real estate project loans for incremental business as its new business strategy. The AUM is expected to moderate further over the near term, given the limited disbursements and the company's focus on collections, in line with its new strategy. This, coupled with credit costs owing to higher provisioning due to potential restructuring and/or deterioration in the asset quality, would continue to keep the profitability under pressure.

Going forward, the company's ability to successfully implement its revised strategy and achieve a meaningful growth in its AUM would remain critical from a credit perspective. XFPL's ability to improve its collections profile and maintain sound asset quality and profitability would be a monitorable.

Key rating drivers and their description

Credit strengths

Domain expertise of sponsor – XFPL is the credit arm of Xander Group Inc., an institutional investment firm focused on long-term value investing. Xander primarily invests in companies which operate in the infrastructure, hospitality, entertainment, retail and real estate sectors, with an equity portfolio of over USD 2.3 billion currently under management. XFPL draws the advantage of leveraging the Group's network and domain expertise. ICRA notes that XFPL is a board-run company and has inducted three senior external directors with significant experience in the financial services space on its board and has established teams across independent specialised functions which are managed by experienced professionals under the board's guidance. The board is chaired by the Senior Partner of Xander Group Inc., who has served on the company's board for over a decade and is actively involved in running the key affairs of XFPL.

Comfortable capitalisation level and low gearing – XFPL remains adequately capitalised with a capital adequacy ratio of ~46% as of September 30, 2021 compared to ~63% as of March 31, 2021 supported by internal capital generation. With the rundown in the book, XFPL's debt level moderated to Rs. 250 crore as of September 30, 2021 from the peak of Rs. 1,121 crore as of March 31, 2018 while the gearing improved to 0.6 times from 2.3 times during this period. The borrowings declined to Rs. 124.75 crore as of January 31, 2022 on back of repayment of Rs. 150 crore of borrowings in January 2022. ICRA expects the gearing to moderate further over the near term with the gradual amortisation of the book as well as the refinancing of an existing loan.

Credit challenges

Deterioration in asset quality; high portfolio vulnerability given the borrower and sectoral concentration risks – The company is engaged in wholesale lending with real estate accounting for 81% of the total portfolio as of September 30, 2021. Client concentration remains high with the top 5 borrower groups (of the total 8 borrower groups) accounting for 67% of the portfolio as of September 30, 2021. Concerns over the asset quality have heightened, given the challenging operating environment for real estate developers due to the prolonged slowdown in sales and the funding constraints over the past two years. XFPL reported GNPA's of 4.6% as of September 30, 2021 (nil as of March 31, 2021). However, it had SRs, asset swaps and restructured accounts (including one-time restructuring in line with the RBI's circular on Resolution Framework for Covid-19 Stress) aggregating ~62% of the AUM (adjusted basis) as of September 30, 2021 compared to ~40% as of March 31, 2021 and ~5% as of March 31, 2020.

Contracting AUM with limited growth outlook and subdued earnings profile – The company's gross loan book declined to Rs. 312 crore as of September 30, 2021 from Rs. 516 crore as of March 31, 2021 (peak of Rs. 1,603 crore as of March 31, 2018). witnessed healthy repayments and prepayments amounting to Rs. 402.98 crore in FY2021 (Rs. 577.65 crore in FY2020 and Rs. 404.04 crore in FY2019). The collection efficiency, including scheduled collections as well as prepayments, from October 2020 to September 2021 was ~265%. In H1 FY2022, the company received collections amounting to Rs. 122.57 crore (repayments and prepayments).

With the rundown in the book and limited disbursements, XFPL’s debt level, however, moderated to Rs. 124.75 crore as of January 31, 2022 and Rs. 308 crore as March 31, 2021 from the peak of Rs. 1,121 crore as of March 31, 2018. XFPL reported a profit after tax of Rs. 3.94 crore (FY2020: Rs. 40.69 crore) with a return on assets (RoA) of 0.4% (FY2020: 3.0%) and a return on equity (RoE) of 0.7% (FY2020: 7.5%) in FY2021. The profitability remained muted in H1 FY2022 with the company reporting a profit after tax (provisional) of Rs. 4.04 crore (RoA of 1.0%). ICRA expects the company’s profitability to be impacted in FY2022 by the decline in the loan book and the higher provisioning due to potential restructuring and/or deterioration in the asset quality, given the challenging environment in the real estate sector. As a strategic decision, XFPL plans to explore other structures like syndication of larger real estate projects loans for incremental business going forward. The AUM growth is likely to be muted in the near term while the company focuses on collections and on building the pipeline in a calibrated manner, in line with its new strategy.

Ability to raise funds remains critical – With increasing challenges in resource mobilisation and the risk-averse sentiment of domestic investors towards non-banks, particularly wholesale-oriented entities, the ability of non-banks, including XFPL, to mobilise resources at reasonable rates is expected to remain constrained over the near to medium term. Further, the ability to maintain a healthy asset-liability management (ALM) profile, given the long-term nature of the loan book, remains a key monitorable. While the company has a diversified borrowing profile, the debt outstanding has declined significantly with the scaling down of operations. Going forward, the company’s ability to raise fresh borrowings would be critical from a credit perspective.

Liquidity position: Adequate

The company’s liquidity is adequate. As per information provided by it, as of January 31, 2022, XFPL had cash and cash equivalents of Rs. 20.5 crore compared to Rs. 7.75 crore of debt servicing obligations over the next six months (comprising interest servicing with nil scheduled principal repayment over the next six months). The cash credit (CC) lines of Rs. 49.75 crore are up for renewal in June 2022. The company is expecting cash inflows of Rs. 50 crore through realisation from loan book (pre-payment) as well as Rs. 14 crore of contractual inflows in the next three months. XFPL’s ability to collect in a timely manner as well as renew the CC lines and/or raise funds through fresh borrowings remains a key monitorable.

Rating sensitivities

Positive factors – ICRA could revise the rating in case of a material pickup in incremental business along with a significant and sustained improvement in the asset quality and profitability.

Negative factors – The rating could be revised in case of further shrinking of the loan book, thereby resulting in a subdued profitability level. Pressure on the rating could also arise on the weakening of the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA’s Credit Rating Methodology for Non-Banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Xander Finance Private Limited (XFPL) is the credit arm of Xander Group Inc., an institutional investment firm focused on long-term value investing. Xander primarily invests in companies which operate in the infrastructure, hospitality, entertainment, retail and real estate sectors, and currently manages equity capital in excess of USD 2.3 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 non-banking financial company (NBFC) in India and commenced lending operations in FY2011. It is engaged in wholesale lending to companies in India, with a focus on lending to real estate developers against strong collateral and steady cashflows. XFPL is almost entirely held by Xander Credit Pte Limited, Singapore.

Key financial indicators

Xander Finance Private Limited	FY2020	FY2021	H1 FY2022*
Total income	221.55	140.49	31.51
Profit after tax (PAT)	40.69	3.94	4.04
Net worth	557.20	545.01	423.93
Net loan book	951.92	475.14	296.13
Total assets	1,234.58	884.73	687.85
Return on assets (PAT/Avg. assets)	3.0%	0.4%	1.0%
Return on average net worth (PAT/Avg. net worth)	7.5%	0.7%	1.7%
Gearing (times)	1.2	0.6	0.6
Gross NPA%	0.0%	0.0%	4.6%
CRAR%	54.3%	63.2%	46.0%

Source: Company, ICRA Research; * Figures as per limited review results; All ratios as per ICRA's calculations
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Current Rating (FY2022)		Chronology of Rating History for the Past 3 Years			
				Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				Feb 14, 2022	Apr 16, 2021	Nov 03, 2020	Aug 05, 2019	Aug 27, 2018	
1 NCD Programme	Long term	75.00	75.00	[ICRA]BBB+ (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2 Long-term Fund-based TL	Long term	225.00	0.00	[ICRA]BBB+ (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
3 Long-term Borrowing Programme	Long term	100.00	49.75	[ICRA]BBB+ (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
4 NCD Programme	Long term	425.00	0.00	[ICRA]BBB+ (Stable); withdrawn	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
5 Long-term Borrowing Programme	Long term	100.00	0.00	[ICRA]BBB+ (Stable); withdrawn	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	

Source: Company; *As of January 31, 2022

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD Programme	Simple
Long-term Fund-based TL	Very Simple
Long-term Borrowing Programme	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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE252T07065	NCD	May-26-2020	10.25%	May-26-2023	25.00	[ICRA]BBB+ (Stable)
INE252T07081	NCD	Jul-24-2020	10.25%	Apr-21-2023	50.00	[ICRA]BBB+ (Stable)
INE252T07073	NCD	Jul-17-2020	9.00%	Jan-14-2022	100.00	[ICRA]BBB+ (Stable); withdrawn
INE252T07099	NCD	Jul-30-2020	9.10%	Jan-28-2022	50.00	[ICRA]BBB+ (Stable); withdrawn
INE252T07057	NCD	May-02-2018	9.70%	Apr-30-2021	100.00	[ICRA]BBB+ (Stable); withdrawn
NA	NCD - Unutilised	NA	NA	NA	175.00	[ICRA]BBB+ (Stable); withdrawn
NA	Long-term Borrowing Programme	NA	NA	NA	100.00	[ICRA]BBB+ (Stable); withdrawn
NA	Long-term Borrowing Programme	NA	NA	NA	100.00	[ICRA]BBB+ (Stable)
NA	Long-term Bank Lines - Term Loans - Unutilised	NA	NA	NA	225.00	[ICRA]BBB+ (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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