

## Rating Rationale

June 01, 2020 | Mumbai

## Adani Capital Private Limited

'CRISIL AA-/Stable' assigned to NCD

## Rating Action

Total Bank Loan Facilities Rated	Rs.1100 Crore
Long Term Rating	CRISIL AA-/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.50 Crore Non Convertible Debentures	CRISIL AA-/Stable (Assigned)
Rs.100 Crore Short Term Non Convertible Debenture	CRISIL A1+ (Reaffirmed)
Rs.150 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments &amp; Bank Facilities

**Detailed Rationale**

CRISIL has assigned its '**CRISIL AA-/Stable**' rating to the non-convertible debentures of Rs 50 crore of Adani Capital Private Limited (Adani Capital; a part of the Adani group). Ratings on the other debt instruments and bank loan facilities of Adani Housing have been reaffirmed at '**CRISIL AA-/Stable/CRISIL A1+**'.

The ratings on the debt instruments and bank loan facilities of Adani Capital continues to reflect strong support from the Adani group, both on an ongoing basis and in case of distress. This reflects the strategic importance of Adani Capital, a part of the financial services business of the group and moral obligation of the group to support the company given its majority shareholding and common brand. The rating also factors in the financial services businesses' (consolidated for Adani Capital and Adani Housing Finance Pvt Ltd (Adani Housing)) comfortable capitalisation and experienced management. These strengths are partially offset by limited track record of the group in the lending business.

From an industry perspective, the nationwide lockdown from March 25 till May 31, 2020, declared by the Government of India to contain the spread of the Covid-19 pandemic, will have near-term impact on disbursements and collections of companies. However, the lockdown restrictions has now been eased partially, based on classification of zones, in a phased manner. Any delay in return to normalcy will exert further pressure on collections and asset quality metrics of financial sector entities.

On the liability side, the Reserve Bank of India (RBI) announced regulatory measures under 'Covid-19 - Regulatory Package', whereby lenders were permitted to grant moratorium on bank loans. CRISIL understands that currently, Adani Capital and Adani Housing are not availing of any moratorium on its bank loans.

On the asset side, Adani Capital and Adani Housing have offered moratorium to their borrowers and hence, the collections are expected to be below scheduled collections till August 31, 2020. Thereafter, collections could witness challenges as the income streams of the borrowers in MSME finance and affordable housing segment are likely to be impacted given the current challenging macro environment. CRISIL believes that Adani Capital and Adani Housing have sufficient liquidity to manage this period wherein asset-side collections will be impacted, while liability-side outflows continue as per schedule. In terms of liquidity, Adani Capital and Adani Housing, as on May 31, 2020, have liquidity of Rs 264 crore (Rs 139 crore of cash and equivalents and Rs 125 crore of unutilized bank lines). Against the same, they have total debt payments of Rs 94 crore over the next four months till September 30, 2020.

**Analytical Approach**

For arriving at the rating, CRISIL has combined the financial services business of the Adani group, which includes Adani Capital and Adani Housing, as there are strong linkages in terms of operation, management, infrastructure, and treasury. The rating also factors in the strong managerial and operational support from the Adani group. The group should support these entities, in business as usual and in distress situations, as and when required, considering the strategic importance of the financial services business to the group and high moral obligation owing to majority shareholding and shared brand.

Please refer Annexure - Details of Consolidation, which captures the list of entities considered and their analytical treatment of consolidation.

**Key Rating Drivers & Detailed Description****Strengths:****\* Expectation of strong support from the Adani group**

The financial services businesses are an important avenue for the Adani group, which are engaged in corporate, micro, small, and medium enterprises and mortgage financing. The group, through its step-down subsidiaries, has 90% stake in both Adani Capital and Adani Housing and is expected to maintain this at a minimum 75% at all times. The group is one of the large conglomerates in India and has identified financial services as a key focus growth area for the long term. Moreover, Adani Capital's MSME lending business is expected to also tap into suitable business opportunities in the ecosystem of the Adani group entities

The financial services businesses will also benefit from the shared brand in raising resources and building relationship with banks, other lenders and investors. A common brand implies a strong moral obligation on the group to support the financial services businesses both, in business as usual and in distress situations, as and when required. Apart from capital support, the financial services businesses also derive managerial and operational benefits from the group.

The Adani group is a diversified conglomerate whose credit risk profile is strengthened by market leadership in the ports, power generation, transmission, and trading segments. It has strong operating efficiencies and execution track record in most of its businesses. The promoter holding companies have strong financial flexibility, driven by the high market value of their holdings in the listed operating companies (around Rs 0.92 lakh crore as on March 31, 2020).

The rating is sensitive to the credit risk profile of the Adani group. Any material increase in the groups consolidated leverage levels or significant enhancement in debt in the promoter holding companies vis-a-vis the market value of their investments in the operating companies will remain key monitorables.

**\* Adequate access to capitalisation**

Adani Capital has adequate access to capital to scale up its business, with the group having committed equity capital of Rs 600 crore to the combined financial services businesses over the medium term. Of this, Rs 330 crore was drawn down as of March 2020 by Adani Capital. Gearing, at consolidated level for the financial services business, is expected to increase as business scales up but is not likely to exceed 4 times by fiscal 2021. CRISIL expects strong capital support from the Adani group to the lending arms, both for growing business over the medium term and also to cover any asset side risks.

**\* Experienced management**

The financial services businesses have experienced management teams to run operations and scale up business in both the housing finance and non-housing finance businesses. Long track record and extensive experience of the management team in the financial services space has helped establish the group's track record in the lending business in the three plus years since inception.

**Weaknesses:****\* Limited track record of operations**

Adani Capital commenced operations in 2017 in the MSME finance and corporate finance segments. Housing finance business commenced operations in 2018 in the housing loan and loan against property (LAP) segments. The Loan book of Adani Capital increased to around Rs 1002 crore as on March 31, 2020 from Rs 521 crore as on March 31, 2019. Loan book of the financial services businesses stands at around Rs 1173 crore as on March 31, 2020. The businesses have focused on putting in place sound credit appraisal and risk management processes to support ramp-up in business with minimal credit costs. Ability to grow the loan book and manage asset quality as the portfolio seasons will be key monitorables.

**Liquidity Strong**

Liquidity for the financial services business is comfortable. Adani Capital and Adani Housing has adequate cash and liquid fund investments in mutual fund (Rs. 139 crore), and further cushion available through unutilised bank lines (Rs 125 crore) as on May 31, 2020. As on May 31, 2020, total debt obligation of the company till September 30, 2020 is 94 crore.

**Outlook: Stable**

CRISIL believes Adani Capital, along with Adani Housing, will continue to derive financial, managerial, and operational support from the Adani group and its promoter family, and will maintain comfortable capitalisation.

**Rating Sensitivity Factors:****Upward Factor**

- \* Upward revision in CRISIL's credit view on Adani group
- \* Significant scale up in market position of the financial services businesses while maintaining asset quality (gross NPA <1%) and earnings profile on a sustained basis

**Downward Factor**

- \* Reduction in the expected support to the financial services businesses by Adani group, or a downward revision in CRISIL's credit view on Adani group

\* Deterioration in asset quality with gross NPA increasing to above 3%, over an extended period, thereby also impacting profitability.

### About the Company

The Adani group is a diversified conglomerate with operations ranging from mines, ports, power generation and transmission, and real estate. The group has more than 11,000 employees in India and abroad.

Adani Capital received the non-banking financial company license in 2017 and has two main lines of business: MSME finance and corporate finance. The MSME finance will mainly include business loans, farm sector finance, commercial vehicle loans, and supply chain finance. In corporate finance, the company will opportunistically lend to mid-sized corporates. As of March 2020, Adani Capital has 59 operational branches in Gujarat, Maharashtra, Rajasthan and Karnataka. Loan book of Rs 1002 crore as on March 31, 2020, consists of 93% MSME finance and 7% corporate finance. Over the medium term, the company will be focusing on the MSME finance to grow the portfolio.

### Key Financial Indicators - Adani Capital & Adani Housing

As on / for the year ended		Mar-20	Mar-19
Total assets	Rs crore	1398	643
Total income	Rs crore	155	73
Profit after tax	Rs crore	0.92	1.7
Gross NPA	%	0.5	Negligible
Return on assets	%	0.1	0.4
Gearing	Times	2.1	0.6

### Key Financial Indicators - Adani Capital (Standalone)

As on / for the period ended		Mar-20	Mar-19
Total assets	Rs crore	1210	575
Total income	Rs crore	135	70
Profit after tax	Rs crore	6.3	6.2
Gross NPA	%	0.4	Negligible
Return on assets	%	0.7	1.6
Gearing	Times	2.5	0.7

**Any other information:** Not applicable

### Note on complexity levels of the rated instrument:

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### Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Rating Assigned with Outlook
INE01EQ07012	Short term NCDs	31-Dec-19	NA	31-Dec-20	48	CRISIL A1+
INE01EQ07020	Short term NCDs	27-Feb-20	NA	26-Feb-21	50	CRISIL A1+
NA	Short term NCDs*	NA	NA	NA	2	CRISIL A1+
NA	Commercial Paper	NA	NA	7 to 365 Days	150	CRISIL A1+
NA	Non-convertible debentures*	NA	NA	NA	50	CRISIL AA-/Stable
NA	Term Loan	NA	NA	10-Sep-2022	150	CRISIL AA-/Stable
NA	Term Loan	NA	NA	25-Dec-2022	100	CRISIL AA-/Stable
NA	Term Loan	NA	NA	26-Nov-21	50	CRISIL AA-/Stable
NA	Term Loan	NA	NA	15-Oct-2022	25	CRISIL AA-/Stable
NA	Term Loan	NA	NA	31-Dec-2022	100	CRISIL AA-/Stable
NA	Term Loan	NA	NA	26-Dec-2022	25	CRISIL AA-/Stable
NA	Term Loan	NA	NA	20-Jan-2023	25	CRISIL AA-/Stable
NA	Term Loan	NA	NA	13-Mar-2023	25	CRISIL AA-/Stable
NA	Term Loan	NA	NA	18-Mar-2024	50	CRISIL AA-/Stable
NA	Term Loan	NA	NA	01-Apr-2023	100	CRISIL AA-/Stable
NA	Term Loan#	NA	NA	NA	75	CRISIL AA-/Stable
NA	Working Capital Demand Loan	NA	NA	NA	115	CRISIL A1+
NA	Proposed short term bank	NA	NA	NA	85	CRISIL A1+

	loan facility					
NA	Proposed Long term bank loan facility	NA	NA	NA	175	CRISIL AA-/Stable

\*yet to be issued

#yet to be utilized

**Annexure - List of entities consolidated**

Entity consolidated	Extent of consolidation	Rationale for Consolidation
Adani Capital Pvt Ltd	Full	Operational, financial and managerial linkages along with shared brand
Adani Housing Finance Pvt Ltd	Full	Operational, financial and managerial linkages along with shared brand

**Annexure - Rating History for last 3 Years**

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	150.00	CRISIL A1+	17-04-20	CRISIL A1+	26-12-19	CRISIL A1+	31-12-18	CRISIL A1+		--	--
						28-11-19	CRISIL A1+	14-09-18	CRISIL A1+			
						25-04-19	CRISIL A1+	08-08-18	CRISIL A1+			
						29-03-19	CRISIL A1+	26-06-18	CRISIL A1+			
								07-06-18	CRISIL A1+			
Non Convertible Debentures	LT	0.00 01-06-20	CRISIL AA-/Stable		--		--		--		--	--
Short Term Non Convertible Debenture	ST	98.00 01-06-20	CRISIL A1+	17-04-20	CRISIL A1+	26-12-19	CRISIL A1+		--		--	--
Fund-based Bank Facilities	LT/ST	1100.00	CRISIL AA-/Stable/ CRISIL A1+	17-04-20	CRISIL AA-/Stable/ CRISIL A1+	26-12-19	CRISIL AA-/Stable/ CRISIL A1+	31-12-18	CRISIL AA-/Stable/ CRISIL A1+		--	--
						28-11-19	CRISIL AA-/Stable/ CRISIL A1+	14-09-18	CRISIL AA-/Stable/ CRISIL A1+			
						25-04-19	CRISIL AA-/Stable/ CRISIL A1+	08-08-18	CRISIL A1+			
						29-03-19	CRISIL AA-/Stable/ CRISIL A1+	26-06-18	CRISIL A1+			

All amounts are in Rs.Cr.

**Annexure - Details of various bank facilities**

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Proposed Long Term Bank Loan Facility	175	CRISIL AA-/Stable	Proposed Long Term Bank Loan Facility	350	CRISIL AA-/Stable
Proposed Short Term Bank Loan Facility	85	CRISIL A1+	Proposed Short Term Bank Loan Facility	85	CRISIL A1+
Term Loan	725	CRISIL AA-/Stable	Term Loan	550	CRISIL AA-/Stable
Working Capital Demand Loan	115	CRISIL A1+	Working Capital Demand Loan	115	CRISIL A1+
<b>Total</b>	<b>1100</b>	<b>--</b>	<b>Total</b>	<b>1100</b>	<b>--</b>

**Links to related criteria**[Rating Criteria for Finance Companies](#)[CRISILs Criteria for Consolidation](#)[CRISILs Criteria for rating short term debt](#)[Criteria for Notching up Stand Alone Ratings of Companies based on Group Support](#)**For further information contact:**

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