Capri Global Capital Limited (Revised)
July 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Non-Convertible Debenture	750 (Rupees Seven Hundred Fifty crore only)	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	**Reaffirmed**
Bank Facilities	3,750 (Rupees Three Thousand Seven Hundred & Fifty crore only)	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating factors in healthy capitalization levels of Capri Global Capital Limited (CGCL) with low gearing and increasing granularity on the back of rising proportion of secured MSME lending book. The rating also factors in CGCL's experienced management, stable profitability and adequate liquidity buffers.

The rating is constrained by moderate track record of CGCL in lending business, exposure to relatively riskier segments albeit secured portfolio, deterioration in asset quality, geographical concentration and relatively moderate scale of operations with moderate portfolio seasoning.

Key rating sensitivities:

Positive Factors: Factors that could lead to positive rating action/upgrade

- Stability at the senior management level on a sustained basis.
- Strong liquidity on consistent basis and improvement in business levels

Negative Factors: Factors that could lead to negative rating action/downgrade

- Adjusted Gearing ratio exceeding 3.5x
- Inability to scale up asset size by 15% per annum
- Deterioration in asset quality with GNPA rising above 6% by March 2022; and above 5% post FY2022
- Decline in profitability with ROTA falling below 2.5%

Outlook: Negative

The outlook continues to be negative due to the company's exposure to the real estate and MSME segments, which are presently experiencing challenging economic environment due to Covid 19 disruption and refinancing risk. The loan book has shown muted growth in last three years, profitability has remained flat, and asset quality has shown some deterioration over the last 3 years. Also, CARE Ratings would closely monitor the asset quality and collection efficiency of CGCL going forward owing to the disruption due to COVID-19. The negative outlook will be revised to stable, if there is sustained growth in their loan portfolio with profitability, improvement in asset quality and improvement in outlook

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

towards residential real estate and MSME segments (small ticket size business loans secured against immovable property).

Detailed description of the key rating drivers

Key Rating Strengths

Healthy capital adequacy with low gearing

CGCL has a healthy capital adequacy ratio of 35.47% (PY: 38.00%) at the end of March 2021 with Tier I CAR at 35.02% (PY: 37.21%). The capital adequacy continues to remain comfortable and well above the regulatory requirements. The tangible net worth increased from Rs.1,448 crore in FY20 to Rs.1,587 crore in FY21 but the Debt-to-equity ratio increased to 1.66x as on March 31, 2021, from 1.44x as on March 31, 2020, on account of increased borrowings, however it is at comfortable level currently.

Experienced Board and management team

The Board of Directors of CGCL consists of eminent personalities in the field of administration, banking and finance. Mr. Rajesh Sharma is the Managing Director of CGCL. He has more than 26 years of experience in the field of Capital Markets and Financial services. In July 2020, the company's CFO Mr. Ashish Gupta resigned from the position and Mr. Raj Ahuja has been appointed as the Group CFO.

The other key management members also have significant experience in the lending business in various banks and NBFCs. Stability at the Board and senior management level is critical for sustainable scale-up of business and will remain a key rating monitorable.

Moderate profitability

Total income declined marginally by 1.06% y-o-y in FY21 due to decline in the net interest income on loans, partly offset by the increase in other income. PAT increased 5.74% y-o-y to Rs.143.5 crore (PY: Rs.135.7 crore) on a total income of Rs.576 crore (PY: Rs. 582.2 crore). However, profitability metrics slightly weakened with ROTA of 3.57% in FY21 as compared to 3.83% in FY20, NIM declined marginally to 8.11% as compared to 9.25% in FY20 and RONW declined slightly to 9.46% in FY21 from 9.77% in FY20. Operating expenses to average total assets has reduced from 4.24% in FY20 to 3.19% in FY21. Given the uncertainties and its potential impact on the macro and micro factors, the company has made total provision of Rs.46.27 crore in FY21 for expected credit loss on financial assets which includes management overlay provision of Rs.15.78 crore.

Key Rating Weaknesses

Moderate track record, relatively moderate scale of operations and moderate seasoning of portfolio

CGCL started Wholesale (Construction Finance - CF) lending in the beginning of FY12 by disbursing loans mainly to real estate players. In the last quarter of FY13, the company started lending to secured MSME segment (secured by charge over immovable property), which is largely underserved by the formal banking system (Self Employed Non-Professional borrowers). The outstanding portfolios for Wholesale (Construction Finance) and MSME was at Rs.873 crore and Rs.2,512 crore respectively as on March 31, 2021. The average tenure of the Wholesale (CF) loan is 3-4 years and MSME is up to 7 years and considering the growth in the loan portfolio in the last few years, there is moderate seasoning of portfolio.

Geographical concentration risk & Exposure to relatively riskier sectors albeit with secured portfolio

CGCL has increased the area of operations to 10 states. The concentration of exposure of MSME segment in top 7 state stood at 96% in FY21 and continues to remain high. However, the relative concentration within the top states has improved in the last year. The exposure in Delhi NCR stood at 25%, Gujarat at 23%, Madhya Pradesh at 23%, Maharashtra at 14%, and Rajasthan at 12%. The concentration of CF segment in Top 5 regions was 75% of the total exposure as on March 31, 2021. The exposure in Mumbai MMR stood at 25%, Ahmedabad at 19%, Delhi-NCR stood at 12%, Pune stood at 12% and Bangalore stood at 8%.

The MSME book has also grown from Rs.748 crore as on March 31, 2016, to Rs.2,512 crore as on March 31, 2021. Out of the total MSME portfolio, Rs.182 crore of portfolio was restructured on March 31, 2021.
The CF book had grown from Rs.311 crore as on March 31, 2016, to Rs.962 crore as on March 31, 2020, however the CF book has reduced to Rs.873 crore as on March 31, 2021, due to prepayments/balance transfers in Q3 and Q4 of FY21. The seasoning of the portfolio is moderate. 53 projects out of total 126 projects were under moratorium during 1st wave of Covid. All these accounts are standard currently with no fresh slippages in FY21.

Moderate Business Growth with increasing portfolio granularity

The company's loan portfolio registered a growth of 18% y-o-y from Rs.3,137 crore as on March 31, 2020, to Rs.3,692 crore as on March 31, 2021. The Wholesale (Construction Finance) book declined by 9.25% y-o-y from Rs.962 crore in March 31, 2020 to Rs.873 crore in March 31, 2021, highlighting the company's efforts to consciously reduce their dependence on Construction Finance and diversify their loan portfolio. The MSME book grew 22.67% y-o-y from Rs.2,047 crore in March 31, 2020 to Rs.2,512 crore in March 31, 2021. The Indirect Lending (IL) segment (lending to smaller NBFC's), which was started in FY18, increased from Rs.31 crore as on March 31, 2020, to Rs.50 crore as on March 31, 2021. The loan book as on March 31, 2021, included Rs.257 crore of short-term deployment with maturity of 6-9 months. Excluding the short-term deployment, the overall portfolio grew by 12.96% in FY21.

The management had a cautious stance on disbursement since H1FY20 which led to de-growth in CGCL's CF & IL book while it maintained the MSME book at similar level. However, disbursements picked up in H2FY21 and so CGCL registered a growth of 17.69% in the loan portfolio for the year FY21. The loan portfolio growth will remain as key rating monitorable.

The company is de-risking by increasing share of direct channel (DST) to 100% to source new clients with no reliance on DSAs model which was discontinued by the Company in 2018. DST model has allowed CGCL to expand to small towns by opening up new branches. Number of branches has increased from 85 in FY19 to 87 in FY21.

Total number of clients in CF book are 126 and top 10 clients account for 31.64% of CF loan book, 7.15% of the overall loan book and 17% of the Net worth. The average ticket size for Wholesale (Construction Finance) reduced to Rs.6.9 crore as on March 31, 2021 (PY: Rs.7 crore) and that for MSME portfolio rose marginally to Rs. 0.17 crore (PY: Rs.0.16 crore) for MSME portfolio. For IL vertical, the ticket size is between Rs.5- 15 crore with tenure of 1-3 years.

Deterioration in asset quality

As on March 31, 2021, CGCL's Gross Stage 3 ratio stood at 3.82% (P.Y.: 2.69%). The Net Stage 3 ratio (excluding the provisions for standard assets) stood at 2.78% (P.Y.: 1.91%) as on March 31, 2021. Net Stage 3 to Net worth ratio (excluding the provisions for standard assets) stood at 6.27% (P.Y.: 4.03%) as on March 31, 2021. The increase in NPAs in FY21 was mainly attributable to the higher delinquencies in the MSME segment. However, the company's MSME portfolio is fully secured, and ultimate credit cost is likely to be lower. CARE expects that GNPA may inch up in FY2022 due to Covid-19 impact, however, we expect that GNPA ratio would revert to the current level after FY2022.

Substantial deterioration in NPA numbers would remain a key rating sensitivity.

Concentrated Resource Profile

The resource profile of CGCL is concentrated in terms to lender segment. Around 75% of the borrowings outstanding as on March 31, 2021, was through term loans whereas 25% of the borrowings are through NCD's. Majority of the lenders of the entire outstanding term loan borrowings as on March 31, 2021, are PSU banks. However, within this lender segment, CGCL has been able to diversify with borrowing from 12 banks and financial institutions. CGCL has raised Rs.1,325 crores in FY21 from various PSU banks of which Rs.825 crores are through Term loans and Rs.500 crores are from NCD. The Company is currently focusing on growing the book size hence the Company has not undertaken securitization transaction so far

CGCL did not avail any moratorium during the first lockdown and has been raising funds at competitive rates while it also continues to prepay its loans to reduce our interest cost. The average cost of funds reduced from 10.19% in FY20 to 8.84% in FY21 due to reset of MCLRs at lower level and reduction in credit spreads.

Liquidity - Adequate

CGCL's cash and cash equivalent balance increased to Rs.265 crore as on May 31, 2021, which sufficiently covers the company's repayments in up to September 2021 which stood at Rs.168 crore. Moreover, the business collections in next one year stood at Rs.1,167 crore, resulting in a positive mismatch. CGCL's unutilized term loans and working capital loans were at Rs.445 crore. Going forward, as per CGCL's liquidity policy, they shall continue to maintain healthy cash and cash equivalent for minimum next 3 months debt repayment obligations. CGCL has repaid/prepaid 70% of its total term loan liabilities for FY21-22 as on June 30, 2021.

Impact of Covid-19

CGCL's business was majorly impacted due to 1st wave of Covid-19 with very low disbursements in Q1FY21, but the disbursements saw a rise post September 2020. The collection efficiency improved on a month-on-month basis and was around pre-covid level in March 2021. The asset quality witnessed moderation in FY21. In accordance with RBI Directions for COVID-19 relief measures, CGCL restructured around Rs.182 crore of loans in MSME segment in March 2021. CGCL reduced disbursements in April 2021 and May 2021 due to 2nd wave of Covid and majorly focused on improving the collection efficiency, however the collection efficiency dipped in April and May 2021. The disbursements have resumed, and collection efficiency has also improved in June 2021.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Non-Banking Financial Companies
Financial ratios – Financial Sector

About the Company

Capri Global Capital Ltd (CGCL) is a BSE & NSE listed systemically important non-deposit taking NBFC primarily involved in secured MSME lending (secured by charge over immovable property) business and Construction Finance lending. The company received certificate of registration from RBI on November 05, 2007 and is promoted by Mr. Rajesh Sharma who is also the Managing Director of the company. The Company has also entered into the housing finance business and accordingly, Capri Global Housing Finance Limited (CGHFL), a wholly owned subsidiary received certificate of registration from NHB on September 28, 2015, to commence operations as a Housing Finance Company. The company started its housing finance operations from December 2016.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total income	582	576
PAT	136	144
Total Assets	3,568	4,471
Gross Stage 3 (%)	2.69	3.82
Net Stage 3 (%)	1.91	2.78
ROTA (%)	3.83	3.57

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs.Cr.)	Rating assigned with Rating Outlook
Debentures-Non-Convertible Debentures	22-May-2020	INE180C07080	8.80%	22-05-2023	200	CARE A+; Negative
Debentures-Non-Convertible Debentures	05-Jun-2020	INE180C07098	9.00%	05-06-2023	50	CARE A+; Negative
Debentures-Non-Convertible Debentures	16-Jul-2020	INE180C07106	8.25%	16-01-2022	50	CARE A+; Negative
Debentures-Non-Convertible Debentures	23-Jul-2020	INE180C07114	8.80%	23-07-2023	50	CARE A+; Negative
Debentures-Non-Convertible Debentures	04-Aug-2020	INE180C07122	8.35%	04-02-2022	150	CARE A+; Negative
Debentures-Non-Convertible Debentures (Proposed)	-	-	-	-	250	CARE A+; Negative
Long Term Bank Facilities	-	-	-	Jan-2026	2,097.69	CARE A+; Negative
Long Term Bank Facilities (Proposed)	-	-	-	-	1,652.31	CARE A+; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	3,750.00	CARE A+; Negative	-	1) CARE A+; Negative (3-Dec-20) 2) CARE A+; Negative (3-Jul-20) 3) CARE A+; Negative (28-Apr-20)	1) CARE A+; Negative (24-Jan-20) 2) CARE A+; Negative (5-Jul-19)	1) CARE A+; Stable (07-Sept-18) 2) CARE A+; Stable (16-Aug-18)
2.	Commercial Paper	ST	-	-	-	-	1) CARE A1+; (23-Jan-20) 2) CARE A1+; (5-Jul-19) 3)Withdrawn (Jan-3-2020)	1) CARE A1+; (16-Aug-18)
3.	Debentures-Non-Convertible Debentures	LT	-	-	-	-	1)Withdrawn (03-Jun-19)	1) CARE A+; Stable (16-Aug-18)
4.	Debentures-Non-Convertible Debentures	LT	300	CARE A+; Negative	-	1) CARE A+; Negative (3-Dec-20) 2) CARE A+; Negative (3-Jul-20)	-	-
5.	Debentures-Non-Convertible Debentures	LT	300	CARE A+; Negative	-	1) CARE A+; Negative (3-Dec-20) 2) CARE A+; Negative (3-Jul-20) 3) CARE A+; Negative (28-Apr-20)	-	-
5.	Debentures-Non-Convertible Debentures	LT	150	CARE A+; Negative	-	1) CARE A+; Negative (3-Dec-20)		

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Debentures-Non-Convertible Debentures	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarification*

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