Capri Global Capital Limited (Revised)

July 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	3,750.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Total Bank Facilities	**3,750.00 (₹ Three Thousand Seven Hundred Fifty Crore Only)**		
Non-Convertible Debentures	100.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Non-Convertible Debentures	300.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Total Long-Term Instruments	**400.00 (₹ Four Hundred Crore Only)**		

[1]Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the various debt instruments and bank facilities of Capri Global Capital Limited (CGCL) factors in healthy capital structure at consolidated level, business growth, profitability track record and adequate liquidity buffers at group level. These rating strengths are however constrained by moderate scale of operations, concentrated resource profile, and moderate portfolio seasoning and geographical concentration. While the asset quality has improved on consolidated level, performance of restructured portfolio, exposure to relatively riskier construction finance (CF) and MSME segments coupled with rising delinquencies in softer buckets are key monitorable.

The outlook has been revised to "Stable" from "Negative" on account of growth in loan portfolio along with broadly healthy margins, moderate asset quality and continued granularity in the consolidated portfolio. The company continues to build granular retail portfolio and has been reducing its exposure to CF segment; as on March 31, 2022, CF portfolio comprised 19% of its consolidated AUM (P.Y.:18%) and is exposure to CF is expected to remain granular and under 20% going forward. Going forward, continued momentum in business growth, maintenance of capital & liquidity buffers as well as asset quality shall remain key monitorable.

Key rating sensitivities:

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

- Continued traction in business growth and profitability along with adequate liquidity buffers
- Ability to diversify resource profile at competitive rates

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

- Inability to scale up asset size by 20% per annum on a consolidated basis
- Deterioration in asset quality with consolidated Gross NPA above 5% on sustained basis
- Decline in profitability with consolidated ROTA falling below 2.5% on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Healthy capitalization levels

At consolidated level, the group reported healthy capital structure with tangible net-worth & gearing of Rs.1,881 crore and 2.56x respectively as on March 31, 2022 (P.Y.: Rs.1,690 crore and 2.23x respectively). Further, as on March 31, 2022, CGCL and CGHFL reported healthy capital adequacy ratio of 29.4% (PY: 35.5%) and 47.0% (P.Y.: 31.2%) respectively with Tier I CAR at 28.77% (PY: 35.02%) and 45.96% (P.Y.: 29.92%). CGCL has also initiated the process of raising funds by way of rights issue to the tune of Rs.1,200 crore in the current financial year which is expected to improve the overall capital structure going forward.

Comfortable profitability parameters

On a consolidated basis, total income increased by 33% y-o-y during FY22, due to increase in interest income on loans coupled with strong growth in fee income. The company has ventured into being DSA for car loan distribution business for PSBs and Pvt banks such as IOB, BOB, Yes Bank, HDFC Bank and UBI since Feb 2021 which has supported the growth in the fee income. PAT increased by 16% y-o-y to Rs.205.04 crore (P.Y.: Rs.176.96 crore) on a total income of Rs.981.78 crore (P.Y.: Rs.737.14 crore). Consolidated NIM has increased from 7.55% as on March 31, 2021, to 7.89% as on March 31, 2022. Improvement in NIM is

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

supported via healthy growth in loan portfolio coupled with broadly stable yields. While the consolidated cost of borrowings for the company declined by 103bps, yields contracted by 21bps during FY22 thereby resulting into rise in margins.
Opex/Avg. Total assets increased from 3.11% as on March 31, 2021, to 4.23% as on March 31, 2022. Rise in Opex is mainly contributed by branch expansion and higher employee costs. Company has done recruitment at both junior and senior level of ~1257 employees. Further, the company has added 32 branches during FY22, exceeding the previous peak addition of 28 branches in FY19**.** Since the gold loan business is a new business segment for the company, CARE expects the Opex to remain elevated in the near to medium term future. Credit cost has increased from 1.07% as on March 31, 2021, to 1.64% as on March 31, 2022, which is primarily on account of higher provisioning towards the MSME portfolio. ROTA declined from 3.47% as on March 31, 2021, to 3.18% as on March 31, 2022, on account of high Opex and credit costs. Despite some moderation in ROTA, the overall profitability continues to remain comfortable.

Growth in overall business
On a consolidated basis, company has recorded 91% growth in disbursements on a y-o-y basis. Consolidated AUM stood at Rs.6,632.50 crore as on March 31, 2022, registering a growth of 36.8% as compared to AUM of Rs.4,847.90 crore as on March 31, 2021.
As a matter of caution, on a consolidated basis, management has capped construction finance book to 20% of the overall AUM as on March 31, 2022. Construction finance book stood at 19.06% of the consolidated AUM as on March 31, 2022, and the average ticket size for construction finance portfolio stood at Rs.8.39 crore for FY 2022.
MSME book formed 48.04% of consolidated AUM as on March 31, 2022, as compared to 51.81% as on March 31, 2021. The average ticket size for MSME portfolio stood at Rs. 0.16 crore for FY 2022. Housing finance book formed 26.34% of consolidated AUM as on March 31, 2022, as compared to 23.83% as on March 31, 2021. The business has grown by more than 50% on a y-o-y basis considering robust demand in the housing finance sector. The average ticket size of HF portfolio stood at Rs.0.10 crore for FY 2022. The number of branches has increased to 117 as on March 31, 2022, from 85 as on March 31, 2021. Entire sourcing and collection for all business segments is done through its own branches and in-house teams.
The indirect lending book formed nearly 4.71% of loan book as March 31, 2022, as compared to 6.35% as on March 31, 2021. For Indirect lending vertical, the ticket size is between Rs.5- 15 crore with tenure of 1-3 years.
During FY22, company has also started co-lending business model for MSME and affordable housing finance business with Union Bank of India and State Bank of India. Co-lending book stood at Rs.115 crore as on March 31, 2022.

Experienced Board and management team
The Board of Directors of CGCL consists of experienced individuals in the field of administration, banking, and finance. Mr. Rajesh Sharma is the Managing Director & CFO of CGCL. He has more than 26 years of experience in the field of Capital Markets and Financial services.
Most of 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.

Key Rating Weaknesses
Moderate scale of operations and moderate seasoning of portfolio
The group 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). Housing finance business was started in FY16 which was mainly towards affordable housing segment. The outstanding portfolios for Wholesale (Construction Finance), MSME stood at Rs.1,266 crore (P.Y.: Rs.873 crore) and Rs.3,191 crore (P.Y.: Rs.2,511 crore) and Housing finance stood at Rs.1,747 crore (P.Y.: Rs.1,115 crore) respectively as on March 31, 2022.
The average behavioural tenure of the Wholesale (CF) loan is ~5 years, MSME is ~6 years and Housing finance is ~8yrs. While the CGCL's retail & wholesale portfolios have witnessed some seasoning, the company has witnessed significant portfolio growth during FY22 which is untested. Further, most of the MSME and housing finance customers of CGCL are from tier II and III cities which are under served customers whereby the company faces balance transfer pressure once repayment track record is established.
Therefore, CGCL has moderate seasoning in MSME and CF portfolio and relatively lower seasoning in HF. CARE will also monitor the asset quality of its recently commenced gold loan portfolio.

Improvement in asset quality, albeit challenges remain
On a consolidated basis, GNPA and NNPA as on March 31, 2022, improved to 2.40% (P.Y.: 3.30%) and 1.70% (P.Y.: 1.09%) respectively. The overall net stage 3 to tangible net-worth stood at 5.74% as on March 31, 2022 (P.Y.:6.81%).
Despite asset quality improvements, headwinds remain given the rising interest scenario, vulnerable customer profile and yet to be implemented revised IRAC norms. Further, the company reported rise in delinquencies in the softer buckets (60-90 DPD) as on March 31, 2022, partly driven by challenges faced by the MSME segment. As on March 31, 2022, company had a restructured book of Rs. Rs.216 crore. Of which, MSME book comprised of Rs.193.8 crore (P.Y.: 209.4 crore) (2.93% of AUM), HF Rs.13.1 crore (0.19% of AUM). Going forward, curtailing slippages, and maintaining comfortable asset quality parameters at a consolidated level would remain a key rating sensitivity.
The asset quality risks are mitigated to some extent given that the entire portfolio is secured in nature. The MSME loan book is secured in nature with 65% in the form of self-occupied residential properties and 30% being commercial properties. Balance book is secured by way of industrial property. For CF portfolio, nearly 85% of the portfolio is under principal moratorium as on

March 31, 2022. However, low ticket size and prepayments in CF book (58% of the CF book under moratorium has already started prepayments) provides comfort.

Concentrated resource profile
The resource profile of the group is concentrated both in terms of nature of borrowings & lender segment. On a consolidated basis, bank borrowings contributed 79% of the total resource profile, 9% was contributed by NCDs and balance 12% was via refinancing from financial institutions. Of the total bank borrowings, PSBs continues to form a majority share. However, company has now started increasing its lender relationships with nearly 20 lenders as on March 31, 2022, as compared to 15 lenders as on March 31, 2021. Further, the company has tied up with SBI and UBI for co-lending arrangement which will support its growth going forward while reducing the on-balance sheet funding requirement.
On a consolidated basis, the average cost of funds reduced from 8.74% in FY21 to 7.71% in FY22, down by 103bps, thereby reflecting the group's ability to raise capital at competitive rates.

Geographical concentration risk
CGCL has increased the area of operations to 11 states. On a consolidated level, concentration in top 5 states stood at 87% with major contribution from Madhya Pradesh at 23%, Gujarat at 23%, Maharashtra at 21%, Rajasthan at 15% and Uttar Pradesh at 5%. Further, the concentration of exposure of MSME segment in top 5 state stood at 98% in FY22 and continues to remain high. The exposure in Madhya Pradesh stood at 28%, Gujarat at 22%, Rajasthan at 20%, Delhi at 17% and Maharashtra at 10%. The concentration of CF segment in Top 5 regions was 90% of the total exposure as on March 31, 2022. The exposure in Maharashtra stood at 43%, Gujarat at 31%, Delhi-NCR stood at 7%, Karnataka stood at 7%, and Telangana stood at 6%. The concentration in HF segment in Top 5 regions was 94% of the total exposure as on March 31, 2022. The exposure in Madhya Pradesh stood at 35%, Maharashtra 22%, Gujarat 20%, Rajasthan 12%, and Uttar Pradesh 5%.

Analytical approach: Consolidated. Earlier, the analytical approach for Capri Global Capital Limited used to be 'Standalone'. However, given that the housing business (under CGHFL) is an integral part of the group and shared synergies between CGCL (holding company) and CGHFL (wholly owned subsidiary) in the form of shared brand name, business linkages and common leadership, the analytical approach has been revised to 'consolidated'.

Applicable Criteria
Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Criteria for Non-Banking Financial Companies
Consolidation

Liquidity: Adequate
On a consolidated level, cash flow debt coverage of the group stood at 1.84x as on March 31, 2022
As per ALM dated March 31, 2022, CGCL has no cumulative negative mismatch for all buckets. Its cash and cash equivalent balance stood at Rs.351 crore as on March 31, 2022, receivable from loan book for next one year is Rs. 1,964 crore, as against next one-year repayments due of Rs.938 crore. Further, the company also has sanctioned but unutilized bank lines to the tune of Rs.545 crore as on May 31, 2022.

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 the Managing Director & CFO 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.

Consolidated financials: **(Rs.in Crore)**

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	FY22 (A)
Total income	720	737	982
PAT	161	177	205
Total Assets	4,402	5,786	7,111
Gross NPA (%)	2.69	2.94	2.40
Net NPA (%)	0.90	1.09	1.70
ROTA (%)	3.73	3.47	3.18

A: Audited

Standalone financials: (Rs.in Crore)

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	FY22 (A)
Total income	582	576	766
PAT	136	144	162
Total Assets	3,568	4,471	5,411
Gross NPA (%)	2.69	3.82	2.72
Net NPA (%)	0.90	1.09	1.91
ROTA (%)	3.83	3.57	3.28

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Mar 2029	3750.00	CARE A+; Stable
Debentures-Non-Convertible Debentures^	-	-	-	-	100.00	CARE A+; Stable
Debentures-Non-Convertible Debentures	INE180C07080	22-May-20	8.80%	22-05-2023	200.00	CARE A+; Stable
Debentures-Non-Convertible Debentures	INE180C07098	05-Jun-20	9.00%	05-06-2023	50.00	CARE A+; Stable
Debentures-Non-Convertible Debentures	INE180C07114	23-Jul-20	8.80%	23-07-2023	50.00	CARE A+; Stable

^proposed

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	3750.00	CARE A+; Stable	-	1)CARE A+; Negative (15-Mar-22) 2)CARE A+; Negative (06-Jul-21)	1)CARE A+; Negative (03-Dec-20) 2)CARE A+; Negative (03-Jul-20)	1)CARE A+; Negative (24-Jan-20) 2)CARE A+; Negative (05-Jul-19)
2	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (23-Jan-20) 2)CARE A1+ (05-Jul-19)
3	Debentures-Non-Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (03-Jun-19)
4	Debentures-Non-Convertible Debentures	LT	100.00	CARE A+; Stable	-	1)CARE A+; Negative (15-Mar-22) 2)CARE A+; Negative (06-Jul-21)	1)CARE A+; Negative (03-Dec-20) 2)CARE A+; Negative (03-Jul-20) 3)CARE A+; Negative (28-Apr-20)	-
5	Debentures-Non-Convertible Debentures	LT	300.00	CARE A+; Stable	-	1)CARE A+; Negative (15-Mar-22) 2)CARE A+; Negative (06-Jul-21)	1)CARE A+; Negative (03-Dec-20) 2)CARE A+; Negative (03-Jul-20)	-
6	Debentures-Non-Convertible Debentures	LT	-	-	-	1)Withdrawn (15-Mar-22) 2)CARE A+; Negative (06-Jul-21)	1)CARE A+; Negative (03-Dec-20)	-

*Long term/Short term.

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

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

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

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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