Capital Trust Limited

October 06, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	100.00 (reduced from 300.00)	CARE BB+; Negative (Double B Plus; Outlook: Negative)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook Negative)
Total facilities	**100.00 (₹ One hundred crore only)**		
Non-convertible debentures	30.00	CARE BB+; Negative (Double B Plus; Outlook: Negative)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook Negative)
Total long-term instruments	**30.00 (₹ Thirty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The revision in the ratings of bank facilities and non-convertible debentures of Capital Trust Limited (CTL) is on account of continuous deterioration of asset quality with rise in gross non-performing assets (GNPA) % and delinquencies over the years, leading the company to report net losses in FY21 and FY22. CARE Ratings Limited (CARE Ratings) further notes that asset under management (AUM) has declined to ₹307 crore as on June 30, 2022 from ₹725 crore as on March 31, 2019. The company continuously reported net losses for two fiscals viz. FY21 and FY22 with rise in credit costs. The decline in AUM, though is due to conscious effort of the management to cease disbursements under cash-based collection portfolio, referred as legacy portfolio, and moderate disbursements under digitized collection portfolio, referred as digital portfolio.

The ratings are also constrained by low seasoning and modest performance of digital portfolio. Furthermore, it is also noted that a significant share of CTL's restructured portfolio is under moratorium as on June 30, 2022 and its impending impact on the asset quality and profitability profile of the company is yet to be seen. The ratings continue to take into consideration the inherent risk involved in the industry including unsecured lending, marginal profile of borrowers, socio-political intervention and regulatory risk.

The ratings, however, derive strength from low gearing, though underpinned by de-growth in AUM and adequate geographic diversification. CARE Ratings also takes note of the company's view towards building a sustainable Business Correspondent (BC) partner model for lending institutions and maintaining sustainable on-book portfolio with moderate gearing levels going forward.

Going forward, the ability of the company to improve its asset quality especially recovery from borrowers in overdue buckets, attain sustainable growth in its portfolio, maintain sufficient liquidity and improving its profitability would be the key rating sensitivities.

Rating sensitivities

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

- Maintaining healthy collection efficiency on sustainable basis for longer term
- Profitable scaling up of business operations

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

- Further deterioration in asset quality
- Decline in liquidity profile of the company

Outlook: Negative

The outlook has been revised to 'Negative' on account of deterioration in the asset quality and decline in profitability with the company reporting losses in FY21 and FY22. With 75% of the restructured portfolio is under moratorium as on June 30, 2022, its impact on asset quality and profitability is yet to be seen and it remains a key monitorable factor. The outlook may be revised to 'Stable' if the CTL is able to improve the asset quality with increase in AUM and report net profit.

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

Detailed description of the key rating drivers

Key rating weaknesses

Weak asset quality: CTL's customers are engaged in activities like farming, dairy live stocks, small manufacturing firms, trade, etc. Though the customer profile is diverse, there is an inherent risk in micro-lending and micro, small and medium enterprise (MSME) industry, regulatory uncertainties and risks emanating from unsecured lending and marginal profile of borrowers and their vulnerability to economic downturns besides operational risks.

The asset quality of CTL has been weakening post demonetisation. With this, the company decided to run down its legacy portfolio. Due to this, the GNPA% has been increasing and stood at 5% as on March 31, 2022 from 1.95% as on March 31, 2021. The GNPA% further rose to 5.92% as on June 30, 2022. Majority of NPAs still emanate from the legacy portfolio while the digital portfolio which started in September 2021 and forms 54% of the AUM as on March 31, 2022, contributes to lesser delinquencies vis a vis the legacy portfolio. The softer as well as harder delinquencies have increased in Q1FY23 with seasoning to 3.43% in 30+ dpd from 0.17% as on March 31, 2021 and 2.53% in 90+ dpd as on June 30, 2022 from 0.02% as on March 31, 2021.

The company had restructured its legacy portfolio only from FY21 with 8% of AUM and 11% of legacy portfolio in the first phase of one-time restructuring. The restructured portfolio has risen with second phase of one-time restructuring (done in Sep-21) and stood at 34% of AUM and 81% of legacy portfolio as on June 30, 2022. The softer delinquency on the restructured portfolio has been rising with 14% as on June 30, 2022 in 30+ dpd from nil as on March 31, 2022. However, there are no delinquencies in 90+ dpd as on June 30, 2022**.** 75% of the restructured book as on June 30, 2022, is under moratorium.

Since FY19, the company has discontinued its disbursals in the demonetisation affected states (Uttar Pradesh, Uttarakhand and Delhi) and consequently, the portfolio in these states has been reducing and they aggregately hold 13% of overall AUM as on June 30, 2022 from 44% of overall AUM as on March 31, 2018.

Moderation in AUM with reporting net losses: The legacy portfolio of CTL was towards lending in joint liability group model for large ticket size with cash collection model. These were long-tenured loans comprising of four products, namely, Micro Finance Loan (MFL), Micro Enterprise Loan (MEL), Micro Business Loan (MBL) and Secured Enterprise Loan (SEL). The legacy portfolio was impacted post demonetisation leading to weakened asset quality. Therefore, the company decided to stop the disbursements under the said portfolio since March 31, 2020. The proportion of legacy portfolio has been coming down since FY20 with 72% of AUM to 46% of AUM as on March 31, 2022 and further down to 41% of AUM as on June 30, 2022. With running down of legacy portfolio and slowed business growth in digital portfolio, the overall AUM has been coming down over the years with negative five years compounded annual growth rate (CAGR) of 16% till FY22 and yearly de growth of 25% in FY22. Accordingly, AUM has reduced to ₹307 crore as on June 30, 2022 from ₹725 crore as on March 31, 2019.

Weak profitability: The company has been reporting net losses for consecutive two years owing to run down of legacy portfolio and rising credit costs. However, in FY22, with increased income from managed book and recovery against written off portfolio, the net losses for CTL reduced to ₹10 crore from net losses of ₹24 crore in FY21. In Q1FY23, the company reported net profits of ₹2 crore owing to recovery against written off portfolio. The company had restructured its legacy portfolio amounting to 34% of AUM and 52% of gross loans as on June 30, 2022. With increased proportion of restructured book and slowed growth in digital portfolio, the profitability is expected to remain mute in the near term. As 75% of the restructured book as on June 30, 2022, is under moratorium, its impact on the asset quality and profitability profile of the company is yet to be seen and is key monitorable factor.

Limited seasoning and modest performance of digital portfolio: Though CTL is operating in the MSME industry for around 14 years with legacy portfolio, which is now being run down, the new digital portfolio of short tenured loan with seasoning of two years has also started reporting increase in delinquencies. With asset quality of digital portfolio starting to establish, the softer as well as harder delinquencies have increased in Q1FY23. 30+days past due (dpd) for digital portfolio has risen to 3.43% as on June 30, 2022 from 0.17% as on March 31, 2021 and 90+ dpd has risen to 2.53% as on June 30, 2022 from 0.02% as on March 31, 2021.

Industry risk: The micro lending and MSME industry continue to be impacted by the inherent risk involved viz. socio-political intervention risk and regulatory uncertainty and risks emanating from unsecured lending and marginal profile of borrowers and their vulnerability to economic downturns besides operational risks.

Key rating strengths

Moderate capital structure: The capitalisation levels remain comfortable with capital adequacy ratio (CAR) % remaining in same level for two consecutive years (FY20 and FY21) at 47%. It came down to 44% as on March 31, 2022, but increased to

46% as on June 30, 2022. Although, the comfortable capital structure has not been able to absorb the credit costs owing to the reduced loan book. The net worth has been coming down consistently over the years with ₹86 crore as on March 31, 2022, down by 15% y-o-y, although with the company reporting profits in Q1FY23, the net worth increased to ₹88 crore as on June 30, 2022. The gearing levels remained low with reduced borrowings and declining net worth owing to the company reporting net losses for two consecutive years (FY21 and FY22) with 2.4x as on March 31, 2022 from 2.6x as on March 31, 2021. It further improved to 1.8x as on June 30, 2022.

Geographically diversified operations: CTL started its operations from Uttar Pradesh and during the initial years of operation, its concentration in the state was highest being 88% of the AUM as on March 31, 2016. Later the company increased in portfolio in other states post demonetisation. As on June 30, 2022, the company has presence in 10 states with majority exposure in Bihar (25% of overall AUM), followed by Punjab (15% of overall AUM), Madhya Pradesh (14% of overall AUM), Odisha (14% of overall AUM), Uttar Pradesh (12% of overall AUM), Rajasthan (10% of overall AUM) and the remaining 10% of overall AUM by Jharkhand, Uttarakhand, Chhattisgarh and Delhi.

Liquidity: Adequate

As per asset liability mismatch (ALM) statement (adjusted for lien-marked bank balance) as on June 30, 2022, there are no negative cumulative mismatches in any time buckets except for more than five years' time bucket. The company has liquidity of ₹20 crore in form of cash and bank balances as on August 31, 2022 against debt obligations of ₹48 crore up to six months.

Analytical approach:

Consolidated including the subsidiaries Capital Trust Microfinance Private Limited (100% holding by CTL) and Capital Trust Housing Finance Private Limited (100% holding by CTL)

Applicable criteria

Rating Methodology: Consolidation
Policy on Default Recognition
Financial Ratios – Financial Sector
Criteria on Assigning 'Outlook' or 'Credit Watch' to Credit Ratings
Rating Methodology- Non-Banking Finance Companies

About the company

CTL was incorporated in August 1985 as a non-deposit taking Non-Banking Finance Company (NBFC- ND). The company is promoted by Yogen Khosla, holding 37% as on June 30, 2022. The promoter group for the company, comprising Yogen Khosla and Moonlight Equity Private Limited (30% as on June 30, 2022), held 67% stake in the company as on June 30, 2022. CTL started the digital lending portfolio in Q2FY21 with one product branded as Capital Magic Loan (CML). The CDL portfolio caters to Micro, Small & Medium Enterprises (MSME) with a short tenured unsecured business loan having 100% digital disbursement and first mode of repayment through National Automated Clearing House (NACH).

Consolidated Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23 (UA)
Total operating income	114.59	105.98	24.74
PAT	-23.62	-10.35	1.95
Interest coverage (times)	0.11	0.55	1.37
Total assets	376.64	319.23	266.60
Net NPA (%)*	1.06	4.40	3.31
ROTA (%)	-5.87	-2.97	2.66

A: Audited; UA: Unaudited
*CARE Ratings calculated

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-term loan	-	-	-	May 2023	95.00	CARE BB+; Negative
Fund-based - LT-cash credit	-	-	-	-	5.00	CARE BB+; Negative
Total bank facilities					**100.00**	
Debentures-Non-convertible debentures	INE707C07023	August 13, 2020	11.50%	April 21, 2023	30.00	CARE BB+; Negative

Annexure-2: Rating history of 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	95.00	CARE BB+; Negative	-	1)CARE BBB-; Negative (07-Oct-21)	1)CARE BBB-; Stable (07-Jan-21) 2)CARE BBB-; Stable (09-Jun-20)	1)CARE BBB; Negative (24-Sep-19)
2	Fund-based - LT-Cash credit	LT	5.00	CARE BB+; Negative	-	1)CARE BBB-; Negative (07-Oct-21)	1)CARE BBB-; Stable (07-Jan-21) 2)CARE BBB-; Stable (09-Jun-20)	1)CARE BBB; Negative (24-Sep-19)
3	Debentures-Non convertible debentures	LT	-	-	-	-	1)Withdrawn (07-Jan-21) 2)CARE BBB-; Stable (06-Aug-20) 3)CARE BBB-; Stable (09-Jun-20)	1)CARE BBB; Negative (24-Sep-19)
4	Debentures-Non-convertible debentures	LT	30.00	CARE BB+; Negative	-	1)CARE BBB-; Negative (07-Oct-21)	1)CARE BBB-; Stable (07-Jan-21) 2)CARE BBB-; Stable (06-Aug-20)	-

*Long Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Available

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-Cash credit	Simple
3	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 instrument: CARE Ratings Ltd. 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Gaurav Dixit
Phone: +91-11-4533 3235
E-mail: gaurav.dixit@careedge.in

Name: Neha Kadiyan
Phone: 8130340369
E-mail: Neha.Kadiyan@careedge.in

Name: Deepshi Panda
E-mail: deepshi.panda@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

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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