# CSL Finance Limited

March 09, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Non Convertible Debentures | 40.00 | CARE BBB; Stable | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The rating for non-convertible debentures (NCD) of CSL Finance Limited (CSLFL) has been reaffirmed deriving strength from comfortable capital structure, increasing asset under management (AUM) with 99% secured loan book. The ratings further draw comfort from the improved asset quality, healthy profitability and comfortable liquidity profile.

The rating strengths are, however, offset by the major dependence on the real estate sector lending which leads to high inherent portfolio vulnerability and sector concentration risk. The rating is further constrained by the low seasoning on the small and medium enterprise (SME) lending portfolio. Furthermore, the rating factors in the geographical concentration arising out of entire wholesale segment, along with 8% of SME portfolio, aggregating to 70% of overall AUM as on December 31, 2022

## Rating sensitivities: Factors likely to lead to rating actions

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

- Consistent improvement in profitability profile.
- Improvement in asset quality metrics for both, on overall basis and SME segment while attaining meaningful scale up in the portfolio.
- Further reduction in wholesale loan book concentration.
- Capitalization metrics remaining strong with gearing remaining below 2.0x.
- Increasing geographical diversification of loan book.

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

- Further deterioration in asset quality with gross non-performing assets (GNPA) % increasing beyond 4% thereby adversely affecting earnings profile of the company.
- Increased borrower/borrower group concentration.

**Analytical approach**: Standalone

**Outlook:** Stable

CARE's expectation that the Company will continue to scale up its loan book while maintaining asset quality

## Key strengths

**Comfortable capital structure**

The capitalisation profile of CSLFL has remained historically comfortable with capital adequacy ratio (CAR) remaining well above regulatory guideline. The CAR came down to 64% as on March 31, 2022, and further to 52% as on December 31, 2022, due to the rise in the loan book.

The company received capital infusion from the non- promoter group of Rs. 29 crore in January 2022. This infusion comes after the last infusion in FY18 of Rs. 48 crore. Gearing remained comfortable at 0.6x as on March 31, 2022 and 1x as on December 31, 2022.

Going forward too, CARE Ratings Limited (CARE Ratings) expects the overall gearing levels to remain comfortable.

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

### Increased scale of operations with secured loan book

The growth of AUM of CSLFL was impacted due to COVID-19, which in FY22 and in 9MFY23 picked up pace and reached to Rs. 681 crore as on December 31, 2022, up from Rs. 330 crore as on March 31, 2021. The AUM has grown at three years compounded annual growth rate (CAGR) of 18% till FY22. The growth in the AUM is primarily driven by the growth in the SME segment.

The share of SME segment is increasing from FY22 and further rose in 9MFY23, in line with management's strategy. As on December 31, 2022, the company's 62% of the AUM is towards wholesale real estate segment. The Company mainly focusses on mid income and affordable group housing projects and mid income plotted projects in the real estate segment with average ticket size of Rs. 9-14 crore. Wholesale portfolio is entirely secured and backed by comfortable average loan to value (LTV) of 40-50%. The balance 38% of the AUM is towards retail SME segment which is 99% secured with LTV of 40%.

### Improved asset quality

The asset quality of CSLFL has improved in FY22 and 9MFY23 with reduction in GNPA% to 1.73% and 0.72%, respectively, from 2.11% as on March 31, 2021. The improvement is on account of recoveries received and write offs. The net NPA (NNPA) % also remained comfortable at 0.98% as on March 31, 2022 which reduced to 0.42% as on December 31, 2022.

There have been no slippages to NPA from the wholesale segment and entire NPA emanates from the retail segment. As on March 31, 2022, the GNPA% from the SME segment stood high at 9%, though, improved from 11% as on March 31, 2021. Improvement in asset quality in SME segment while increasing the portfolio is a key monitorable factor.

### Healthy profitability metrics

In FY22, CSLFL reported profit after tax (PAT) of Rs. 33 crore, up by 22% y-o-y. In 9MFY23, the company reported similar level of PAT with Rs. 34 crore. The rise in PAT is underpinned with increasing loan book.

With company opening up new branches and hiring new employees, the operating expenses on average total assets (Opex)% has been rising to 3.6% in FY22 from 3.1% in FY21 and further increased to 3.9% in 9MFY23. The credit costs on average total assets (%) have reduced in FY22 and 9MFY23 to 0.31% and 0.23%, respectively, from 1.39% in FY21, as the asset quality have improved with lower slippages and increased recoveries. The yields have been contracted in FY22 and in 9MFY23 as the interest payments on the increased loan book has not yet started as the company provides around 9 months moratorium in the real estate lending. This has led to margin compression with 12.97% in FY22 from 15.37% in FY21, which further came down to 12.80% in 9MFY23. With the rising opex%, return on average total assets (RoTA) have come down to 7.6% in FY22 from 8.1% in FY21 and further down to 7.3% in 9MFY23.

Going forward, CARE Ratings expect Company to maintain healthy profitability profile, provided the Company is able to keep its asset quality under control.

## Key weaknesses

### Segmental concentration

CSLFL has majority of its AUM towards real estate segment, with 62% as on December 31, 2022, though, it is coming down gradually from 81% as on March 31, 2021. Furthermore, the company has strategized to reduce the wholesale exposure to 40% by H1FY24. Geographic concentration risk also exists with its entire corporate / wholesale portfolio (62% of AUM) being concentrated in Delhi-NCR.

In terms of client wise credit concentration, the borrower concentration risk exists with top 10 wholesale borrowers making 27% of gross loan book as on December 31, 2022.

### Limited seasoning in the SME portfolio

The AUM of CSLFL has grown in FY22 and 9MFY23 driven by the rise in SME lending. The SME segment has increased to 38% of AUM as on December 31, 2022 from 27% of AUM as on March 31, 2022 and 19% of AUM as on March 31, 2021. However, as the SME loans are for four to seven years, the seasoning in the segment is yet to be established. The legacy SME portfolio has also limited seasoning as the company forayed into the segment in 2017. Furthermore, the segment has reported high GNPA with 11% in SME segment as on March 31, 2021, though improved from 9% in SME segment as on March 31, 2022.

## **Liquidity:** Adequate

CSLFL reported no negative cumulative mismatches in any time bucket as per ALM statement as on December 31, 2022. The company has liquidity of Rs. 38 crore in form of cash and bank, investment in liquid assets and unutilised credit lines as on December 31, 2022.

## Applicable criteria

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

## About the company and industry

### Industry Classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Financial Services | Financial Services | Finance | Non Banking Financial Company (NBFC) |

CSLFL, incorporated in December 1992, is a non- deposit taking Non-Banking Financial Company (NBFC) headquartered in Delhi. The company is engaged in providing last mile funding solutions to small and medium size businesses engaged in real estate development. It also provides construction finance to builders and redevelopment sites for meeting their short-term funding requirements. In March 2017, the company ventured into Retail SME lending (secured).

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | 9MFY23 (UA) |
|---|---|---|---|
| Total operating income | 61.57 | 72.29 | 81.99 |
| PAT | 27.53 | 33.45 | 33.73 |
| Interest coverage (times) | 6.57 | 5.16 | 3.53 |
| Total Assets | 346.70 | 530.89 | 707.19 |
| Net NPA (%) | 1.22 | 0.98 | 0.42 |
| ROTA (%) | 8.12 | 7.62 | 7.27 |

A: Audited UA: Unaudited
Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:**
Not applicable

**Any other information:**
Not applicable

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

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

**Complexity level of the various instruments rated**: Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Non-convertible debenture | INE718F07015 | July 06, 2020 | 10.25% | April 21, 2023 | 30.00 | CARE BBB; Stable |
| Non-convertible debenture | INE718F07023 | October 19, 2020 | 10.00% | April 21, 2023 | 10.00 | CARE BBB; Stable |

**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-Working Capital Limits | LT | - | - | - | 1)CARE BBB; Stable (21-Mar-22)<br><br>2)Withdrawn (21-Mar-22) | 1)CARE BBB; Stable (24-Mar-21) | 1)CARE BBB; Stable (26-Mar-20) |
| 2 | Term Loan-Long Term | LT | - | - | - | 1)Withdrawn (21-Mar-22)<br><br>2)CARE BBB; Stable (21-Mar-22) | 1)CARE BBB; Stable (24-Mar-21) | 1)CARE BBB; Stable (26-Mar-20) |
| 3 | Debentures-Non Convertible Debentures | LT | 40.00 | CARE BBB; Stable | - | 1)CARE BBB; Stable (22-Mar-22) | 1)CARE BBB; Stable (24-Mar-21)<br><br>2)CARE BBB; Stable (31-Jul-20) | - |

*Long term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities-** not applicable

**Annexure-4: Complexity level of the various instruments rated**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Debentures-Non Convertible Debentures | Simple |

## Annexure-5: Lender details

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

**Note on the 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.

## Contact us


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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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