Capri Global Capital Limited (Revised)

March 15, 2022

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Bank Facilities	3,750 (Rupees Three Thousand Seven Hundred & Fifty crore only)	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	**Reaffirmed**
Non-Convertible Debenture	400^ (Reduced from Rs. 600 crore)	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	**Reaffirmed**
Non-Convertible Debenture (proposed)	Nil^ (Reduced from Rs.150 crore)	**-**	**Withdrawn**

Details of instruments/facilities in Annexure-1

^The ratings assigned to NCD amounting to Rs.200 crore are withdrawn on account of repayment of the said instruments on maturity with no amount outstanding under the issue as on date. The ratings assigned to proposed issuance of NCD amounting to Rs.150 crore withdrawn on company's request.

Detailed Rationale & Key Rating Drivers

The rating continues to factor in healthy capitalization levels of Capri Global Capital Limited (CGCL) with low gearing, improved granularity of the portfolio, CGCL's experienced management, track record of stable profitability and adequate liquidity buffers maintained. The rating also takes note of recovery in business growth during 9MFY22. While a part the MSME book underwent restructuring under RBI Circular impacted by Covid 19 pandemic, the company managed to keep the GNPA under control.

The rating is however, constrained by moderate scale of operation with moderate seasoning of MSME book, exposure to relatively riskier segments of MSME and construction finance notwithstanding the recovery in realty sector in recent past, moderation in asset quality, concentrated resource profile and geographical concentration.

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 sustained improvement in business levels while maintaining comfortable asset quality

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

- Adjusted Gearing ratio exceeding 3.5x
- Deterioration in asset quality with Gross NPA above 5% on sustained basis
- Decline in profitability with ROTA falling below 2.5%

Outlook: Negative

The outlook continues to be negative due to asset quality challenges faced by the company, especially in the MSME segment on account of second wave of COVID-19. CARE will monitor the asset quality including softer delinquencies, restructured portfolio and Gross NPA and revise the Outlook to stable if there is consistent improvement in the overall asset quality.

Detailed description of the key rating drivers

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

Key Rating Strengths

Healthy capitalization levels

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%). Supported by consistent profits, the capital adequacy ratio stands at 35.22% as on December 31, 2021, with Tangible net worth of Rs.1,715 crore. The capitalization continues to remain comfortable with gearing of 1.63x times as on December 31, 2021 (March 31, 2021: 1.65x times). The adjusted gearing with net-worth adjusted for subsidiary investment stood at 1.82x times as on December 31, 2021, which is potentially expected to increase in near term as company will invest Rs.150 crore in its housing subsidiary to support its growth. Overall company has sufficient headroom for growth in the medium term.

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.

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 but stable 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.143.52 crore (PY: Rs.135.73 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. The company reported increase in credit costs at 1.29% during FY21 as against 0.75% during FY20, partly on account of Covid19 as management made management overlay of Rs.15.27 crore for uncertain macro-economic condition.

During 9MFY22, the company reported PAT of Rs.127.83 crore (9MFY21: Rs.126.69 crore) on total income of Rs.523.20 crore (P.Y.: Rs.433.98 crore). The ROTA for 9MFY22 stood at 3.67% which was supported by increase in NIM to 8.57% as compared to 8.11% during FY21 but affected on account of increased opex at 4.09% as compared to 3.06% during FY21. The opex increased as company resumed operations, expanded branch network and increased hiring post 2nd wave of Covid to resume growth. The RONW for 9MFY22 improved marginally to 10.32% with improvement in scale of operations.

While the Company is targeting to grow at 20%+ for next couple of years, the reducing yield on assets on new disbursements can compress the margins in near term for the company. The company has ventured into Car loan distribution business since March 2021 and now has a team size of over 400 as on December 31, 2021. The business is asset light in nature and will add to profitability going forward.

The company plans to venture into gold financing in next year which will require investments and costs to setup business, branches, etc. CARE will monitor the development on the same and its impact on the profitability and capital structure of the company as and when the company starts the operation in meaningful way.

Recovery in business growth

The growth in disbursements have picked up post 2nd wave of Covid limiting the Q1FY22 disbursement at Rs.221 crore with Q3FY22 disbursements at Rs.673 crore as against FY21 full year disbursements of Rs.1,164 crore. The company is expected to grow more than 20% on annualized basis going forward. AUM stood at Rs.4,261 crore, registering 15.39% growth during 9MFY22 as compared to AUM of Rs.3,692 crore as on March 31, 2021, led by 28.17% growth in Construction finance loan book, 16.77% growth in MSME loan book and 32.02% reduction in Indirect Lending portfolio.

After cautiously reducing the construction finance book by 19.90% during FY20 and 9.25% during FY21 on account of stress faced by real estate sector, the company has now started growing the construction finance book as the sector is showing sign of revival with strong sales reported in past few quarters. However, company has indicated an overall cap on Construction finance exposure to 20% of consolidated loan book on sustained basis. Currently Construction finance accounts for 19.39% of consolidated loan book as on December 31, 2021.

Top 10 clients account for nearly 29% of CF loan book, 7% of the overall loan book and 16% of the Net worth as on September 30, 2021. The average outstanding for Construction Finance stood at Rs.7.2 crore as on December 31, 2021.

MSME book formed 68.82% of standalone loan book as on December 31, 2021, as compared to 68.01% as on March 31, 2021, with 53% of incremental disbursements disbursed in this segment. The average ticket size for MSME portfolio stood at Rs. 0.17 crore during Q3FY22.

The number of branches have increased to 110 as on December 31, 2021, from 87 as on March 31, 2021. The company sources 100% loans through its own branches for MSME segment.

The indirect lending book formed nearly 4.91% of loan book as December 31, 2021, as compared to 8.34% as on March 31, 2021. For Indirect lending vertical, the ticket size is between Rs.5- 15 crore with tenure of 1-3 years.

Key Rating Weaknesses

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 stood at Rs.1,119 crore (March 31, 2021: Rs.873 crore) and Rs.2,932 crore (Rs.2,511 crore) respectively. The MSME book has grown from Rs.748 crore as on March 31, 2016, to Rs.2,932 crore as on December 31, 2021. The average contractual tenure of the Wholesale (CF) loan is up to 5 years and MSME is ~12 years (behavioural ~7 years) and considering the growth in the loan portfolio in the last few years, there is moderate seasoning of portfolio.

Asset Quality challenges with exposure to relatively riskier segments

The company has contained the slippages during 9MFY22 and reported Gross NPA of 3.46% as on December 31, 2021 (March 31, 2021: 3.82%) with Net NPA of 2.45% (2.78%). The Company is closely monitoring the asset quality and has put an extra focus to increase collection efficiency across all buckets and has also changed a few Credit Assessment parameters post pandemic. The asset quality challenges have aggravated on account of economic impact of second wave of Covid during H1FY22 and collections efforts being impacted in April-May 2021, with company's 60-90 dpd increasing to 5.91% as on December 31, 2021, from 1.94% as on March 31, 2021. While the collections in MSME segment has improved in Q3FY22 with improvement in economic activity, the 60-90 dpd bucket is yet to normalize to pre-covid levels.

Nearly 7.1% of MSME loan book outstanding have been restructured (Rs.209.4 crore) as on December 31, 2021. While the loan book is secured with nearly 68% them being Self occupied residential and 28% being commercial properties, CARE will monitor the performance of this accounts as the restructuring period starts unwinding from Q4FY22. Maintaining comfortable asset quality numbers would remain a key rating sensitivity.

The company has exposure to construction finance book which is relatively riskier segment and susceptible to macro-economic shocks, slowdown in economy and concentration risk. Nearly 38% of the portfolio is under principal moratorium as on December 31, 2021. However, CARE takes comfort from the low-ticket size of the exposures (~Rs.7 crore) and negligible NPA as on date in this segment.

The overall net NPA to tangible net-worth stood at 6.30% as on December 31, 2021.

Concentrated resource profile

The resource profile of CGCL is concentrated in terms of lender segment. Around 77%+ of the borrowings outstanding as on December 31, 2021, was through term loans where company is largely dependent on PSU banks. With large repayments of

NCDs in Q4FY22, the resource profile will continue to remain dependent on PSU banks for near term. However, company has now started increasing its lender relationships with nearly 17 lenders as on December 31, 2021, as compared to 15 lenders as on March 31, 2021. Company has been able to raise Rs.1,005 crore during 9MFY22 including around Rs.110 crore from External Commercial Borrowing. 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. The company is in process of placing IT systems for the same.

The average cost of funds reduced from 10.25% in FY20 to 8.92% in FY21 and further to 8.43% due to reset of MCLRs at lower level and reduction in credit spreads amid low interest rate cycle.

Geographical concentration risk

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%.

Analytical approach: Standalone

Applicable Criteria

Policy on default recognition

Financial Ratios - Financial Sector

Rating Outlook and Credit Watch

Criteria for Non-Banking Financial Companies

Policy on withdrawal of rating

Liquidity: Adequate

CGCL's cash and cash equivalent balance increased to Rs.306 crore as on December 31, 2021, as against next one year repayments due of Rs.638 crore. Further, the company also has sanctioned but unutilized bank lines to the tune of Rs.653 crore.

As per ALM dated September 30, 2021, the company has no negative mismatch up to next 1 year as company carries health liquidity and gearing levels are low. Moreover, the business collection in next one year stood at Rs. 1,160 crore, resulting in positive mismatch.

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)	9MFY22 (UA)
Total income	582	576	523
PAT	136	144	128
Total Assets	3,568	4,471	4,814

Gross Stage 3 (%)	2.69	3.82	3.46
Net Stage 3 (%)	1.91	2.78	2.45
ROTA (%)	3.83	3.57	3.67

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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	23-Jul-2020	INE180C07114	8.80%	23-07-2023	50	CARE A+; Negative
Debentures-Non-Convertible Debentures (Proposed)	-	-	-	-	100	CARE A+; Negative
Long Term Bank Facilities	-	-	-	Jan-2026	2,874.45	CARE A+; Negative
Long Term Bank Facilities (Proposed)	-	-	-	-	875.55	CARE A+; Negative
Debentures-Non-Convertible Debentures	-	INE180C07106	-	-	-	Withdrawn
Debentures-Non-Convertible Debentures	-	INE180C07122	-	-	-	Withdrawn
Debentures-Non-Convertible Debentures	-	Proposed	-	-	-	Withdrawn

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	3750.00	CARE A+; Negative	1)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)	1)CARE A+; Stable (07-Sep-18) 2)CARE A+; Stable (16-Aug-18)
2	Commercial Paper	ST	-	-	-	-	1)Withdrawn (23-Jan-20) 2)CARE A1+ (05-Jul-19)	1)CARE A1+ (16-Aug-18)
3	Debentures-Non	LT	-	-	-	-	1)Withdrawn	1)CARE A+;

	Convertible Debentures						(03-Jun-19)	Stable (16-Aug-18)
4	Debentures-Non Convertible Debentures	LT	100.00	CARE A+; Negative	1)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+; Negative	1)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)CARE A+; Negative (06-Jul-21)	1)CARE A+; Negative (03-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	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 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.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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