

## Centrum Housing Finance Limited

April 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	960.00 (Enhanced from 660.00)	CARE A- (RWD)	Continues to be on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Centrum Housing Finance Limited (CHFL) intimated Bombay Stock Exchange (BSE) that they have entered into a business transfer agreement on December 03, 2022, for acquisition of housing finance business of National Trust Housing Finance Ltd. for a consideration of ₹112 crore.

CARE Ratings Limited (CARE Ratings) had earlier placed the ratings assigned to the bank facilities/ instruments of CHFL on 'Rating Watch with Developing Implications' on account of this deal as well as its possible impact on the overall business and financial profile of the company.

CARE Ratings will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the company are clear.

The rating assigned to the bank facilities of CHFL continue to reflect its experienced management, comfortable capital structure, established presence in the financial services segment, moderate resource profile, and adequate liquidity.

These rating strengths are, however, partially offset by its subdued profitability and disbursements, small size, low seasoning of portfolio and moderate asset quality.

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

#### Positive factors – Factors that could individually/ collectively lead to positive rating action/ upgrade:

- Significant growth in business operations along with improvement in profitability and stable asset quality.

#### Negative factors – Factors that could individually/ collectively lead to negative rating action/ downgrade:

- No material improvement in profitability in the medium term.
- Inability to grow business assets (loan book) compared to the industry growth trend.
- Material deterioration in the asset quality with gross non-performing asset (GNPA) beyond 3.5% on a sustained basis.
- Increase in the gearing levels beyond 4x.

### Analytical approach: Standalone

### Outlook: N.A.

### Key strengths

#### Experienced management

Centrum Group holds 74% stake in CHFL. Centrum group is led by Mr. Jaspal Bindra, former Asia Pacific CEO at Standard Chartered Bank, in the role of Executive Chairman of the Centrum group.

Sridar Venkatesan, Chairman of CHFL and independent director, has over 35 years of experience in the Indian banking sector, including serving as the CMD of UCO Bank and the National Housing Bank. Sanjay Shukla, MD and CEO of CHFL, has over 30 years of experience in the housing finance industry. Prior to joining CHFL, he served as the MD and CEO of Cent Bank Home Finance Ltd. He has also worked at Tata Capital, ING Vysya Bank, Citibank, HDFC, and LICHFL.

Mehul Jatania, Chief Financial Officer, is a financial services professional with 17+ years of experience at the intersection of Corporate Finance and Strategy. The senior management is an experienced team of finance and management graduates with over 20 years of experience on an average.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### Comfortable capital structure

As on December 31, 2022, CHFL's tangible net worth (TNW) stood at ₹421 crore [March 31, 2022: ₹413 crore], while CAR stood at 97.19% [March 31, 2022: 119.21%]. While there has been no capital infusion post FY20, the company's capitalisation levels are comfortable for meeting future portfolio growth.

Given the equity infusion during FY20 and lack of disbursements on account of COVID-19, the company's gearing levels have been low.

While the gearing was low at 0.60x as of March 31, 2022 [PY: 0.64x], CARE Ratings expects the same to rise in the medium term with increasing scale of operations. The gearing stood at 1.18x as on December 31, 2022.

### Established presence of the group in the financial services segment

CHFL is a part of Centrum group, which owns approximately 74% of CHFL. The Centrum Group has a strong presence in financial services, including banking, housing finance, wealth management, brokerage and asset management. CHFL was established as a non-banking finance company (NBFC) to lend to the un-served and under-served borrowers in the affordable segment in non-urban areas.

### Moderate resource profile:

On account of low growth in loan portfolio during FY22, the company did not tap borrowings. However, given the recent portfolio ramp-up, the company's outstanding borrowings stood at ₹248 crore as on March 31, 2022. [December 31, 2022: ₹499 crore].

As on March 31, 2022, the company had 12 lenders. It had borrowings in the form of non-convertible debentures (NCDs: 14%) and term loans (86%) which includes refinance from NHB of ₹140 crore. Average cost of borrowings stood at 9.5% (excluding NHB).

Going forward, the company's ability to secure new lines of credit at competitive rates will be critical for its expansion plans and will remain a key monitorable.

### Key weaknesses

#### Moderate profitability albeit improving:

The company, though being in the early stage of operations, has been profitable since FY17. For the year FY22, profit after tax (PAT) stood at ₹15 crore [PY: ₹12 crore] on total income of ₹72 crore [PY: ₹69 crore] and the average cost of borrowings stood at 8.18% [PY: 9.65%].

The company reported a return on total assets (ROTA) of 2.14% during FY22, as against 1.85% during FY21. With its focus on organic growth, its opex has risen on account of branch expansion from 50 during FY21 to 90 during 9MFY23, hiring of 54 additional employees, which led to an increase in the number from 129 during FY21 to 183 during FY22, and hiring of additional collection staff during FY22 to build up a collection vertical. Sourcing through in-house channels has gone up to 85-90% of new business from 75-80% previously. Going forward, with the company ramping-up operations and expanding in newer locations, operating expenses are expected to remain elevated.

In line with the company's expansion plans, overall disbursements during 9MFY23 stood at ₹293 crore vis-à-vis ₹197 crore during FY22. CHFL reported a PAT of ₹8 crore on a total income of ₹65 crore for 9MFY23. Despite higher disbursements, ROTA stood at 1.22% during 9MFY23 on account of rise in the gearing and opex levels.

### Small size and low seasoning of portfolio

The company's size is small, as it is still in its early stages of operation. The company was incorporated in March 2016, began operations during FY17, and the majority of disbursements began post FY19. Furthermore, the portfolio growth was hampered during FY20 and FY21 on account of COVID-19. The outstanding portfolio stood at ₹581 crore on March 31, 2022, up from ₹480.24 crore on March 31, 2021, representing a 21% year-on-year increase. As on December 31, 2022, CHFL's outstanding loan portfolio stood at ₹755 crore. Given the recent portfolio ramp-up, CHFL's asset quality performance across economic cycles and geographies is yet to be determined.

### Moderate asset quality metrics:

The company's asset quality had seen deterioration during FY21 and Q1FY22 on account of COVID-19 and its impact on the customers of CHFL. However, CHFL has been able to improve the same during FY22. As on March 31, 2022, GNPA and NNPA have improved to 2.67% (P.Y.: 2.90%) and 1.66% (P.Y.: 2.06%), respectively.

As on March 2022, the company had restructured assets of ₹11.67 crore, on which moratorium was provided. At present, 70-80% of the restructured book customers are paying on time vis-à-vis 40% in March 2022. The company has not disbursed any loans under ELCGS till date. The ageing of delinquencies to the 365 DPD bucket was on account of lack of accessibility to SARFAESI till FY22. Post access to SARFAESI, the company has enforced the same and has started recovering from older accounts and as a result, the delinquencies have dropped Q-o-Q.

The company reported stable asset quality metrics and reported GNPA and NNPA at 2.8% and 1.81%, respectively, as of December 31, 2022.

### Liquidity: Adequate

As on September 30, 2022, the cash and cash equivalents stood at ₹166 crore with cash and cash equivalents to total assets ratio at 18.64x.

As per the ALM dated September 30, 2022, without considering the undrawn lines, there are no negative cumulative mismatches in any of the buckets up to 1 year except the 6-12 months bucket. It had undrawn lines to the tune of ₹110 crore. CHFL as a policy always carries 3-6 months of liquidity.

### Applicable criteria

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Housing Finance Companies](#)

[Non Banking Financial Companies](#)

### About the company and industry

#### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Housing Finance Company

CHFL is a housing finance company registered with NHB, and was incorporated on March 3, 2016. The company was a subsidiary of Centrum Retail Services till March 31, 2017, which in turn was a subsidiary of Centrum Capital Ltd. However, post internal reorganisation, Centrum Capital Ltd held 76% stake and BG Advisory held 24% stake in CHFL. During February 2020, Centrum Housing Finance Limited received equity infusion of around ₹190 crore for around 25% stake from a fund (NHPEA Kamet Holding B.V.) managed by Morgan Stanley Private Equity Asia. Currently, Centrum Capital holds around 56% stake, whereas MSPEA holds around 25% stake and BG Advisory holds around 18% stake.

The salaried customers comprise around 40% of the total loan portfolio, and the self-employed customers comprise around 60% of the total loan portfolio as on March 31, 2022. The housing loans were around 83% of the loan portfolio and the LAP portfolio was around 17% of the portfolio as on December 31, 2022.

Centrum Housing Finance Ltd. (CHFL) intimated Bombay Stock Exchange that they have entered into a business transfer agreement on December 03, 2022, for acquisition of housing finance business of National Trust Housing Finance Ltd. for a consideration of ₹112 crore. The company has entered into a business transfer agreement via slump sale and has acquired the housing finance business of NaTrust inclusive of the housing finance company's assets, i.e., home loans and mortgage against property and its liabilities. Since the deal involves only the purchase of assets and liabilities of NaTrust by CHFL and not the acquisition of the business, this would result in no change in the shareholding pattern for CHFL.

Brief Financials (₹ crore)	FY20 (A)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Total operating income	52.09	68.62	72.22	65.41
PAT	1.80	11.88	14.53	7.56
Interest coverage (times)	1.11	1.69	1.89	1.50
Total Assets	617.94	667.44	692.39	955.36
Net NPA (%)	1.10	2.06	1.66	1.81
ROTA (%)	0.36	1.85	2.14	1.22

A: Audited

**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
Fund-based - LT-Term Loan		Dec-21	-	Oct-32	528.61	CARE A- (RWD)
Proposed Fund-based - LT-Term Loan		-	-	-	431.39	CARE A- (RWD)

#### 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	960.00	CARE A- (RWD)	1)CARE A- (RWD) (27-Dec-22) 2)CARE A- (CW with Developing Implications) (12-Dec-22) 3)CARE A-; Stable (06-Sep-22)	1)CARE A-; Stable (07-Oct-21) 2)CARE A-; Stable (29-Apr-21)	1)CARE A- (CW with Developing Implications) (06-Jan-21) 2)CARE A-; Stable (10-Nov-20) 3)CARE A-; Stable (12-Jun-20)	1)CARE A-; Stable (18-Oct-19) 2)CARE A-; Stable (09-Oct-19)
2	Debentures-Non Convertible Debentures	LT	40.00	CARE A- (RWD)	1)CARE A- (RWD) (27-Dec-22) 2)CARE A- (CW with Developing Implications) (12-Dec-22) 3)CARE A-; Stable (06-Sep-22)	1)CARE A-; Stable (07-Oct-21) 2)CARE A-; Stable (29-Apr-21)	1)CARE A- (CW with Developing Implications) (06-Jan-21) 2)CARE A-; Stable (10-Nov-20) 3)CARE A-; Stable (12-Jun-20)	-

\*Long term/Short 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	Fund-based - LT-Term Loan	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](mailto:care@careedge.in) for any clarifications.

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### About us:

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