Capri Global Capital Limited

July 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	3,750.00	CARE A+; Stable	Reaffirmed
Non Convertible Debentures	100.00	CARE A+; Stable	Reaffirmed
Non Convertible Debentures *	50.00 (Reduced from 300.00)	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.
*Reduction on account of maturity

Rationale and 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, continued portfolio growth, improved asset quality metrics and adequate liquidity buffers at group level. These rating strengths are however constrained by its concentrated resource profile, geographical concentration, and exposure to relatively risky construction financing business. While CARE notes the improvement in CGCL's earnings profile led by significant portfolio growth and foray into gold loan business the company's ability to improve its profitability metrics in individual asset classes, scale up highly competitive gold loan portfolio and gain market share remains to be seen.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could individually or collectively 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 individually or collectively lead to negative rating action/downgrade:

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

Analytical approach: Consolidated; considering that the housing business is an integral part of the group and shares synergies with the holding company in the form of shared brand name, business linkages and common promoter.

Outlook: Stable

The "stable" outlook factors in the continuation of growth in overall portfolio driven by granular retail segments and improvement in overall asset quality profile.

Detailed description of the key rating drivers:

Key strengths

Healthy capitalization levels supported by Rights issues

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

CGCL has healthy capital structure supported by recent rights issue as well as internal accruals. During March 2023, CGCL raised ₹1,440 Crore of capital via rights issue which was subscribed by both existing and a new investor. Post rights issue, the promoters' stake has reduced to 69.9% as on March 31, 2023 (Dec 31, 2023: 74.6%). CGCL posted a healthy consolidated capital structure as of March 2023 with tangible networth of ₹3,496 Crore (PY: ₹1,880 Crore) and gearing of 2.15x (PY: 2.56x). While CARE expects the gearing levels of the company to rise from the current levels in the medium term to sustain growth momentum, overall gearing is expected to remain below 4x going forward.

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 over two decades 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. During FY23, with a view to foray and expand gold loan vertical, the company has hired experienced professionals with experience in gold loans financing. In sync with the growth in size and scale of company's operations, CGCL is in process of appointing CFO and CRO to strengthen senior leadership in the company.

Going forward, the company's ability to attract and retain senior management is crucial for sustainable scale-up of the business and therefore remains one of our key monitorable.

Improvement in earning profile though profitability impacted by expansion

During FY23, overall consolidated earnings of the company increased by 49% y-o-y (P.Y.: 33%) primarily driven by interest income on loans and fee income. On consolidated basis, the disbursements of the company increased to ₹7,290 Crores during FY23 against ₹4,285 Crores during FY22. The share of fee income in overall earnings increased to 11% during FY23 (P.Y.:5%) to ₹154 crore primarily on account of net commissions from distribution of car loans which stood at ₹118 crore. While the company launched distribution of third-party products in the car loan segment during FY21, the same has gained traction during FY23. CGCL has tie-ups with 8 banks for car loans distribution.

Despite improvement in overall earnings, CGCL's consolidated margins declined by 89bps on account of cash proceeds from rights issue pending deployment (the fund is non-interest bearing) and relatively lower yields in gold loan segment. Since the company forayed into gold loan financing during Q2FY23, loans were offered at 15% yields initially which subsequently increased to 19% by Q4FY23. Despite range bound NIMs and higher fee income as well as lower credit costs during FY23, consolidated ROTA declined by 100 bps to 2.18 % on account of high opex arising from gold loan business. During FY23, CGCL added 562 gold loan branches (in addition to 57 other branches) and 5,874 employees (including 3,847 employees for gold loan vertical) due to which its cost-to-income ratio increasedto 64.40% (P.Y.: 41.89%) excluding gold loan product, cost-to-income ratio would have been 47.16%.

Going forward, with stabilization in branch expansion pace and economies of scale, CGCL's consolidated profitability is expected to improve in the medium term.

Portfolio growth driven by retail loan

On consolidated basis, the disbursements of the company increased to ₹7,290 Crores during FY23 against ₹4,285 Crores during FY22. Consequently, CGCL's AUM grew to ₹10,321 Crore as on March 31, 2023, from ₹6,632 Crore during FY23 (5-year CAGR AUM stood at 21.45%). The growth was driven by granular retail loans consisting of MSME, Housing Finance and gold loan which together comprised 79% of AUM as on March 31, 2023 (P.Y.: 74%) with remaining being exposure towards construction financing (18%) and indirect lending to NBFCs (3%). The average ticket size of MSME loans is ₹14 Lakhs, housing loan is ₹11 Lakhs and that for gold loan is ₹1 lakh. As a measure to curtail credit risk, the company has capped its construction finance (CF) exposure as a proportion of consolidated AUM to 20%.

Within the AUM mix, MSME segment constituted 37.4% of the total AUM [PY: 48.1%], Housing constituted 25.4% [PY:26.3%]and gold loan segment constituted 10.9% of total AUM. Company has 6 co-lending partnerships for MSME and Housing loans which constitutes 5.3% of total AUM. Co-lending partners include Union Bank, State Bank of India, Punjab & Sind bank, and UCO bank. With the company looking to expand its co-lending partnerships with other lenders and across various products, CARE expects the off-book portfolio of the company to grow in the medium term. Recently, company has entered into co-lending arrangement for gold loan with UCO Bank.

Improvement in asset quality metrics

As of March 2023, CGCL's GNPA and NNPA improved on consolidated basis to 1.7% [PY:2.4%] and 1.2% [PY:1.7%] respectively. Net stage 3 asset to networth stood at 3.37% as of March 2023 [PY:5.76%]. Excl gold loans, GNPA and NNPA stood at 1.96% and 1.38% respectively. As of March 2023, the company posted restructured asset of ₹106.8 Crore [PY: ₹216.1 Crore] comprising 4.48 % of networth [PY: 11.24%].

While the GNPAs have moderated across retail segments of MSME and housing finance, asset quality is a key monitorable considering the niche customer profile and exposure to wholesale lending. Within the MSME portfolio, the company's GNPAs below 25 lakhs ticket size, which is a focus segment, stood at 3.39% as on March 31, 2023, while delinquencies in softer buckets (31-90 dpd) stood at 6.3%.

Within the wholesale lending segment while the company has demonstrated lower GNPAs (0.28% as on March 31, 2023), construction finance portfolio is monitorable due to its inherently high-ticket size and exposure to construction risk. As of March 2023, 31% of construction finance projects were near completion, 26% of the projects were in intermediate stage of completion, 23% of the projects were at early stage of completion and 6% of the projects were at land stage.

Key weaknesses

Recent foray in highly competitive gold business

CGCL started its gold loan business in August 2022 and by March 2023, the Company had opened 562 exclusive gold loan branches across 8 States and UTs. The headcount in gold loan vertical stood at 3,847 comprising 42% of CGCL's headcount with AUM of ₹1,125.9 crores in Gold loan business by March 2023. Consequently, the company's consolidated cost-to income increased to 64.4% during FY23 [P.Y.: 41.89%]. Given the rapid expansion, high opex and nascent portfolio, the company is yet to achieve breakeven in gold financing vertical. Further, the gold loan market in India is highly competitive comprising of established market players thereby impacting yields. While CARE takes cognisance of the ramp-up in gold loan portfolio, CGCL's ability to sustain profitable growth in its gold loan AUM and gain market share is yet to be seen**.**

Concentrated resource profile

The resource profile of Capri group is concentrated both in terms of sources of borrowings and lender segment. Total consolidated borrowings as of March 2023 was ₹7,534.56 Crore [PY: ₹4,808.39 Crore] of which bank loans constituted 82.70% [P.Y.:79%], NCDs- 5.53% [P.Y.:12%] and remaining 11.77% [PY.:12%] via refinancing institutions/NBFC namely NABARD, SIDBI and NHB. Within bank borrowings, public sector bank continued to have major share of 75% of total borrowings as of March 2023 [PY:77%]. NCD holders of the company also namely include public sector banks and a financial institution. However, Private sector banks constituted 19.34% of the incremental borrowings raised during FY23.

From lenders mix perspective, top 10 lenders constituted 86.77% of borrowings for CGCL (P.Y.: 92.39%) and 98.43% of borrowings for CGHFL (P.Y.: 98.94%) indicating high lender concentration in resources mix. The company, however, continues to raise resources at competitive rates of interest. The consolidated cost of fund on borrowings has increased for FY23 stood at to 8.5% (P.Y.: 8.2%).

Geographical concentration

While CGCL has diversified operations in 14 states [PY:11 states], the portfolio is moderately concentrated. On a consolidated basis, geographical concentration in top 5 states increased to 91.06% [PY.:87%]. Madhya Pradesh accounted for 24.54%

[PY.:23%], Gujarat contributed 19.48% [PY.:23%] and Maharashtra contributed 18.81% [PY:21%], Rajasthan to 18.32% [PY.: 15%], Delhi & NCR to 9.9% [PY.: 7%] to total loan book. Concentration in top 5 states for MSME segment was 89.66%, for housing finance segment was 97.72% and for gold loan segment was 87.24%.

Risks emanating from construction finance & indirect lending portfolio

CGCL is into wholesale lending which consists of construction finance and indirect lending i.e., lending to other NBFCs and fintech companies. Construction finance segment contributed 17.73% [PY: 19.09%] of total AUM as on March 2023. Due to relatively risker nature of the segment company has capped the segment to 20% of its consolidated AUM. However, the average ticket size of the segment is ₹9.34 Crore as of March 2023 and top 20 borrowers in the segment constituted 19.73% of its construction finance AUM. Further, 31% of construction finance projects were near completion, 26% of the projects were in intermediate stage of completion, 6% and 23% of the total funded projects are at land stage and early stage of completion respectively as of March 2023 making the segment prone to risk arising out of changes in economic cycles. 87.33% [PY.: 73.35%] of the construction finance segment is into mortarium as of March 2023 however, 56.14% out of 87.33% of the accounts under moratorium have started prepayments. The credit risk arising out of the segment is mitigated by 12 years of experience of the company in the segment and the category of projects targeted (affordable housing projects including SRA and redevelopment). The collection in real estate portfolio is through sweep mechanism in all loans based on construction, sales and collection milestones.

Indirect lending segment contributed 3.3% (₹331 Crores) of total AUM [PY.: 4.72%] as of March 2023. The portfolio mainly comprises of exposure to smaller NBFCs and fintech companies. As on March 31, 2023, exposures to NBFCs rated in BBB and below category stood at 44.42% of total indirect lending portfolio.

Liquidity: Adequate

As of March 2023, CGCL's standalone ALM has no cumulative mismatches for all the buckets.

The company had cash and cash equivalents of ₹1,488.3 crore and receivable from Loan book (incl interest) of ₹2,908.27 as against debt repayments obligations (incl interest) of ₹2,092.28 crore for the next one year.

On a consolidated level, the group has cash flow debt cover of 1.42x for the next one year. The cash flows against loan receivables and cash equivalents are estimated at ₹4,913 crore as against debt repayments (incl interest) and opex of ₹3,450 crore. Additionally, the group has undrawn bank facilities of ₹360.65 crore which provides comfort.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks:

The executive directors and senior management of the Company monitor various aspects of social, environmental, governance and economic responsibilities of the Company on a continuous basis. The Corporate Social Responsibility Committee oversees and review the Company's Business Responsibility performance. The Corporate Social Responsibility Committee meets at least annually for implementation of Corporate Social Responsibility and Business Responsibility initiatives undertaken by the company.

Applicable criteria

Policy on default recognition
Consolidation
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)

Capri Global Capital Ltd - CGCL was incorporated on Nov 15, 1994, and is a listed systemically important non-deposit taking NBFC. The company is promoted by Mr. Rajesh Sharma, who has more than 2 decades of experience in capital markets.
Capri Global Holdings Private Limited is a holding company for CGCL having 47.7% stake in the company as of Mar 31, 2023. During March 2023, CGCL raised ₹1,440 Crore of capital via rights issue which was subscribed by both existing and a new investor. Post rights issue, the promoters' stake has reduced to 69.9% as on March 31, 2023 [Dec 31, 2023: 74.6%].
Capri Global Housing Finance Limited (CGHFL) is a 100% subsidiary of CGCL. Both the companies together are referred to as "Capri Group". CGHFL is into housing finance business, it got its license from NHB in Sep 2015 and was operational since Dec. 2015. The group focuses on five major business segments namely MSME, Wholesale construction finance, housing finance, indirect lending to fintech and other NBFCs and gold loans.
As on March 31, the company's tangible networth stood at ₹3,496 Crore. CGCL's consolidated AUM as of March 2023 was ₹ 10,321 Crore (PY: ₹6,632 Crore). The company has a distribution network in 15 states and UT via 162 MSME branches, 562 gold loan branches, 3 construction finance branches and 9 car loan branches.

Consolidated CGCL Financials:

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	704	980	1,463
PAT	177	205	205
Total Assets*	5,786	7,111	11,725
Net NPA (%)	2.37	1.68	1.21
Adjusted ROTA (%) (incl. off book)	3.47	3.15	2.10
ROTA (%) (on book)	3.47	3.18	2.17^

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

*Total Assets are tangible total assets
^ ROTA excluding impact of gold loan investment and Rights Issue proceeds which was received in end of Mar 23 is 3.3%

Standalone CGCL Financials:

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	554	764	1144
PAT	144	162	142
Total Assets*	4471	5411	9243
Net NPA (%)	1.09	1.91	1.38
Adjusted ROTA (%) (incl. off book)	3.57	3.24	1.85
ROTA (%) (on book)	3.57	3.28	1.93

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

*Total Assets are tangible total assets

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: 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
Debentures-Non Convertible Debentures-proposed	-	-	-	-	100.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE180C07098	05-06-2020	9.00%	23-07-2023	50.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	31-03-2029	3750.00	CARE A+; 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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	3750.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Jul-22)	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)
2	Debentures-Non Convertible Debentures	LT	100.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Jul-22)	1)CARE A+; Negative (15-Mar-22) 2)CARE A+; Negative (06-Jul-21)	1)CARE A+; Negative (03-Dec-20) 2)CARE

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
								A+; Negative (03-Jul-20) 3)CARE A+; Negative (28-Apr-20)
3	Debentures-Non Convertible Debentures	LT	50.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Jul-22)	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)
4	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 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
2	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 for any clarifications.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Gaurav Dixit Director **CARE Ratings Limited** Phone: +91-11-4533 3237 E-mail: gaurav.dixit@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Geeta Chainani Associate Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: Geeta.Chainani@careedge.in Disha Balkrishna Potagevan Lead Analyst **CARE Ratings Limited** E-mail: Disha.Potagevan@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.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in