Capital Trust Limited (Revised)

December 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	50.00	CARE BB+; Stable	Reaffirmed
Non-convertible debentures	10.00	CARE BB+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating for instruments of Capital Trust Limited (CTL) is constrained due to the small, despite increasing scale of operations, moderate asset quality with rise in gross non-performing assets (GNPA) ratio and 90+ days past due (dpd) owing to seasoning and stress in the microfinance sector, and concentrated borrowing profile. The rating is also constrained by low seasoning and inherent risk involved in the industry including unsecured lending, marginal profile of borrowers, socio-political intervention and regulatory risk.

However, ratings, derive strength from low gearing, improving profitability profile with the company reporting net profit in FY24 and in H1FY25, after three years of net losses. CARE Ratings Limited (CARE Ratings) also takes note of the company's view towards building a sustainable business correspondence (BC) partner model and maintaining moderate gearing levels going forward.

Going forward, the company's ability to attain sustainable growth in its portfolio, maintain sufficient liquidity and improve its profitability would be key rating sensitivities.

Rating sensitivities: Factors likely to lead to rating actions

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

- Sizable scaling up of operations while maintaining asset quality.
- Sizable improvement in net worth position.

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

- Significant deterioration in asset quality resulting in a subdued profitability profile.
- Decline in the company's liquidity profile.

Analytical approach:

Standalone

Outlook: Stable

CARE Ratings expects assets under management (AUM) to continue to grow while maintaining the asset quality. The envisioned capital infusion will also support AUM growth.

Detailed description of key rating drivers:

Key weaknesses

Moderate asset quality

As CTL had written off stressed legacy portfolio in FY23, the GNPA ratio as on March 31, 2023, reduced to 0.03% from 5.18% as on March 31, 2022. The digital portfolio, which started in September 2021 with an average tenure of 18-24 months, completed two cycles by September 2024 and with seasoning, GNPA ratio increased to 0.47% as on March 31, 2024. On AUM basis, the 90+ dpd as on March 31, 2024, marginally rose to 1.45% from 1.01% as on March 31, 2023, but softer delinquencies of 0+, 30+ and 60+ dpd reduced as on March 31, 2024.

However, with ongoing stress in the microfinance sector, which resembles CTL's clientele that graduated from the microfinance sector with an income level of ₹3-4 lakh, GNPA ratio has increased to 1.61% as on September 30, 2024. The 30+ and 90+

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

delinquencies have also increased to 4.79% and 2.90%, respectively, as on September 30, 2024, from 2.53% and 1.45%, respectively, as on March 31, 2024.

For the medium term, CARE Ratings expects asset quality to mimic the microfinance sector and remain escalated. Overall, the company's ability to maintain asset quality, while increasing the scale of operations remains monitorable.

Small scale of operation, despite picking up pace since FY24

After CTL wrote off the legacy portfolio, it came down to ₹14 crore as on September 30, 2024, making 5% of AUM, from ₹723 crore as on March 31, 2019, which entirely made the AUM. The remaining legacy portfolio is standard.

CTL's digital portfolio is now the flagship product launched in FY20. It caters to customers graduated from microfinance sector by providing similar product as microfinance with short tenured business loan (18 – 24 months) with small ticket size (₹30,000 - ₹1,00,000) at rate of interest of 32%. With the improved systems, the AUM increased to ₹284 crore as on September 30, 2024 (+1% YTD) from ₹280 crore as on March 31, 2024, and ₹150 crore as on March 31, 2023. CTL also launched a new product segment, micro loans against property. This will be a secure loan product in partnership with a BC partner for three years. Going forward, the management intends to maintain the share of this product segment to the digital product as 50:50.

As the company has repaid off sizeable debt obligation in FY24, the company has been able to raise new debt, and consequently, the on-book AUM is increasing with 38% as on September 30, 2024, from 31% as on March 31, 2024.

Concentrated borrowing profile

CTL's borrowings had been dominated by banks till FY23 with 54% as on March 31, 2023, and 57% as on March 31, 2022. With the company repaying off its old debt and availing new ones since FY24, NBFCs dominate the borrowing profile with 72% as on March 31, 2024, and 62% as on September 30, 2024. It is noted that 9% debt was availed from related parties as on September 30, 2024, which was 2% as on March 31, 2024, and 6% as on March 31, 2023.

Key strengths

Comfortable capital position, though tangible net worth in absolute terms remain low

With CTL reporting continuous net losses, tangible net worth (TNW) has been reducing over the years. As the company has written off significant AUM share, TNW further eroded to ₹25 crore as on March 31, 2023. With FY24 being net profitable, TNW increased by 12% y-o-y to ₹28 crore as on March 31, 2024. The company received a capital infusion of ₹8 crore in Q1FY25, majorly from a non-banking finance company (NBFC) (₹6 crore), promoter- Moonlight Equity Private Limited (MEPL), director of the NBFC (₹1 crore) and spouse of CTL's independent director, TNW further increased to ₹37 crore as on September 30, 2024. The company's board approved a rights issue amounting to ₹50 crore in Q2FY25, which is expected to improve the capitalisation profile. The gearing level as on March 31, 2024, reduced to 2.9x, with the company repaying its debt in Q1FY24. As the company increased its debt, but with the capital infusion, the gearing increased mutely to 3.0x as on September 30, 2024.

Geographically diversified operations

CTL operates in 10 states, although 96% of the operations are spread in six states as on September 30, 2024. Bihar makes the majority AUM with 41%, followed by Uttar Pradesh with 21%, Odisha with 13%, Madhya Pradesh with 9%, Jharkhand with 7%, Rajasthan with 6% and balance 4% is contributed by Punjab, Uttar Pradesh, Delhi and newly entered Andhra Pradesh. The company forayed to Andhra Pradesh in Q4FY24. Concentration in Bihar has been rising over the years.

Improving profitability

With reduction in borrowings and operations, total expenses reduced in FY24, leading to reduction in pre provision operating losses to ₹16 crore in FY24 from ₹31 crore in FY23. With support from negative credit costs and reduced expenses, CTL reported net profit ₹2 crore in FY24, after three years of net losses. In H1FY25, the company reported profit after tax (PAT) of ₹1 crore.

Fee income continued to rise in FY24 and H1FY25 with the service fees from BC, leading to a rise in the fee and other income ratio to 20.24% in H1FY25 from 19.52% in FY24 and 9.57% in FY23.

With recoveries received from written off portfolio and reduced provisioning made on the current portfolio; the credit costs ratio reduced to a negative 14% in FY24. However, with ongoing stress in the microfinance sector, the company increased its provisions but with recoveries received from the written off portfolio, annualised credit costs continued to remain at a negative 5% in H1FY25.

With this, the company reported a return on total assets (ROTA) of 1.6% in FY24 and 1.3% in H1FY25.

Going forward, CARE Ratings expects the profitability profile to improve, provided CTL is able to grow its operations while maintaining asset quality.

Liquidity: Adequate

Per asset liability management (ALM) statement as on September 30, 2024, there are positive cumulative mismatches across all time buckets. The company has free cash and bank balance of ₹20 crore as on September 30, 2024.

Applicable criteria

[Definition of Default]
[Rating Outlook and Rating Watch]
[Financial Ratios - Financial Sector]
[Non Banking Financial Companies]

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Non-banking financial company (NBFC)

CTL was incorporated in August 1985 as a non-deposit taking NBFC. The company is promoted by Yogen Khosla, holding 34% stake as on September 30, 2024. The company's promoter group also includes MEPL, a company founded by Yogen Khosla. The promoter group held 65% stake as on September 30, 2024. CTL started the digital lending portfolio in FY19 with one product branded as Capital Business Loan. The company caters to 1,12,530 customers through 336 branches in 10 states in the country.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	62.92	60.01	44.79
PAT	-45.64	2.15	0.97
Interest coverage (times)	-1.84	1.28	1.14
Total Assets	138.21	130.64	168.71
Net NPA (%)	0.01	0.29	Not Available
ROTA (%)	-19.93	1.60	1.29

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Debentures-Non-Convertible Debentures	INE707C07064	21-Aug-2024	17.00%	07-Feb-2026	10.00	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	-	5.00	CARE BB+; Stable
Fund-based - LT-Term Loan	-	-	-	May 30, 2027	45.00	CARE BB+; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	45.00	CARE BB+; Stable	-	1)CARE BB+; Stable (03-Oct-23)	1)CARE BB+; Negative (06-Oct-22)	1)CARE BBB-; Negative (07-Oct-21)
2	Fund-based - LT-Cash Credit	LT	5.00	CARE BB+; Stable	-	1)CARE BB+; Stable (03-Oct-23)	1)CARE BB+; Negative (06-Oct-22)	1)CARE BBB-; Negative (07-Oct-21)
3	Debentures-Non-Convertible Debentures	LT	-	-	-	1)Withdrawn (03-Oct-23)	1)CARE BB+; Negative (06-Oct-22)	1)CARE BBB-; Negative (07-Oct-21)
4	Debentures-Non-Convertible Debentures	LT	10.00	CARE BB+; Stable				

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the 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: Lender details

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

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Sanjay Kumar Agarwal Senior Director **CARE Ratings Limited** Phone: 912267543582 E-mail: sanjay.agarwal@careedge.in
Relationship Contact Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 044-28501001 E-mail: pradeep.kumar@careedge.in	Neha Kadiyan Director **CARE Ratings Limited** Phone: 91-120-4452022 E-mail: Neha.Kadiyan@careedge.in Deepshi Panda Lead Analyst **CARE Ratings Limited** E-mail: deepshi.panda@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 detailed Rationale Report and subscription information,
please visit www.careedge.in**