CSL Finance Limited (Revised)

March 21, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**0.00**		
Non-Convertible Debentures	40.00 (Reduced from 50.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Long-Term Instruments	**40.00 (Rs. Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has withdrawn the outstanding ratings of 'CARE BBB; Stable' [Triple B; Outlook: Stable] assigned to the bank facilities of CSL Finance Limited (CSLFL) with immediate effect. The above action has been taken at the request of CSLFL and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE Ratings Ltd.

The rating reaffirmation on long-term non-convertible debentures of CSLFL continue to factor in comfortable capital structure with largely equity funded loan book and hence low gearing levels, secured lending portfolio (~99% of book as on Dec-2021) with low loan to value (LTV) levels, healthy profitability and long-standing experience of promoters holding 56% stake in the company. The rating also draws comfort from the comfortable liquidity profile of the company.

However, the ratings of CSLFL are constrained by company's small scale of operations and high inherent portfolio vulnerability arising out of high borrower-wise and sector-wise concentration risk with exposure to real estate segment that is deemed riskier in nature. Also, the company faces high geographical concentration with 82% of assets under management (AUM) end Dec-2021 concentrated in Delhi-NCR and has relatively lower track record of operations in SME lending business.

Rating Sensitivities

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

- Consistent improvement in financial profile in near to medium term with RoTA of ~6.5% on a sustained basis
- Improvement in asset quality metrics both on an overall basis and in the SME segment while attaining meaningful scale-up in portfolio.
- Further reduction in wholesale loan book concentration
- Capitalization metrics remaining strong with gearing remaining below 2.0 times.
- Increasing geographical diversification of loan book

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

- Further deterioration in asset quality with GNPA increasing beyond 4% thereby adversely affecting earnings profile of the company
- Increased borrower/borrower group concentration

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team

The company is promoted by Mr. Rohit Gupta, Managing Director, who has more than 25 years of diverse experience in the field of Merchant Banking, Corporate Finance, Financial Restructuring, Project Finance, Stock Markets and Secured Lending. He is supported by an experienced second line of management in relation to its size of business.

Comfortable capital structure and gearing profile

As on March 31, 2021, tangible net-worth of CSLFL increased to Rs.258.4 crore from Rs.231.4 crore as on March 31, 2020 due to sequential positive internal accruals driven by healthy profitability metrics. Rise in net-worth base coupled with range-bound loan book in FY21, thus keeping risk weighted assets under control, led to a significant uptick in capital adequacy of the company as it rose from 73% as on March 31, 2020 to 78% (fully contributed by Tier-I capital) as on Mar-21, comfortably

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

above the statutory minimum of 15% for NBFCs, thereby providing it enough headroom to expand its loan book while keeping gearing in check.

End December 31, 2021, capitalization profile of the company moderated marginally to 67% on the back of growth in AUM in 9MFY22 to Rs.421.1 crore (up 28% since Mar-21). Also, with gradual incline in total borrowings to Rs.149.6 crore (up 69% since Mar-21) as on December 31, 2021, overall gearing of the company elevated to 0.53 times as on Dec-21, as against 0.32 times end FY21.

Secured lending portfolio

End December 31, 2021, the company's gross loan portfolio stood at Rs.421.1 crore, with 82% of advances towards wholesale loan book (primarily loans to real estate sector) which is 100% secured and backed by comfortable average LTV of 47%. The remaining 18% of loan-book is towards small ticket size retail SME segment, 90% of which is secured and has an even lower average LTV level of 31% end December-2021. The unsecured book (1% of overall AUM end Dec-2021) comprises small ticket loans mainly to kirana merchants, traders, schools etc.

Manageable asset quality though weakness registered in SME portfolio

The company has been able to maintain tight control on NPAs despite challenging environment in real estate sector and has minimal NPA in wholesale loan book as on December 31, 2021. However, in the SME book, due to collection efficiency remaining muted at around 78% end Dec-2021, it witnessed moderation in asset quality profile as it was more impacted by the COVID-19 induced lockdown and its exacerbated impact on borrowers belonging to the school, kirana traders and salaried category.

End 9MFY22, softer delinquencies (30+dpd) in CSLFL's wholesale portfolio remained negligible, while under SME loan category they stood at 23.3%, up from 21.1% as on December 31, 2020. This translated into 90+dpd in SME-retail segment increasing to 16.2% end Dec-2021 as against 8.2% a year ago. On an overall basis, the reported GNPA% and NNPA% of CSFLFL increased to 2.96% and 1.68% respectively end December 31, 2021, up from 1.53% and 0.74% respectively end Dec-20. Given the challenges faced by borrowers under the SME segment, asset quality profile of the company remains under close watch.

Healthy earnings profile

End fiscal March 31, 2021, CSL reported PAT of Rs.27.5 crore (up 22.5% Y-o-Y) on a total income of Rs.61.9 crore (up 1.5% Y-o-Y) as compared to a PAT and total income of Rs.22.5 crore and Rs.61.0 crore respectively in FY20. The rise in profitability despite marginal top-line growth was on account of lower interest expenses amid declining borrowings during FY21 coupled with lower operating expenses. Consequently, return on total assets (RoTA) and return on net-worth (RoNW) of the company improved to 8.1% and 11.2% respectively as on Mar-21.

End quarter ending December 31, 2021, CSLFL reported PAT and total income of Rs.8.7 crore (up 22% Q-o-Q) and Rs.19.0 crore (up 10% Q-o-Q), driven by higher fee income during the period.

Key Rating Weaknesses

Relatively small scale of operations and limited track record particularly for SME loan book

CSLFL started wholesale lending business in 2011 and has expanded its wholesale loan book (including LAP and LAS) to Rs.268 crores (82% of AUM) as on Mar-21, which further expanded to Rs.347 crore end December 2021. CSLFL had started SME lending in March 2017 and has grown its SME loan book to Rs.74 crore (18% of AUM) end Dec-21 up from Rs.62 crore end Mar-21. In the present scenario, the company's loan book remains relatively small and shifting focus on granular small ticket SME lending, wherein it has a relatively smaller track record of around five years, would be the key monitor-able going forward.

High borrower concentration

Owing to the chunkier nature of the wholesale loan book with average ticket size around Rs 6.0 crore, the company faces high borrower concentration risk with top 20 exposures constituting 65% of total AUM as on Dec-21 (63% as on Dec-20) and 91% of the tangible net-worth as on Dec-21. Although, CARE takes comfort from project wise granularity across each borrower. However, since Mar-17, the company has ventured into small ticket sized, retail- SME lending which is expected to reduce concentration risk to some extent over medium term.

Geographic concentration, although reducing with the company focusing on retail SME lending:

CSLFL is exposed to geographic concentration as its entire corporate / wholesale portfolio is concentrated in Delhi-NCR that constituted 82% of the total loan portfolio as on December 31, 2021, similar to its share as on March 31, 2021. Other states that account for smaller proportion of the AUM are Rajasthan (4% of AUM), Haryana (5%), Gujarat (4%), Punjab (3%) and Uttarakhand (1%). The exposure towards these states has remained range bound due to slower growth in SME portfolio.

Concentration of exposure to real estate sector
The company has high exposure to risky sector as it lends majorly to corporates/ companies in real estate development which have high inherent risks. However, the risk is mitigated to some extent by underlying security with collateral cover at around 2 times. The concentration is reducing and expected to reduce further with build-up of retail SME loan book.

Liquidity: Adequate
As per the ALM statement dated December 31, 2021, there were positive cumulative mismatches in all the time buckets on the back of increasing amount of loan book. Also, CSLFL had cash and bank balances of Rs.15.5 crore as on December 31, 2021.

Analytical approach: Standalone

Applicable Criteria
Policy on Withdrawal of ratings
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE Methodology for Non-Banking Financial Companies
Financial ratios-Financial Sector

About the Company
CSL Finance Limited (CSLFL) (formerly known as Consolidated Securities Limited), incorporated in December 1992, is a non-deposit taking 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. The company currently operates in Delhi NCR in this loan segment. CSLFL also provides loan against property in the ticket size of Rs.10 cr to Rs.15 cr. In March 2017, the company ventured into Retail SME lending (secured) within the range of Rs.5 lakh to Rs.30 lakhs and currently operates through 16 branches in this segment in the areas of Delhi-NCR, Punjab, Haryana, Rajasthan and Gujarat.

Brief Financials^(Rs. crore)	FY20(A)	FY21 (A)	9MFY22 (UA)
Total Income	61.0	61.9	51.7
PAT	22.5	27.5	22.8
Overall Gearing (times)	0.41	0.32	0.53
Total Assets	331.3	346.7	429.7
Net NPA (%)	0.24	1.19	1.68
ROTA (%)	6.74	8.12	7.82

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	-	0.00	Withdrawn

Non-Convertible Debentures	INE718F07015	July 06, 2020	10.25%	April 21, 2023	30.00	CARE BBB; Stable
Non-Convertible Debentures	INE718F07023	October 19, 2020	10.00%	April 21, 2023	10.00	CARE BBB; Stable
Debentures-Non Convertible Debentures	Proposed				0.00	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-Working Capital Limits	LT	0.00	-	-	1)CARE BBB; Stable (24-Mar-21)	1)CARE BBB; Stable (26-Mar-20)	1)CARE BBB; Stable (14-Mar-19)
2	Term Loan-Long Term	LT	0.00	-	-	1)CARE BBB; Stable (24-Mar-21)	1)CARE BBB; Stable (26-Mar-20)	1)CARE BBB; Stable (14-Mar-19)
3	Debentures-Non-Convertible Debentures	LT	40.00	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Mar-21) 2)CARE BBB; Stable (31-Jul-20)	-	-

* Long Term / Short Term

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-Working Capital Limits	Simple
3	Term Loan-Long Term	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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