CSL Finance Limited (Revised)

March 24, 2021

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank facilities	120.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**120.00 (Rs One Hundred and Twenty crore only)**		
Non Convertible Debenture	50.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Long-term instruments	**50.00 (Rs Fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating reaffirmation on long-term bank facilities and non-convertible debentures of CSL Finance Limited (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-2020) 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 on the back of high collection efficiency.

However, the ratings of CSLFL are constrained by company's small scale of operations with stagnant loan-book size over the past few quarters 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 83% of assets under management (AUM) end Dec 2020 concentrated in Delhi-NCR and has relatively limited track record of operations in retail lending business. Although CARE takes cognizance of the fact that the company's portfolio mix is gradually changing with increasing share of retail loan book (19% of AUM end Dec-20 up from 6% end Mar-18)

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

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

- 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, 2020, tangible net-worth of CSLFL increased to Rs 231.4 from Rs 209.9 crore as on March 31, 2019 due to positive internal accruals driven by healthy profitability metrics. Rise in net-worth base coupled with range-bound loan book, thus keeping risk weighted assets under control, led to a significant uptick in capital adequacy of the company as it rose from 66% in FY19 to 73% (fully contributed by Tier-I capital) in FY20, comfortably 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, 2020, capitalization profile of the company improved with overall CAR increasing to 74.82% (up 232 bps Y-o-Y) as its tangible net worth increased to Rs 250.1 crore (up 6% Y-o-Y) driven by positive internal accruals and tepid growth in loan book. Also, with the gradual decline in total borrowings to Rs 88 crore (down 11% Y-o-Y) as on December 31, 2020 driven by the fact that CSLFL is largely equity funded, the gearing profile improved to 0.43 times in Dec-20 as against 0.41 times end FY20.

Secured lending portfolio

End December 31, 2020, the company's gross loan portfolio stood at Rs.335 crores, with 81% 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 19% 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-2020. The unsecured book (1% of overall AUM end Dec 2020) comprises small ticket loans mainly to K-12 schools in Tier 2 and Tier 3 cities.

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 nil NPA in wholesale loan book. Owing to high level of prepayments in most of its wholesale accounts, the collection efficiency stood at 150% of scheduled repayments. However in the SME book, the collection efficiency remained muted at 78% end Dec 2020. The SME loan book 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 9MFY21 softer delinquencies (30+dpd) in CSLFL's wholesale portfolio remained nil while under SME loan category they stood at 21.1%, up from 4.9% as on December 31, 2019. This translated into 90+dpd in SME-retail segment increasing to 8.2% end Dec 2020 as against 2.7% an year ago. On an overall basis, the reported GNPA% and NNPA% of CSFLFL increased to 1.53% and 0.74% respectively end Dec-20 up from 0.6% and 0.47% respectively end Dec-2019. 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, 2020, CSL reported PAT of Rs 22.47 crore (down 5.5% Y-o-Y) on a total income of Rs 60.95 crore (up 5.3% Y-o-Y) as compared to a PAT and total income of Rs 23.79 crore and Rs 57.87 crore respectively in FY19. The fall in profitability despite higher top-line and healthy margins was mainly account of ten-fold increase in its provisioning expenses to Rs 5.92 crore in FY20 (from Rs 0.53 crore in FY19. The rise in provisioning costs was underpinned by high covid related provisions due to rising asset quality stress particularly in the company's SME portfolio. Consequently return on total assets (RoTA) and return on net-worth (RoNW) of the company declined to 6.7% and 10.2% respectively as on Mar-20 from 7.6% and 12.1% respectively previous fiscal.For the quarter ending December 31, 2020, CSLFL reported PAT and total income of Rs 4.9 crore (down 29% Y-o-Y) and Rs 14.9 crore (down 4% Y-o-Y) respectively with bottom line adversely affected by higher credit costs

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 (83% of AUM) as on Mar-19 which stood at Rs.271 end December 2020 (81% of AUM) crores as a part of company's strategy to shift its portfolio mix towards small ticket size, granular retail portfolio. CSLFL had started SME lending in March 2017 and has grown its loan book to Rs.64 crores (19% of AUM) end Dec-20 up from Rs.16 crores end Mar-18 (6% of AUM). 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 four 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 63% of total AUM as on Dec-20 (57% as on Dec-19) and 91% of the tangible net-worth as on Dec-20 (79% as on Dec-19).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 83% of the total loan portfolio as on December 31, 2020, increased from 79% as on March 31, 2020. Other states that account for smaller proportion of the AUM are Rajasthan (5% of AUM), Haryana (5%), Gujarat (4%), Punjab (2%) 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, 2020, there were positive cumulative mismatches in all the time buckets owing to decreasing level of debt obligations, against which CSLFL had adequate inflows from loans advanced clubbed with cash and unutilized credit line balance of Rs 28.3 crore.

COVID-19 Impact
Owing to the COVID-19 pandemic induced lockdown and the related impact on the risky borrower profile of the company, CSLFL witnessed sharp uptick in asset quality stress for its retail portfolio. Also, in view of the Reserve Bank of India (RBI)'s move to allow banks, NBFCs and HFCs to offer six month moratorium to borrowers (till August 31, 2020), the company had initially given moratorium to borrowers that constituted about 53% of its loan book. As on 31st August, 2020, around 66% of CSLFL's loan portfolio was under moratorium. However, given the comfortable liquidity profile of the company, CSLFL did not avail moratorium from any of its lenders.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE Methodology for Non-Banking Financial Companies
Financial Sector –Financial Ratios

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)	FY19(A)	FY20(A)
Total Income[#]	57.9	61.0
PAT	23.8	22.5
Overall Gearing (times)	0.57	0.41
Total Assets	335.3	331.3
Net NPA (%)	0.10	0.24
ROTA (%)	7.64	6.74

A: Audited
Total Income excluding raw material costs

Status of non-cooperation with previous CRA: NA

Any other information: Not applicable

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		-	-	-	67.00	CARE BBB; Stable
Term Loan-Long Term		-	-	-	53.00	CARE BBB; Stable
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
Non-Convertible Debentures	Proposed				10.00	CARE BBB; Stable
Total Non-Convertible Debentures					**50.00**	

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Working Capital Limits	LT	67.00	CARE BBB; Stable	-	1)CARE BBB; Stable (26-Mar-20)	1)CARE BBB; Stable (14-Mar-19)	1)CARE BBB; Stable (30-Jan-18) 2)CARE BBB; Stable (11-Apr-17)
2.	Term Loan-Long Term	LT	53.00	CARE BBB; Stable	-	1)CARE BBB; Stable (26-Mar-20)	1)CARE BBB; Stable (14-Mar-19)	1)CARE BBB; Stable (30-Jan-18)
3.	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB; Stable	1)CARE BBB; Stable (31-Jul-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 the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Working Capital Limits	Simple
3.	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Ms Shubha Bhanu
Group Head Contact no.- +91 917207325
Group Head Email ID- shubha.bhanu@careratings.com

Business Development Contact
Name:. Swati Agrawal
Contact no. : +91-11-4533 3200 / +91-98117 45677
Email ID : swati.agrawal@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**