

CSL Finance Limited

January 17, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	10.00	CARE BBB; Stable [Triple B; Outlook: Stable]	Assigned
Total Facilities	10.00 (Rupees Ten crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The rating assigned to the long-term bank facilities of CSL Finance Limited (CSLFL) factors in experienced promoter, comfortable capital adequacy of the company, good asset quality, secured lending portfolio and healthy growth in operations and profitability. The rating, however, is constrained by the company's high exposure to real estate sector, nascent risk management systems, concentration of its loan portfolio in terms of geography and borrowers and relatively short track record of operations in lending business.

Going forward, the ability of the company to sustain its growth in operations and profitability and geographical diversification of its portfolio while maintaining good asset quality would be the key rating sensitivities.

Detailed description of the key rating drivers

The company is promoted by Mr Rohit Gupta, Managing Director, who has more than 20 years of diverse experience in the field of Merchant Banking, Corporate Finance, Financial Restructuring, Project Finance, Stock Markets and Secured Lending. He is ably supported by a team of experienced professionals.

The business of CSLFL is mainly funded through equity. As on March 31, 2016, the company reported strong Capital Adequacy Ratio (CAR) of 92.39% as on March 31, 2016 (116.60% as on March 31, 2015). Furthermore, the company has comfortable overall gearing of 0.09x as on March 31, 2016. Total borrowings of the company stood at Rs.9.34 crore as on March 31, 2016. With low debt and short-term nature of lending, the liquidity of the company remains comfortable.

CSLFL'S total income has grown at a CAGR of 35% over the last 3 years led by growth in its lending operations and profitable operations in proprietary trading. The interest income from lending grew by nearly 9% y-o-y in FY16 (refers to the period April 1 to March 31) to Rs.14.68 crore while net income from trading segment was Rs.8.05 crore in FY16. However, the company has discontinued the proprietary trading segment from June 2016 and would continue only lending operations going forward.

Loan portfolio of CSLFL stood at about Rs.106 crore as on March 31, 2016 (Rs.123 crore as on September 30, 2016), with majority of the portfolio being secured (98% of the total loan portfolio outstanding as on September 30, 2016). The company has been able to maintain healthy asset quality on account of continuous monitoring of loan accounts and reported Nil NPAs and over-dues over the past four years and as on September 30, 2016.

CSLFL is exposed to geographic concentration risk as its portfolio is concentrated completely in Delhi-NCR (100% of loan book as on March 31, 2016). Also, exposure to top 10 accounts accounted for 70% of the loan portfolio and 76% of the tangible net worth as on September 30, 2016.

The company has high exposure to risky sector as it lends majorly to corporates/ companies in real estate development which have high inherent risks. The exposure to risky sector accounts for 82% of the total loan portfolio outstanding as on September 30, 2016. However, the company lends for projects which are nearing completion for short term funding

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

requirement (up to 1 year), which mitigates the risk to some extent. The company currently follows a basic MIS system. However, with increasing professionalism and scale of operations in the company, the company plans to shift to automated MIS.

CSLFL proposes to enter into SME lending with focus on relatively stable sectors of education, medical/nursing and retail traders. The company is in the process of building teams and processes for the same and proposes to commence lending in the new segments in Q4FY17.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology for Non-Banking Financial Companies](#)

[Financial Ratios \(Financial Sector\)](#)

About the Company

CSLFL (formerly known as Consolidated Securities Limited), incorporated in December 1992, is a non-deposit taking NBFC engaged in providing mezzanine funding to small and medium-sized borrowers in real estate development and education sector for meeting their short-term funding requirements for projects which are in the last stage of completion. Historically, it was primarily engaged in proprietary trading in stock and derivative markets, wherein it made strategic investments in listed companies and worked on arbitrage opportunities in special events such as IPOs and mergers. It started in 2011 with lending to small and medium-sized companies. Currently, the company operates in only one segment i.e. Secured Lending and discontinued proprietary trading business in June 2016. The promoters hold 74.79% shares of the company as on September 30, 2016. The company operates out of Delhi and the loan portfolio of Rs.122.58 crore as on September 30, 2016, is concentrated in the Delhi-NCR region.

During FY16, CSLFL has reported a PAT of Rs.13.06 crore on a total income of Rs.22.74 crore as against a PAT of Rs.7.99 crore on a total income of Rs.15.88 crore in FY15. Capital adequacy ratio (CAR) as on March 31, 2016 stood at 92.39%. During H1FY17 (refers to the period April 1 to September 30), the company has reported a PAT of Rs.10.06 crore on a total operating income of Rs.17.29 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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.

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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.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Chronology of Rating history for past three years		
			Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB; Stable	-	-	-

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