CSL Finance Limited

January 30, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	120	**CARE BBB; Stable (Triple B; Outlook: Stable)**	Reaffirmed
Total Facilities	**120 (Rupees One Hundred Twenty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the long-term bank facilities of CSL Finance Limited (CSLFL) continues to factor in its experienced promoters and management team, comfortable capital structure further supported by fresh raising of equity capital in H1FY18, good asset quality, secured lending portfolio and healthy growth in loan book and profitability.

The rating, however, is constrained by the company's high exposure to real estate sector, concentration of its loan portfolio in terms of geography and borrowers and relatively limited track record of operations in lending business.

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

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team, management team strengthened over last 1-2 years: 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 supported by a team of experienced professionals. Mr. Sandeep Lohani is the CEO of the company with over 15 years of experience in MSME lending, retail financial services, private equity, business strategy and general management. Mr Lohani is an MBA from Jamnalal Bajaj Institute of Management Studies, Mumbai and has further pursued an executive leadership program in microfinance from Harvard Business School and an executive program from Harvard Kennedy School.

Secured lending portfolio: Loan portfolio of CSLFL stood at Rs.205 crore as on Sep 30, 2017. Its loan book comprised corporate loans (95.35% of loan book as on September 30, 2017), small business loans (3.33% of loan book) and retail consumer loans (1.31% of loan book). Majority of CSL portfolio is secured (97.84% of the total loan portfolio outstanding as on September 30, 2017). In corporate loan segment, the company mainly provides short term / last mile funding to small and mid-sized borrowers.

Tight control on asset quality: The company has been able to maintain tight control on asset quality despite challenging environment in real estate sector. CSLFL's gross and net NPAs were nil as on September 30, 2017. CSLFL's collection efficiency has also been comfortable.

Comfortable capital structure, supported further by raising of fresh equity capital in H1FY18: CSLFL's capitalization profile is comfortable as reflected in gearing of 0.27 times and CRAR of 83.80% as on March 31, 2017. Subsequently in H1, FY18 the company has raised fresh equity capital of Rs.49 crore through QIP and its net worth increased to Rs.173 crore as on September 30, 2017 vs. Rs.114 crore as on March 31, 2017. The gearing of the company was 0.34 times and CRAR was 84.16% as on Sep 30, 2017.

Company's liquidity profile remain comfortable on the back of large part of loan book funded out of net worth and shorter tenure of loan book. The liquidity profile of the company as on Sep 30, 2017 is comfortable with no negative mismatches in the ALM.

Adequate risk management system and MIS: The company has put in place adequate credit appraisal and monitoring systems.

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

Earnings profile: CSLFL's weighted average lending rate was around 19% and funding cost was close to 10.3%, leaving interest spread of 7-8%. Its operating expenses were around 2.5-3.0% of average total assets, resulting adequate profitability for the company. The PAT of the company increased by 26% to Rs.16.42 crore, as compared to Rs.13.06 crore in FY16 on account of 58% increase in income from lending operations from Rs.14.68 cr during FY16 to Rs.23.24 crore in FY17. During H1FY18, the company reported a PAT of Rs.7.99 crore on total income of Rs.17.41 crore.

Key Rating Weaknesses

Concentration of lending to single sector i.e. real estate: CSL's loan book is highly concentration to the real estate sector as it lends majorly to the borrowers in real estate sector. The exposure to real estate sector accounted for 81.2% of the total loan portfolio outstanding as on September 30, 2017. However, adequate security cover of the loan book mitigates risk to some extent.

Geographic concentration, although likely to reduce to some extent as company builds small business loan book: CSLFL is exposed to geographic concentration risk as majority of loan book is concentrated in Delhi-NCR. During FY17, the company ventured into small business loans and started operating in Punjab, Haryana and Uttrakhand through a network of 7 branches. The ability of the company to diversify the portfolio across regions while maintaining its asset quality is a key rating sensitivity.

High borrower concentration: Being primarily into corporate loan segment, CSL's borrower concentration risk remains high. Exposure to top 10 borowers accounted for 60.5% of secured loan portfolio and 70% of the tangible net worth as on September 30, 2017.

Limited Track record in lending operations: The company started with wholesale lending operations in 2011 and sizeable part of loan book is built over last 2-3 years. Historically, it was primarily engaged in proprietary trading in stock markets The company has discontinued its operations in proprietary trading / investment.

Furthermore, the company ventured into small business loan segment in FY2017 and yet to establish track record of maintaining good asset quality in this segment

Analytical approach:

Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating 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 mezzanine and 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. In FY17, the Company ventured into Retail SME lending and currently operates through 7 branches in this segment. Till Sep'17, CSLFL has opened branches in Haryana, Punjab, Uttrakhand and Delhi. The company offers secured and unsecured loans in this segment within the range of Rs.2 lakh to Rs.25 lakhs to unorganized small and medium enterprises. Historically, the company was primarily engaged in proprietary trading in stock markets. It started with lending to small and mid-sized companies in 2011 and discontinued proprietary trading business in June 2016.

The company is listed on Bombay Stock Exchange (BSE). The promoters held 59.31% shares of the company as on September 30, 2017.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total income	22.74	30.41
PAT	13.06	16.42
Interest coverage (times)	13.77	8.21
Total Assets	110.48	148.58
Net NPA (%)	Nil	Nil
ROTA (%)	13.02	12.68

A: Audited

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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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.

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-Working Capital Limits	-	-	-	67.00	CARE BBB; Stable
Term Loan-Long Term	-	-	Jan, 2022	53.00	CARE BBB; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Working Capital Limits	LT	67.00	CARE BBB; Stable	1)CARE BBB; Stable (11-Apr-17)	1)CARE BBB; Stable (17-Jan-17)	-	-
2.	Term Loan-Long Term	LT	53.00	CARE BBB; Stable	-	-	-	-

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