CSL Finance Limited

March 14, 2019

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)**		

Detailed Rationale & Key Rating Drivers

The rating assigned to the long-term bank facilities of CSL Finance Limited (CSLFL) continue to factor in its experienced promoters, comfortable capital adequacy, secured lending portfolio, negligible NPAs and healthy growth in operations and profitability.

The rating, however, is constrained by the company's small scale of operations, higher portfolio vulnerability arising on account of relatively higher borrower concentration risk, sector concentration & geographical concentration risk and relatively limited track record of operations.

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

Detailed description of the key rating drivers

Key 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. Also, the company has experienced second line of management in relation to its size of business.

Comfortable capital structure: CSLFSL's net worth has increased from Rs.114.22 crore as on Mar-17 to Rs.183.78 crore as on Mar-18 and further to Rs.198.72 crore as Sep-18. The increase in net worth was following capital raising in FY18 and accrual of profits. CSLFL's capitalization profile is comfortable as reflected in gearing of 0.48 times and CRAR of 65.34% as on March 31, 2018. The gearing of the company was 0.65 times and CAR of 63.5% as on September 30, 2018.

Secured lending portfolio: Loan portfolio of CSLFL stood at Rs.322.29 crores as on December 31, 2018, with majority 99% of the portfolio being secured. The company's loan book comprised wholesale mortgages (primarily loans to real estate sector) which accounted for 87% of book and balance 13% is towards SME retail lending which the company has started from Mar-17.

Negligible NPAs: The Company has been able to maintain tight control on NPAs despite challenging environment in real estate sector. CSLFL's gross and net NPAs were nil as on March 31, 2018. GNPA & NNPA were Rs.0.22 cr and Rs. 0.21 cr as on December 31, 2018, which are majorly towards SME loan book.

Earnings profile: CSLFL's weighted average lending rate was around 18% and funding cost was close to 11%, leaving interest spread of 7-8%. Its operating expenses were around 3% resulting adequate profitability for the company. The PAT of the company increased by 10% to Rs.18.07 crores in FY18 from Rs.16.42 crore in FY17 on account of growth loan book however at the same time operating expenses increased following expansion into SME lending business and strengthening of middle management team. During 9MFY19 the company reported PAT of Rs.18.67 crores and total income of Rs.44.10 crores.

ROTA of the company remains healthy at 8.28% as large part of its loan books is funded out of its net worth.

Key Rating weaknesses:

Relatively small scale of operations and limited track record: CSLFSL's loan book has increased from Rs.135.46 crore as on Mar-17 to Rs.282.89 crore as on Mar-18 and further to Rs.322.29 crore as on Dec-18. However, despite the growth size of company's loan book remains relatively small. The Company started with wholesale lending operations in 2011. Furthermore, the company ventured into SME lending business in March 2017 which grew to 13.41% of the loan book as on December 31, 2018.

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

High borrower concentration: On account of primarily being into wholesale lending activity, credit concentration risk for the company remain high, Exposure to top 5 borrowers accounted for 34% (39% as on September 2017) of loan portfolio and 51% (46% as on September 2017) of the tangible net worth as on December 31, 2018. However, since Mar-17, the company has ventured into SME lending which is expected to reduce concentration risk to some extent.

Geographic Concentration, although reducing with the company building Retail SME lending: CSLFL is exposed to geographic concentration as its entire corporate / wholesale portfolio is concentrated in Delhi-NCR and nearby places. During FY18 and 9MFY19 the company expanded into retail SME lending and started operating in Punjab, Haryana, Uttrakhand, Gujarat and Rajasthan through a network of 18 branches as on December 31, 2018.

Concentration of exposure to real estate sector, though risk mitigated to some extent by secured nature of loan book, short-term nature and last mile funding nature of lending
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 Profile: The liquidity profile of the company remains comfortable as there are no negative mismatches in ALM statement as on December 31, 2018. The company expects inflows of Rs.108 crore over next one year while its outflows are expected to be Rs.46 crore. Liquidity profile is also supported by low leverage of the company.

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 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 18 branches in this segment in ther areas of Delhi-NCR, Punjab, Haryana, Rajasthan and Gujarat.

Brief Financials (Rs. crore)	FY17 (A)	FY18(A)
Total income*	30.41	41.46
PAT	16.42	18.07
Interest coverage (times)	8.21	5.08
Total Assets	148.58	287.72
Net NPA (%)	Nil	Nil
ROTA (%)	12.68	8.28

A: Audited
* Total income in FY17 includes net of share trade income.
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:

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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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Working Capital Limits	LT	67.00	CARE BBB; Stable	-	1)CARE BBB; Stable (30-Jan-18) 2)CARE BBB; Stable (11-Apr-17)	1)CARE BBB; Stable (17-Jan-17)	-
2.	Term Loan-Long Term	LT	53.00	CARE BBB; Stable	-	1)CARE BBB; Stable (30-Jan-18)	-	-

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CIN - L67190MH1993PLC071691