CSL Finance Limited

March 26, 2020

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 comfortable capital structure with largely equity funded loan book and hence low gearing levels, secured lending portfolio (98% of book as on Dec 2019 is secured) with adequate loan to value (LTV) levels, healthy profitability and long standing experience of promoters holding 56% stake in the company. The overall asset quality of the company remains comfortable although some downturn has been registered in SME retail loan book.

The ratings of CSLFL are constrained by company's small scale of operations with stagnant loan book (at around Rs.300 crore) over past 6 quarters and high portfolio vulnerability arising on account of relatively higher borrower concentration risk, sector concentration to riskier real estate segment and geographical concentration risk with majority 77% of assets under management (AUM) concentrated in Delhi-NCR and relatively limited track record of operations in lending business. Although the company's portfolio mix is changing with increasing share of retail loan book (22% of AUM end Dec-19 up from 6% end Mar-18).

Rating Sensitivities

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

Positive Factors:

- 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 Factor:

- Any adverse movement 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 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 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 on account of internal accruals from Rs.184 crore as on Mar-18 to Rs215 crores as on March 31, 2019. Net-worth of the company further increased to Rs.230 crores ending Dec-2019. Given, the equity funded nature of loan book, the gearing levels of CSLFL remain low at 0.43 times as on Dec-19 down from 0.57 times from Mar-19. CSLFL's

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

capitalization profile is comfortable as reflected in capital adequacy ratio (CAR%) of 72% as on Dec-19 up from 65% end March-2018.

Secured lending portfolio

The loan portfolio of CSLFL stood at Rs.318 crores as on December 31, 2019, with 78% of advances towards wholesale loan book (primarily loans to real estate sector) which is 100% secured and backed by comfortable average LTV of 45%. The remaining 22% 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 32% end December-2019.

Comfortable over asset quality although downturn witnessed in SME loan book

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. The company reported only one borrower with 30+DPD (0.6% of wholesale AUM). However the SME loan book has witnessed downturn during FY19 and 9MFY20 with softer (30+dpd) delinquencies rising from 1.3% end fiscal 2019 to 4.9% as on December 31, 2019. The 90+dpd in SME-retail segment stood at 0.7% as on March 31, 2019 that increased to 2.7% as on December 31, 2019. On overall basis, the company reported GNPA% and NNPA% of 0.6% and 0.47% ending Dec-2019 up from 0.12% and 0.10% respectively end March 31, 2019 vs. nil NPA as on Mar-2018. In retail-SME lending, the company offers secured and unsecured loans to unorganized small and medium enterprises. The focus is to disburse primarily to kirana merchants, small shop traders and small schools in tier II and tier III cities. Given the modest credit profile of these borrowers and their relatively under-banked status, the company remains susceptible to inherent asset quality related challenges.

Healthy earnings profile

During FY19 and 9MFY20, company's weighted average lending rate was around 18% and funding cost was close to 10%, leaving interest spread of around 8%. On the back of large equity funded loan book, net interest margin (NIM) of the company remains healthy at 14% for FY19 & 9MFY19, marginally down from 15% during FY18. Its operating expenses remain low as the company's 78% loan books account wholesale lending in Delhi-NCR only hence resulting in lower operating expenses. Going forward, the operating expenses are likely to increase as the share SME advances increases. On account of lower operating expenses coupled with low gearing, the ROTA of the company stood at 8.02% for FY19 (PY: 8.29%) and 8.19% for 9MFY20. Profitability of the company has remained stable over past 2-3 years as the loan book of the company remains stagnant. During FY19 the company reported total income of Rs.59.7 crores and profit after tax (PAT) of Rs.25.15 crores up by 44% and 39% respectively over previous year. During 9MFY20 the company reported PAT of Rs.20.66 crores over total income of Rs.46.05 crores

Key Rating weaknesses:

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

CSL Finance Limited started wholesale lending business in 2011 and has increased its wholesale loan book to Rs.268 crores as on Mar-19 which has declined during 9MFY20 to Rs.248 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.70 crores (22% of AUM) end Dec-19 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 SME lending which have relatively smaller track record of around 3 years would be the key monitor-able going forward.

High borrower concentration

With 78% of loan-book as on December 31, 2019 exposed towards wholesale lending with average ticket size of Rs.7 crores, the borrower concentration risk of the company remains high. Exposure to top 20 borrowers stood at 57% of AUM and 79% of tangible networth as on December 31, 2019. The largest exposure outstanding of the company stood at 7% of AUM and 9.5% of tangible networth ending Dec-19. 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.

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 and nearby places. In past 2-3 years the company expanded into retail SME lending and started operating in Haryana (29% of SME portfolio end Dec 2019), Rajasthan (23%), Punjab (16%), Gujarat (15%), Delhi (11%) and Uttrakhand (6%) through a network of 19 branches as on December 31, 2019. On overall basis, including wholesale loan book 77% of loan book is concentrated in Delhi-NCR.

Concentration of exposure to real estate sector, though risk mitigated to some extent by secured nature of loan book, short-term nature, last mile funding nature of lending and affordable housing

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

Liquidity: Adequate

The liquidity profile of the company remains adequate as there are no negative mismatches in ALM statement as on December 31, 2019. The company expects inflows of Rs.86.7 crores over next one year while its outflows are expected to be Rs.82.4 crores. Liquidity profile is also supported by low leverage of the company. The company is maintaining cash and bank balance of Rs.13.29 crores end Dec-19.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's Rating 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 19 branches in this segment in ther areas of Delhi-NCR, Punjab, Haryana, Rajasthan and Gujarat.

Brief Financials (Rs. crore)	FY18 (A)	FY19(A)
Total income	41.46	59.70
PAT	18.08	25.15
Interest coverage (times)	5.08	4.01
Total Assets	287.73	339.31
Net NPA (%)	Nil	0.10
ROTA (%)	8.29	8.02

A: Audited

Note: Ratios are computed based on average of annual opening and closing balances

Status of non-cooperation with previous CRA: Not Applicable

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	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Working Capital Limits	LT	67.00	CARE BBB; Stable	-	1)CARE BBB; Stable (14-Mar-19)	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 (14-Mar-19)	1)CARE BBB; Stable (30-Jan-18)	-

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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