Capital Trust Limited (Revised)

August 6, 2020

Ratings

Instruments	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Non-Convertible Debentures	30.00 (Rs. Thirty crore only)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Assigned
Non-Convertible Debentures	75.00 (reduced from 150.00) (Rs. Seventy five crore only)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating on long-term instruments/bank facilities of Capital Trust Limited (CTL) were revised down to CARE BBB-; Stable on June 9, 2020 on account of protracted decline in consolidated assets under management (AUM) and impending asset quality issues with reported GNPA remaining elevated, mainly due to denominator effect as the company's book shrinks. The decline in AUM was driven by strategic shift from cash based collection system to digital transactions.

Also, CARE takes into consideration expected decline in collections amidst COVID-19 outbreak which might result in behavioral shift in credit behavior of borrowers following the moratorium period availed by them, and might result in decline in asset quality of the company and might put stress on liquidity of the company. The company has shifted its strategic focus to incrementally disbursing only under digital mode of transactions however currently this portfolio has limited seasoning and performance of the same is yet to be seen over a longer period. The ratings continue to take into consideration the inherent risk involved in the industry including unsecured lending, marginal profile of borrowers, socio-political intervention and regulatory risk.

However, the ratings continue to draw comfort from the long standing experience of promoters, low gearing, and moderate capital structure despite significant write-off during FY19, adequate underwriting systems and processes coupled with satisfactory asset quality under new mode lending under digital base. The company has moderate geographic diversification with top state exposure being 21% as on March 31, 2020. CARE also factors in adequate liquidity of the company supported by moratorium availed from its lenders, adequate capitalization and moderate profitability during FY20. CARE also takes note of company's view towards building a suitable/sustainable BC (Business Correspondent) partner for lending institutions and maintaining sustainable on-book portfolio with moderate gearing levels going forward.

Going forward, ability of the company to improve its collections especially recovery from borrowers in overdue buckets and written-off portfolio during the stressful scenario of COVID-19, attain sustainable growth in its portfolio, maintain sufficient liquidity and improving its profitability and asset quality would be the key rating sensitivities.

Rating Sensitivities

Positive factors - Factors that could lead to positive rating action/upgrade

- Maintaining healthy collection efficiency on sustainable basis for longer term
- Recoveries from written-off / delinquent accounts

Negative factors: Factors that could lead to negative rating action/downgrade:

- Deterioration in asset quality with GNPA% going above 8%
- Maintaining adequate liquidity in near terms to tackle moratorium period

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters and Management

The company is promoted by Mr. Yogen Khosla with the promoters holding 66.95% stake in the company as on June 30, 2020. Mr. Khosla is the Managing Director and CEO of Capital Trust Limited having over 20 years of experience. The operations of the company are managed by the promoters with the help of management team with experience in their respective domain area.

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

The company operations are governed by Board of Directors including 2 executive directors from the promoter family and three independent directors.

Moderate capital structure

The capitalization profile of company was impacted majorly during Q1FY20 following substantial write-off of loan portfolio, other adjustments including reduction of loans given for ESOPs of Rs.8.0 crore from the net-worth, reversal of processing fee income pertaining to previous years and increase in the Deferred Tax Assets of CTL on account of IndAS transition impact. Subsequently owing to positive internal accruals, the tangible net-worth (excl. DTAs and intangible assets) of the company improved to Rs.131 crores end March-20. Gearing levels of the company improved from 3.8 times as on Mar-19 to 2.08 times as on March 31, 2020. This was on account of networth increase coupled with reduction in AUM leading to reduction in debt. The capital structure of CTL on a consolidated basis continues to remain comfortable with CAR of 46.70% end Mar-20.

Risk management systems

CTL has an adequate loan portfolio management and accounting system in place. It has established an efficient monitoring structure for overseeing its operations at various levels, including at the branch level, district level and state level. It has put in place risk management systems viz. defined credit appraisal, collection and monitoring systems. The company has in place Loan Management systems in place to monitor and control the business through systemic MIS reports. The company has a Credit Verification process which is independent from operations. Supervision is done by operations team and regular checks by the internal audit department.

The company has also changed its business model from joint liability model for their unsecured loan product to individual lending model and on-barding the digital platform for collections. The new loans offered under revised strategy are smaller - ticket size and are of shorter tenure of 2 years as against higher ticket size, longer tenured loans of 3 years earlier. CTL has shifted to NACH based collections for the new products viz. Capital Magic Loan and Micro Business Loans as against door step cash collections for the Micro Enterprise and Secured Enterprise Loans (products now discontinued) which is expected to reduce risk of cash handling. The ability of the company to however ensure timely collections under the individual lending model would be crucial.

Geographically diversified operations

CTL started its operations from Uttar Pradesh and consequently during the initial years of operation, its concentration in the state was high being 88% of the AUM as on March 31, 2016. Later the company increased in portfolio in other states post demonetization. As on March 31, 2020, the company has presence in 10 states with consolidated AUM of Rs.471 crores with majority exposure towards Punjab (21%) followed by Bihar (17%), Rajasthan (15%), Odisha (14%) & Madhya Pradesh (14%), Uttar Pradesh (11%) and rest 8% in remaining states of Chhattisgarh, Jharkhand, Delhi and Uttrakhand. Concentration in top state as a proportion of net-worth has reduced from 132% end March-19 to 76% end March-20. CTL is not presently disbursing any loans in UP, Uttarakhand and Delhi as these states were badly affected in demonetization.

Key Rating Weakness

Weak asset quality; albeit marginal improvement in 9MFY20

Post demonetization in Nov 2016, the collections of the company were impacted in UP, Uttrakhand and Delhi; however in past 2-3 years due to focus on collection, write-offs portfolio concentration in these states have reduced to Rs.77 crores (15% of AUM) end Dec-19 from 74% of its consolidated AUM pre-demonetization. PAR 90+DPD in these states stood at 22% as on same date due to denominator effect as the portfolio has been reducing. CTL had written off / created provision of Rs.99 crore against the portfolio in FY18 and FY19 which was absorbed through the operating profits generated.

Overall asset quality of the portfolio in the non-impacted states (Madhya Pradesh, Rajasthan, Punjab, Bihar, Odisha, Chattisgarh and Jharkhand) which together form 85% of the AUM as on Dec-19 has deteriorated with 90+DPD of 3.5% from 1.3% as on June-19. Although on an absolute basis, the gross PAR 90 and Net PAR 90 came down to Rs.32.4 crore (6.37% of AUM) and Rs.20.6 crore (4.15% of net AUM) respectively as on Dec-19 as against Rs.21.5 crores (3.40% of AUM) & Rs.15.8 crores (2.52% of AUM) respectively end June-2019 (and from Rs.64.5 crore (8.9% of AUM) and Rs.54.2 crore (7.6% of net AUM) respectively as on Mar-19)

As on March 31, 2020, the Gross PAR 90 and Net PAR 90 came down to 7.50% of AUM and 4.20% of AUM respectively as on as against 8.89% and 7.58% respectively end March-19; however increased from GNPA of 6.37% and NNPA of 4.15% of AUM as on Dec-19.

CARE also takes cognizance of controlled delinquencies for portfolio generated under new system of digital based model (18% of AUM as on Dec-19). PAR 90+DPD for this segment of portfolio stood minimal at 0.1% end Dec 2019 while for cash based collection (82% of AUM) it stood at 7.8%. Hence, recovery performance of cash based collection portfolio is key monitorable. Also any further slippage in asset quality or large additional credit cost accruing from the overdue loans including loans in the softer buckets in midst of COVID-19 impact would be a key monitorable and a rating sensitivity.

Moderation in disbursement; Stable profitability during FY20

There has been moderation in disbursements of CTL during FY19 and 9MFY20. The AUM of CTL declined to Rs.471 crore as on March 31, 2020 from Rs.509 crores as on December 31, 2019 and from Rs.725 crore as on March 31, 2019 due to lower disbursements amid company's strategic shift towards digital platform of lending. On consolidated basis, CTL during FY20 reported interest income on advances of Rs.110.51 crores over total income of Rs.155.09 crores. With reduction in gearing levels and reducing debt, interest expenses of the company stood low at Rs.58.8 crores (down 22.5% Y-o-Y). CARE adjusted NIM% (on average total assets) of the company came down to 9.6% for FY20 as against 10.6% an year ago while the operating expenses ratio (on average total assets) has seen a spike during FY20 at 15.2% as against 8.5% in FY19 basis. Overall, the company reported profit after tax (PAT) of Rs 4.27 crore end fiscal 2020, down from Rs 10.75 crore an year ago thereby registered a RoTA of 0.79% almost halved from 1.47% previous fiscal. Going forward, the ability of CTL to sustainably grow its portfolio and improve its profitability would be the key rating sensitivities.

Reduction in debt profile with focus towards low on-book leverage and increased BC / managed exposure

Capital Trust Limited has borrowings from over 22 Banks/Financial Institutions/Investors with outstanding borrowing of Rs.244 crores as on April 30, 2020. With the aim towards BC channel partner for lending institutions, the company is reducing its on-book debt liability with gearing levels reduced to 2.08 times end Mar-20 from 3.83 times end Mar-19 (as per INDAS). The company has raised Rs.10 crores from one bank post COVID with aim to support liquidity, however with current economic scenario under COVID-19 and funding push from Reserve Bank of India (RBI) under TLTRO funds, the company is seeking additional refinancing from organizations such as SIDBI and NABARD. As on December 31, 2019 the company had off-book portfolio of Rs.135 crores from three FIs with average cost of borrowing at ~14%.

Industry Risk

The micro lending and MSME industry continue to be impacted by the inherent risk involved viz. socio-political intervention risk and regulatory uncertainty and risks emanating from unsecured lending and marginal profile of borrowers and their vulnerability to economic downturns besides operational risks including cash based transactions. Also the ongoing Covid-19 pandemic could have larger impact as earlier event risks were usually limited to certain geographies but this is going to impact across geographies. The impact might be higher in case of NBFCs focusing on urban and semi-urban areas as the customer profile will involve small businesses or workers engaged on contractual basis losing man-days of work due to prevailing lockdown. The impact may also be partially mitigated due to the measures taken by RBI and the Government in terms of recognition of NPA and relaxation in capital adequacy norms. Further, in the recent years, most NBFCs have raised significant capital/built liability relationships to protect themselves against event risks.

Liquidity: Adequate

As on July 31, 2020, CTL had free cash and bank balance of Rs.30 crores. With low leverage, the company had availed moratorium from its lenders. The company is likely to meet is debt liabilities till Sep-2020 even in case minimal / nil collections from borrowers. However, as per management, the company had touched ~66% of collection efficiency in second week of June-20. The Asset Liability Maturity profile of CTL as on March 31, 2020 remained comfortable with no negative cumulative mismatches given the longer tenure of its borrowings and relatively shorter tenure of its advances and comfortable capital structure. Liquidity of Capital Trust Microfinance Pvt Ltd (CTM), its subsidiary engaged in Microfinance lending is also comfortable with no external borrowing.

Analytical approach: Consolidated; including Capital Trust Limited, its subsidiaries Capital Trust Microfinance Pvt Ltd and Capital Trust Housing Finance Pvt Ltd.

Applicable Criteria

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Consolidation and Factoring linkages in ratings
Rating Methodology-Non-Banking Finance Company
Financial ratios –Financial Sector

About the Company

Capital Trust Limited, incorporated in August 1985, is a non-deposit taking Non-Banking Finance Company (NBFC) engaged in providing enterprise loans to micro and small scale businesses in rural and semi-urban areas. The company is promoted by Mr. Yogen Khosla. As on June 30, 2020, the promoters held 66.95% stake in the company. PE Fund Lighthouse Emerging India Investors Limited and India 2020 II Investors Limited held 2.47% and 14.80% with the remaining stake being held by the public. CTL is listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

The company started with microfinance activity in 2008 and since 2012 it has been engaged in providing enterprise loans to the MSME (Micro, Small & Medium Enterprises) sector. The company primarily had two products viz. Secured Enterprise Loans (SEL) of Rs.1 lakh to Rs.10 lakh, secured by property collateral and unsecured Micro Enterprise Loans (MEL) of Rs.1.05 Lacs extended on JLG (Joint Liability Group) model which have been discontinued. CTL has instead launched new products viz. Capital Magic Loan and Micro Business Loan (similar to MEL loans) to cater to the MEL segment customers who need unsecured micro enterprise loans of marginally higher ticket size as against microfinance loans. CTL extends small ticket size Micro Finance Loans (MFL) of Rs.20,000-30,000 through Capital Trust Microfinance Pvt Ltd, its wholly owned subsidiary acquired in FY17. CTL has floated another subsidiary Capital Trust Housing Finance Pvt Ltd.

As on March 31, 2020, CTL (Consolidated) had total outstanding AUM of Rs.471 crore with 1.55 Lakh active individual borrowers across 241 branches in 10 states viz. Uttar Pradesh, Uttarakhand, Punjab, Delhi, Madhya Pradesh, Rajasthan, Bihar, Odisha, Jharkhand and Chattisgarh. Consolidated AUM of CTL as on March-20, comprised of unsecured micro enterprises loan (88.7% of AUM), Microfinance loans (6.2%) and secured enterprises loan (5.1%).

CTL Consolidated

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
	INDAS	INDAS
Total operating income	193.16	155.09
PAT	10.75	4.27
Interest coverage (times)	1.17	1.23
Total Assets	658.8	428.4
Net NPA (%)	7.58%	4.20%
ROTA (%)	1.47%	0.79%

A: Audited

Status of non-cooperation with previous CRA: From Brickwork Ratings vide PR dated February 26, 2020

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
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	30.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	75.00	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 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-Term Loan	LT	295.00	CARE BBB-;	1)CARE BBB-; Stable	1)CARE BBB; Negative	1)CARE BBB+; Negative	1)CARE BBB+; Stable

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
				Stable	(09-Jun-20)	(24-Sep-19)	(04-Jan-19) 2)CARE BBB+; Negative (23-Nov-18)	(12-Feb-18)
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB-; Stable	1)CARE BBB-; Stable (09-Jun-20)	1)CARE BBB; Negative (24-Sep-19)	1)CARE BBB+; Negative (04-Jan-19) 2)CARE BBB+; Negative (23-Nov-18)	1)CARE BBB+; Stable (12-Feb-18)
3.	Debentures-Non Convertible Debentures	LT	75.00	CARE BBB-; Stable	1)CARE BBB-; Stable (09-Jun-20)	1)CARE BBB; Negative (24-Sep-19)	1)CARE BBB+; Negative (04-Jan-19) 2)CARE BBB+; Negative (23-Nov-18) 3)CARE BBB+; Stable (25-Jul-18)	-
4.	Debentures-Non Convertible Debentures	LT	30.00	CARE BBB-; Stable	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	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.- +91-11-45333242
Group Head Email ID- shubha.bhanu@careratings.com

Relationship Contact
Ms. Swati Agrawal
Contact no.: +91-11-45333200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:

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