Capri Global Capital Limited

January 24, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Remarks**
Long term Bank Facilities	4,500	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	**Reaffirmed**
Total Facilities	**4,500 (Rupees Four Thousand Five Hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating factors in healthy capitalization levels of Capri Global Capital Limited (CGCL) with low gearing and increasing granularity on the back of rising proportion of SME lending book. The rating also factors in CGCL's experienced management, moderate profitability and good asset quality albeit with some moderation.

The rating is constrained by moderate track record of CGCL in lending business, moderation in growth in loan portfolio, exposure to relatively riskier segments albeit secured portfolio, geographical concentration and relatively moderate scale of operations with moderate portfolio seasoning.

Key rating sensitivities:

Positive Factors

- Stability at the senior management level on a sustained basis.
- Sustained improvement in liquidity and business levels

Negative Factors

- Adjusted[2] Gearing ratio exceeding 2x
- Inability to scale up asset size by 20% per annum

Outlook: Negative

The Outlook continues to be negative as there was substantial reduction in liquidity buffers in FY19, albeit some improvement in H1FY20. However, sustainability in liquidity position along with improving business levels needs to be observed on a sustained basis. The negative outlook will be revised to stable, in the event of sound liquidity position on a sustained basis to the extent envisaged by the management and improvement in outlook towards real estate sector.

Detailed description of the key rating drivers

Key Rating Strengths

Healthy capital adequacy with low gearing

CGCL has a healthy capital adequacy ratio of 34.47% (PY: 39.29%) at the end of March 2019 with Tier I CAR at 33.95% (PY: 38.43%). The CAR has reduced in FY19 because the increase in loan book is incrementally funded from borrowings in the form of Bank loans, NCDs and CPs. Debt to equity ratio increased to 1.62x as on March 31, 2019 from 1.26x as on March 31, 2018 on account of increase in borrowings and no capital infusion. On an adjusted basis (networth adjusted for investments in subsidiaries/group companies), CGCL's gearing ratio stood at 1.72x at end-H1FY20 compared to 1.87x at end-FY19. The same, however, remained at comfortable levels. The decrease in gearing ratio was primarily due to the decline in debt from Rs.2,153 crore in FY19 to Rs.2,055 crore in H1FY20. In H1FY20, capital adequacy remained comfortable and has increased to 36.80% from 34.47% in FY19.

Extended support from Promoters for liquidity; however drawing limited comfort

The Promoter level group companies hold Rs.165 crore in the form of Fixed Deposits as on May 31, 2019. In addition, they have investments in shares of listed companies worth Rs.256 crore. There is commitment by the Promoter entities regarding infusion of these funds in CGCL as and when required. However, CARE takes limited comfort from these promoter resources, since there is no commitment to lenders with regards to utilization of such funds.

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

[2] Networth adjusted for investments in subsidiaries/group companies

Experienced Board and management team but stability yet to be exhibited

The Board of Directors of CGCL consists of eminent personalities in the field of administration, banking and finance. However, the have been some changes in the recent past. Mr.Quintin E Primo III has resigned as the Chairman in 2019. In May 2018, the Board consisted of 8 members including Chairman and Managing Director. Of these, 3 members, including the Non-Executive Chairman had resigned. The company inducted 2 new Directors during the period. Further in December 2019, Mr.Tilak Raj Bajalia, Non-Executive Independent Director resigned for personal reasons and other commitments.

CGCL has appointed Mr. Rajesh Sharma as the Managing Director on July 4, 2018. Prior to his appointment as MD, he was on the board of directors in capacity of Director. He has more than 25 years of experience in Capital Markets and Financial Advisory services. Mr. Ashish Gupta is appointed as the new Chief Financial Officer in 2019. He is a Chartered Accountant with more than 25 years of work experience. Mr. Surender Sangar, the head of Wholesale (Construction Finance) lending business, was the MD of Tourism Finance Corporation of India and was also General Manager (credit) with Union Bank of India. The other key management members also have more than 10 years of experience in the lending business in various banks and NBFCs.

Stability at the Board and senior management level is critical for sustainable scale-up of business and will remain a key rating monitorable.

Moderation in business growth however increasing portfolio granularity

The portfolio has grown 28% y-o-y from Rs.2594 crore as on March 31, 2018 to Rs.3311 crore as on March 31, 2019. The Wholesale (Construction Finance) book grew by 27% y-o-y from Rs.943 crore in March 31, 2018 to Rs.1201 crore in March 31, 2019. The SME book has grown 28% y-o-y from Rs.1541 crore in March 31, 2018 to Rs.1971 crore in March 31, 2019. Indirect retail lending has been initiated in FY18 and book grew 26% y-o-y from Rs.110 crore as on March 31, 2018 to Rs.139 crore as on March 31, 2019. In H1FY20, outstanding loan portfolio declined by 5.97% in H1FY20 as compared to FY19 with SME lending portfolio accounting for 63.72% of the total outstanding portfolio, followed by wholesale lending 34.73% and others 1.54%. The management had a cautious stance on disbursement in H1FY20 which led to de-growth in CGCL's CF & IRL book while it maintained the MSME book at similar level. However the management expects to grow by 20% YoY in FY21 and FY22. The loan portfolio growth will remain as key rating monitorable.

The company is de-risking by increasing share of direct channel (DST) to 100% to source new clients with no reliance on DSAs anymore. DST model has allowed CGCL to expand to small towns by opening up new branches. Number of branches has increased to 84 in FY19 from 66 in FY18.

Wholesale (Construction Finance) book as a percentage of total portfolio outstanding remained stable at 36% in FY19. MSME book as a percentage of the total portfolio outstanding also remained stable at 59% and Indirect lending book at 4% in FY19.

In case of Wholesale (Construction Finance) lending book, there are 146 clients (PY: 98) which accounted for 36% of the total loan portfolio as on March 31, 2019. Top 10 clients in this portfolio account for 9% of the total loan portfolio and 21% of the net worth. The average ticket size has been reduced to Rs.8 crore (PY: Rs.10 crore) for Wholesale (Construction Finance) and Rs.0.18 crore (PY: Rs.0. 21 crore) for MSME portfolio. For Indirect retail lending, the ticket size is between Rs.5-25 crore with tenure of 1-3 years.

In H1FY20, outstanding loan portfolio declined by 5.97% in H1FY20 as compared to FY19 with SME lending portfolio accounting for 63.72% of the total outstanding portfolio, followed by wholesale lending 34.73% and others 1.54%. There was moderation in loan portfolio in H1FY20 however the management expects to grow by 20% YoY in FY21 and FY22. The average outstanding ticket size for Construction Finance (CF) book in H1FY20 has reduced to Rs.7.5 crore (FY18: Rs.10 crore). The average ticket size for MSME has been reduced to Rs.0.15 crore in H1FY20 from Rs.0.21 crore in FY18.

Good asset quality albeit some moderation

As on March 31, 2019, CGCL's GNPA and NNPA ratio stood at 1.71% (P.Y.: 1.68%) and 0.62%, (P.Y.: 1.43%) respectively. Net NPA to Net worth ratio stood comfortably at 1.52% (P.Y.: 3.07%) as on March 31, 2019. The increase in NPAs in FY19 was mainly attributable to the higher delinquencies in the SME segment.

The portfolio cuts of CGCL's overall portfolio showed early bucket delinquencies (10.94%) but have shown improvement over the collection period with substantial reduction in the delinquencies in the hard buckets (2.56%).

In H1FY20, Gross and Net NPA stood at 2.56% (FY19: 1.71%) and 1.25% (FY19: 0.62%) respectively. Net NPA to Net worth stood at 2.80% (PY: 1.52%).

As per the management's budgeted business plans, gross NPAs for the next three years shall not exceed 3.25% annually and would remain a key rating monitorable.

Moderate profitability

Total income has increased by 50% in FY19 due to rise in the interest income on loans as the loan portfolio has increased from Rs.2594 crore in FY18 to Rs.3311 crore in FY19. PAT stood at Rs.129 crore (PY: Rs.72 crore) on a total income of Rs.504 crore (PY: Rs.337 crore). The increase in income is mainly due to Interest income on loans which increased from Rs.309 crore in FY18 to Rs.460 crore in FY19. NIM stood at 9.33% as compared to 9.16% in FY18 mainly due to low gearing. Operating

expenses to average total assets has reduced from 4.76% in FY18 to 4.69% in FY19. ROTA stood at 4.10% in FY19 as compared to 3.07% in FY18. ROTA improved due to the fall in the ratio of operating expenses to average total assets. RONW improved from 6.13% in FY18 to 10.13% in FY19.
In H1FY20, the PAT stood at Rs.66.60 crore (FY19: Rs.128.7 crore) on a total income of Rs.289.25 crore (FY19: Rs.504.1 crore). NIM stood at 9.49% in H1FY20 and ROTA stood at 3.81% in H1FY20 as compared to 4.1% in FY19.

Key Rating Weaknesses

Moderate track record, relatively moderate scale of operations and moderate seasoning of portfolio

CGCL was in the business of debt syndication & advisory and trading till FY11. Then CGCL changed its business model and is focusing only on the lending business. The company started Wholesale (Construction Finance) lending in the beginning of FY12 by disbursing loans mainly to real estate players. In the last quarter of FY13, the company started lending to MSME players with an aim to build a portfolio that qualifies for priority sector status. The outstanding portfolios for Wholesale (Construction Finance) and SME stands at Rs.1201 crore and Rs.1971 crore respectively as on March 31, 2019.
The tenure of the Wholesale (Construction Finance) loan is 1-4 years and SME is upto 15 years and considering the growth in the loan portfolio in the last few years, there is moderate seasoning of portfolio. Currently, the scale of operations is relatively small in size.

Geographical concentration risk

There is geographical concentration in the MSME segment with five states out of the seven states accounting for 93% of the total SME portfolio including Delhi NCR (33%), Gujarat (21%), Maharashtra (20%), Madhya Pradesh (12%) and Rajasthan (7%). The company is looking to further expand to other regions including Madhya Pradesh and Rajasthan. In case of wholesale lending book, Maharashtra has the highest concentration at 47% of the total wholesale book, followed by Gujarat (15%), Karnataka (14%), Delhi NCR (11%) and others as on March 31, 2019.
Top three cities accounted for 58% in H1FY20 (FY19: 62%) of the total CF portfolio. In addition, in case of MSME portfolio, there are geographic concentrations as top three geographies constitute 68.74% (FY19: 73%) of the total MSME portfolio as on H1FY20.

Exposure to relatively riskier sectors albeit with secured portfolio

The company's Wholesale (Construction Finance) lending book is comprised of players in a relatively riskier residential real estate sector. CGCL does exclusive funding to developers for the projects financed. Even though CGCL provides loans to developers having good track record of construction in micro markets, they are however small to mid-size developers who will be prone to cyclicality in the real estate sector. In the past, real estate sector has seen cyclicality in terms of higher inventory in the commercial real estate which led to developers focusing in the residential space. Currently there is higher inventory in the high ticket segment, but the lower ticket segment may witness inventory pileup on account of the focus it is receiving in the past few years due to the sales velocity in this segment. These exposures are however secured against cash flows and property of the real estate project of the concerned developer. The company also ensures that in the Wholesale (Construction Finance) lending business it has a security cover of minimum 2.5 times. The receivables from the sale of units in the projects funded by CGCL are also escrowed into escrow account and based on the stage of construction, a fixed proportion of these sale proceeds flow into CGCL's account as per the sweep in mechanism.
As on March 31, 2019, the CF book has grown majorly over the last three years from Rs.311 crore as on March 31, 2016 to Rs.1201 crore. Similarly, the MSME book has also grown from Rs.748 crore as on March 31, 2016 to Rs.1971 crore as on March 31, 2019. The tenure of the Wholesale (Construction Finance) loan is 1-4 years with 2 years of moratorium. A major portion of the portfolio was under moratorium period as on March 31, 2019. Hence, the seasoning of the portfolio is moderate.
The other segment to which the company is catering to is SME segment. The loans to this segment are backed by collateral in the form of property including residential, commercial, industrial, machinery and plots.

Liquidity - Adequate but needs to be observed on a constant basis

CGCL's cash and cash equivalent balance increased to Rs.210.17 crore as on September 30, 2019 from Rs. 35 crore as on March 31, 2019. Further, the cash and cash equivalent has marginally reduced to Rs.193.79 crore as on December 31, 2019. The company's repayments in next one year stood at Rs.600.49 crore while loans and advances in next one year stood at Rs.935.69 crore, resulting in a positive mismatch. In addition, the company has committed undrawn cash credit / OD limits of Rs. 112 crore as on December 31, 2019. Going forward, as per CGCL's liquidity policy, they shall continue to maintain healthy cash and cash equivalent for minimum next 3 months debt repayment obligations.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

[CARE's Policy on Default Recognition]
[Financial ratios – Financial sector]
[Criteria for Non-Banking Financial Companies]

About the Company

Capri Global Capital Ltd (CGCL) is a BSE & NSE listed systemically important non-deposit taking NBFC primarily involved in lending to SME lending (loan against property) business and residential real estate projects (Wholesale (Construction Finance) lending). The company incorporated on July 24, 2013 (post change of name from MMFSL to CGCL) is promoted by Mr. Rajesh Sharma who is also one of the Directors of the company. He is appointed as the Managing Director in July 2018.
The company has also entered into the housing finance business and accordingly, Capri Global Housing Finance Limited (CGHFL), a wholly owned subsidiary received certificate of registration from NHB on September 28, 2015 to commence operations as a Housing Finance Company. The company started its housing finance operations from December 2016.

Brief Financials (Rs. crore)	**FY18 (A)**	**FY19 (A)**
Total operating income	334	499
PAT	72	129
Interest coverage (times)	2.21	2.04
Total Assets	2772	3511
Net NPA (%)	1.43	0.62
ROTA (%)	3.07	4.10

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	**Date of Issuance**	**Coupon Rate**	**Maturity Date**	**Size of the Issue (Rs.Cr.)**	**Rating assigned with Rating Outlook**
Long Term Bank Facilities	-	-	Jan-2026	2,149.9	CARE A+; Negative
Long Term Bank Facilities (Proposed)	-	-	-	2,350.1	CARE A+; Negative

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-Term Loan	LT	4500.00	CARE A+; Negative	1) CARE A+; Negative (5-Jul-19)	1) CARE A+; Stable (07-Sept-18) 2) CARE A+; Stable (16-Aug-18)	1) CARE A+; Stable (22-Feb-18) 2)CARE A+; Stable (31-Jul-17)	1)CARE A+; Stable (26-Dec-16) 2)CARE A+ (13-Jul-16)
2.	Commercial Paper	ST	-	-	1) CARE A1+; (5-Jul-19)	1) CARE A1+; (16-Aug-18)	1)CARE A1+ (31-Jul-17)	1)CARE A1+ (08-Mar-17) 2)CARE A1+ (26-Dec-16) 3)CARE A1+ (13-Jul-16)
3.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (03-Jun-19)	1) CARE A+; Stable (16-Aug-18)	1)CARE A+; Stable (31-Jul-17)	1)CARE A+; Stable (26-Dec-16) 2)CARE A+ (13-Jul-16)

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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