# Capri Global Capital Limited

July 31, 2017

**Ratings**

| **Facilities** | **Amount (Rs. crore)** | **Ratings[1]** | **Remarks** |
|---|---|---|---|
| Long term Bank Facilities | 2000 (Enhanced from Rs.1000 crore) | **CARE A+; Stable (Single A Plus; Outlook: Stable)** | **Reaffirmed** |
| Non-Convertible Debentures | 300 | **CARE A+; Stable (Single A Plus; Outlook: Stable)** | **Reaffirmed** |
| Commercial Paper | 350 (Enhanced from Rs.200 crore) | **CARE A1+ (A One Plus)** | **Reaffirmed** |
| **Total Facilities** | **2650 (Rupees Two Thousand Six Hundred & Fifty crore only)** | | |

Details of instruments/facilities in Annexure-1

**Detailed Rationale & Key Rating Drivers**

The rating takes into account the strong capital adequacy, low gearing, comfortable liquidity and growth in business. The rating also factors limited track record in lending business, relatively small scale of operations and low seasoning of portfolio, exposure to relatively riskier real estate & SME segments, average asset quality and moderate profitability. Seasoning of the loan portfolio, growth in business, capitalization, asset quality and profitability are the key rating sensitivities.

**Detailed description of the key rating drivers**

***Key Rating Strengths***

***Strong capital adequacy with low gearing and comfortable liquidity***

CGCL has a strong capital adequacy ratio (CAR) of 53.0% (P.Y.: 79.7%) at the end of March 2017 with Tier I CAR at 52.1% (P.Y.: 79.3%). The CAR has reduced in FY17 because increase in loan book is incrementally funded from borrowings in the form of Bank loans, NCD and CP. Debt to equity ratio increased from 0.13x as on March 31, 2016 to 0.69x as on March 31, 2017, however, it still continues to remain low. Going forward, the company's gearing levels are expected to increase on account of targeted business growth. Liquidity profile of the company as on March 31, 2017 is comfortable post inclusion of undrawn bank lines. The company had outstanding undrawn bank lines of Rs.435 crore as on June 30, 2017. The company had outstanding undrawn bank lines of Rs.435 crore as on June 30, 2017. Also, as informed by the management, the company plans to maintain undrawn term loans/ CC Limits and liquid assets between 50%-100% of the outstanding commercial papers.

***Experienced management team, however frequent changes***

Mr. Sunil Kapoor was the executive director of the company since January 2014, however, CGCL appointed Mr. Bipin Kabra as the Executive Director of the organization from May 2017. Mr. Kabra is a Chartered Accountant and Cost Accountant. He has more than 25 years of experience in Banking, Insurance and Capital Markets with substantial experience in resource raising and dealing with regulators. Mr. Surender Sangar is the head of wholesale lending business who was General Manager (credit) with Union Bank of India and also was the MD of Tourism Finance Corporation of India. Mr. Kaushik Chatterjee is the chief risk officer. He has more than 17 years of experience in retail mortgage business and was earlier chief risk officer of India Infoline Housing Finance Ltd. Mr. Vishwas Shrungarpure is the chief operating officer of the company. He has more than 21 years of experience in retail & wholesale mortgages covering various functions like credit, risk & sales. Mr. Kaushik Chatterjee joined the company recently in August 2016 while Mr. Vishwas Shrungarpure joined the company in March 2017. The other key management members also have more than 10 years of experience in the lending business in various banks and NBFCs.

***Experienced Board of Directors***

CGCL has made an effort to strengthen the corporate governance framework by broadening and strengthening the Board. Of the eight members on the Board, five are independent directors with diverse experience in various fields. The

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

independent directors comprise IAS officers like Mr. Mukesh Kacker; Mr. Beni Prasad Rauka who is CFO of SEB group of companies, Ms. Bhagyam Ramani who is the ex-Director and GM of General Insurance Corporation of India, Mr. D. R. Dogra who is ex- MD and CEO of CARE Ratings and Mr. T. R. Bajalia, the ex-DMD of SIDBI.

***Consistent growth in business***

CGCL had started its lending business in March 2011. The portfolio has grown from Rs.1060 crore as on March 31, 2016 to Rs.1802 crore as on March 31, 2017. Wholesale lending disbursements as a percentage of total disbursements increased from 30% in FY16 to 45% in FY17 and consequently, SME lending disbursements as a percentage of total disbursements has reduced to 55% in FY17 from 70% in FY16. However, SME book as a percentage of the total portfolio outstanding has been on an increasing trend in the past three years and has increased from around 31% in FY14 to 67% in FY17. Although majority of company's SME loans are generated through DSA channel, the company has also benefitted from the sales through the direct sales team (DST). Share of DST/direct sourcing increased to 35% during FY17 as against 19% during FY16. DST has allowed the company to expand to smaller towns with lower ticket size by opening up new branches and going forward company plans to grow its SME book majorly via DST channel. Also, the average ticket size in SME portfolio has reduced from Rs.54 lakhs in FY16 to Rs.41 Lakhs in FY17 and average ticket size in wholesale lending has reduced from Rs.37 crore in FY16 to Rs.28 crore in FY17.

***Average asset quality***

As on March 31, 2017, Company's GNPA & NNPA ratio stood at 0.98% (P.Y.: 0.88%) and 0.84%, (P.Y.: 0.75%) respectively. Net NPA to Networth ratio stood at 1.34% as on March 31, 2017. The NPAs are entirely attributable to SME segment. Restructured account (belonging to the wholesale portfolio) outstanding stood at Rs.4.40 crore which is 0.24% of outstanding loan portfolio. Due to concentration in wholesale book, few large accounts slippage may lead to deterioration in asset quality. In the past the company has experienced asset quality issues wherein GNPAs increased sharply on account of higher ticket size in this segment.

***Key Rating Weaknesses***

**Moderate Profitability**

During FY17, the company reported PAT of Rs.58 crore on total income of Rs.232 crore as against PAT of Rs.41 crore on total income of Rs.186 crore during FY16. During FY16, the company had written off two NPAs of Rs.66 crore (net of provision) attributable to the wholesale book, due to which the profitability had taken a hit. Profits before tax and provisions in FY17 stood at Rs.109 crore as against Rs.120 crore in FY16. Reduction in profitability is on account of high operating expenses during FY17. The company's cost to income ratio increased to 44% in FY17 as against 31% in FY16. The company increased its branch count from 23 to 38 during FY17, set up direct sales and underwriting team for SME vertical and hired new personnel at senior level which resulted into higher operating expenses during FY17. The company's return on networth and return on assets for FY17 stood at 5.21% (P.Y.: 3.91%) and 3.57% (P.Y.: 3.36%), respectively.

***Concentration risk***

In case of wholesale lending book, there are 39 clients that accounted for 33% of the total loan portfolio as on March 31, 2017 (P.Y.: total 14 clients in wholesale portfolio that accounted for 29% of the total portfolio). Top 5 clients in this portfolio account for 13% of the total loan portfolio and 20% of net worth (P.Y.: top 5 clients accounted for around 19% of loan portfolio and tangible networth). In terms of geographic concentration, MMR region has the highest concentration at 59% of the total wholesale book, followed by four cities including Pune (19%), Delhi (11%), Chennai (4%) and Bangalore (7%).

In case of SME segment, 35% disbursals were sourced through direct vertical and rest was through the DSA model. However as on March 31, 2017, there is geographical concentration in the segment with three states out of the six states accounting for 92% of the total SME portfolio including Delhi NCR (50%), Maharashtra (25%) and Gujarat (17%). Apart from these it has presence in Haryana, MP and Punjab.

***Exposure to relatively riskier real estate and SME sectors***

The two sectors to which CGCL has got exposure is the real estate sector in their wholesale lending business and the SME segment. Though the real estate sector is relatively risky, the wholesale exposures are secured against cash flows and property of the real estate project of the concerned developer. The receivables from the sale of units in the projects funded by CGCL are also escrowed and a fixed proportion of these sale proceeds flow into CGCL's account.

The other segment to which the company is catering to is SME which is also showing signs of stress with economic slowdown. The loans to this segment are backed by collateral in the form of property including residential, commercial, and industrial and plots.

***Low portfolio seasoning***

CGCL, which was earlier in the business of debt syndication & advisory, changed its business model focusing mainly on the lending business. The company started wholesale 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 SME players with an aim to build a portfolio that qualifies for priority sector status. The company has limited track record of operations and the loan book is relatively unseasoned. The company's outstanding loan portfolio grew by 70% in FY17 and out of the total outstanding portfolio of Rs.1802 crore in FY17, 73% (Rs.1322 crore) has been disbursed in FY17. Furthermore, seasoning of SME portfolio is low, so the performance of this portfolio remains to be seen.

**Industry Prospects**
Over the last few years, the NBFC sector has gained systemic importance with increase in share of NBFC total assets to bank total assets. The same has resulted in the Reserve Bank of India (RBI) taking various policy actions resulting in NBFCs attracting higher support and regulatory scrutiny. The RBI has revised the regulatory framework for NBFCs which broadly focuses on strengthening the structural profile of NBFC sector, wherein focus is more on safeguarding depositors' money and regulating NBFCs which have increased their asset-size over time and gained systemic importance. On the asset quality front, gradual change in the NPA recognition norms would lead to deterioration in asset quality parameters during the transition phase. Overall the revised regulations are positive for the NBFC sector making it structurally stronger, increase transparency and improve their ability to withstand asset quality shocks in the long run.
Due to subdued economic environment, last few years have been challenging period for the NBFCs with moderation in growth and rising delinquencies resulting in higher provisioning thereby impacting profitability. However, comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs in spite of impact on profitability.

**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) formerly known as Money Matters Financial Services Ltd (MMFSL) is a BSE & NSE listed systemically important non-deposit taking NBFC primarily involved in lending to residential real estate projects (wholesale lending) and SME lending (loan against property) business. Prior to March 2011, the company was into the debt syndication business but after that CGCL started wholesale lending business. Further, in February 2013, it started lending to the SME segment by offering these borrowers loan against property. The company is promoted by Mr. Rajesh Sharma who is also one of the Directors of the company. Mr. Bipin Kabra is the Executive Director of the company, appointed in May 2017.
As on March 31, 2017, CGCL had a loan portfolio of Rs.1802 crore of which 67% was attributable to SME lending and the rest comprised of wholesale portfolio. The principal geographies of operation for SME lending are Delhi NCR (13 branches), Maharashtra (8 branches), Gujarat (9 branches) and Punjab (2 branches). The company entered newer geographies like MP, Haryana and Rajasthan during FY71. The outstanding wholesale portfolio is distributed amongst MMR region (59%), Pune (19%), Delhi NCR (11%), Bangalore (7%) and Chennai (4%). 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) | FY16 (A) | FY17 (A) |
|---|---:|---:|
| Total operating income | 186.4 | 230.8 |
| PAT | 41.2 | 57.8 |
| Interest coverage (times) | 5.42 | 3.51 |
| Total Assets | 1299.8 | 1941.5 |
| Net NPA (%) | 0.75 | 0.84 |
| ROTA (%) | 3.40 | 3.57 |

*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.*

**Analyst Contact:**
Name: Mr Ravi Kumar
Tel: 022-67543421
Mobile: + 91-9004607603
Email: ravi.kumar@careratings.com

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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 |
|---|---|---|---|---|---|
| Long term Bank Facilities | - | - | Sept. 30, 2021 | 767.92 | CARE A+; Stable |
| Long term Bank Facilities (proposed) | - | - | - | 1232.08 | CARE A+; Stable |
| Non-Convertible Debentures | Jan. 20, 2017 | 10.50 | Jan. 20, 2020 | 10 | CARE A+; Stable |
| Non-Convertible Debentures | Feb. 17, 2017 | 9.50 | Feb. 17, 2020 | 50 | CARE A+; Stable |
| Non-Convertible Debentures | March 7, 2017 | 10.25 | March 7, 2019 | 15 | CARE A+; Stable |
| Non-Convertible Debentures (proposed) | - | - | - | 225 | CARE A+; Stable |
| Commercial Paper | - | - | 7-364 days | 350 | CARE A1+ |

**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-Term Loan | LT | 2000.00 | CARE A+; Stable | - | 1)CARE A+; Stable (26-Dec-16)<br>2)CARE A+ (13-Jul-16) | 1)CARE A+ (11-Feb-16)<br>2)CARE A+ (21-Sep-15) | 1)CARE A (13-Aug-14) |
| 2. | Commercial Paper | ST | 350.00 | CARE A1+ | - | 1)CARE A1+ (08-Mar-17)<br>2)CARE A1+ (26-Dec-16)<br>3)CARE A1+ (13-Jul-16) | - | - |
| 3. | Debentures-Non Convertible Debentures | LT | 300.00 | CARE A+; Stable | - | 1)CARE A+; Stable (26-Dec-16)<br>2)CARE A+ (13-Jul-16) | - | - |

## CONTACT

**Head Office Mumbai**


**Ms. Meenal Sikchi**
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

**Ms. Rashmi Narvankar**
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

**Mr. Ankur Sachdeva**
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

**Mr. Saikat Roy**
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

**CARE Ratings Limited**

**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

**AHMEDABAD**
**Mr. Deepak Prajapati**
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

**BENGALURU**
**Mr. V Pradeep Kumar**
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

**CHANDIGARH**
**Mr. Anand Jha**
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

**CHENNAI**
**Mr. V Pradeep Kumar**
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

**COIMBATORE**
**Mr. V Pradeep Kumar**
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

**HYDERABAD**
**Mr. Ramesh Bob**
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

**JAIPUR**
**Mr. Nikhil Soni**
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

**KOLKATA**
**Ms. Priti Agarwal**
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

**NEW DELHI**
**Ms. Swati Agrawal**
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

**PUNE**
**Mr.Pratim Banerjee**
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com


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