Capri Global Capital Limited

September 07, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	4500 (Enhanced from Rs.2500 crore)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Total Facilities	**4500 (Rupees Four Thousand Five Hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings factor in healthy capitalization levels of Capri Global Capital Limited (CGCL) with low gearing, comfortable liquidity and healthy portfolio growth with increasing granularity on the back of rising proportion of SME lending book. The ratings also factor in CGCL's experienced management, moderate profitability and good asset quality.

The ratings are constrained by moderate track record of CGCL in lending business, exposure to relatively riskier segments albeit secured portfolio with reduction in ticket size in FY18, geographical concentration and relatively moderate scale of operations with moderate portfolio seasoning.

Business growth, seasoning of the loan portfolio, capitalization, asset quality, profitability and stability at the senior management level are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Healthy capital adequacy with low gearing and comfortable liquidity

CGCL has a healthy capital adequacy ratio of 39.29% (PY: 52.68%) at the end of March 2018 with Tier I CAR at 38.43% (PY: 51.83%). The CAR has reduced in FY18 because the increase in loan book is incrementally funded from borrowings in the form of Bank loans, NCD and CP. Debt to equity ratio increased from 0.69x as on March 31, 2017 to 1.25x as on March 31, 2018 on account of increase in borrowings. The same, however, remained at comfortable levels. ALM has negative mismatches in the one year bucket. The company has undrawn lines of Rs.335 crore including Rs.215 crore undrawn term loans and Rs.120 crore Cash Credit limits as on August 31, 2018.

Experienced management team

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 20 years of experience in Capital Markets and Financial Advisory services. Mr. Surender Sangar, the head of Wholesale (Construction Finance) lending business, was General Manager (credit) with Union Bank of India and also was the MD of Tourism Finance Corporation of India. The other key management members also have more than 10 years of experience in the lending business in various banks and NBFCs. However, CGCL has witnessed churn at the senior management level. Stability at the senior management level is critical for sustainable scale-up of business and will remain a key rating monitorable.

Experienced Board of Directors

Of the eight members on the Board, five are independent directors with diverse experience in various fields. The independent directors comprise of Mr. Mukesh Kacker (former IAS officer), Ms. Bhagyam Ramani who is the ex-Director and GM of General Insurance Corporation of India, Mr. T. R. Bajalia ex-DMD of SIDBI, Mr. Desh Raj Dogra former CEO and MD of CARE Ratings and Mr. Beni Prasad Rauka, CFO of Advanced Enzymes Technologies group .

Good growth in business with increasing portfolio granularity

The portfolio has grown 44% y-o-y from Rs.1,806 crore as on March 31, 2017 to Rs.2,597 crore as on March 31, 2018. The Wholesale (Construction Finance) book grew by 57% y-o-y from Rs.600 crore in FY17 to Rs.943 crore in FY18. In FY18, 53% of the loan book was sourced through direct channel and rest was through the DSA channel. The SME book has grown 28%

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

y-o-y from Rs.1,202 crore in FY17 to Rs.1,541 crore in FY18. Indirect retail lending has been initiated in FY18 and loan book outstanding is Rs.110 crore as on March 31, 2018.
The company is de-risking by increasing share of direct channel (DST) to source new clients and reducing the share of DSA. DST model has allowed CGCL to expand to small towns by opening up new branches. Number of branches has increased to 66 in FY18 from 38 in FY17.
Wholesale (Construction Finance) book as a percentage of total portfolio outstanding has increased from 33.3% in FY17 to 36.4% in FY18. MSME book as a percentage of the total portfolio outstanding has decreased from almost 66.7% in FY17 to 59.4% in FY18. In case of Wholesale (Construction Finance) lending book, there are 98 clients which accounted for 36% of the total loan portfolio as on March 31, 2018. Top 5 clients in this portfolio account for 7% of the total loan portfolio and 16% of net worth. The average ticket size has been reduced to Rs.10 crore (PY: Rs.28 crore) for Wholesale (Construction Finance) and Rs.0.21 crore (PY: Rs.0.41 crore) for MSME portfolio. For Indirect retail lending, the ticket size is between Rs.5-25 crore with tenure of 1-3 years.

Good asset quality
As on March 31, 2018, CGCL's GNPA and NNPA ratio stood at 1.68% (P.Y.: 0.98%) and 1.43%, (P.Y.: 0.84%) respectively. Net NPA to Net worth ratio stood comfortably at 3.07% as on March 31, 2018. The increase in NPA was due to the shift from 120 dpd to 90 dpd norm in recognizing NPAs. Also the increase in NPAs in FY18 was mainly attributable to the higher delinquencies in the SME segment.

Moderate profitability
The PAT stood at Rs.94 crore (PY: Rs.58 crore) on a total income of Rs.361 crore (PY: Rs.232 crore). The increase in income is mainly due to Interest income on loans which increased from Rs.202 crore in FY17 to Rs.300 crore in FY18. Net Interest Margin (NIM) stood at 7.59% as compared to 10.09% in FY17. The fall in NIM is due to the fall in yield on portfolio from 14.08% to 13.25% in FY18 and rise in cost of borrowing from 8.19% to 8.56% in FY18. Operating expenses to average total assets has reduced from 5.19% in FY17 to 4.76% in FY18. Return On Total Assets (ROTA) stood at 3.93% in FY18 as compared to 3.54% in FY17. ROTA improved due to the fall in ratio of operating expenses to average total assets. Return On Net Worth improved to 7.98% in FY18 from 5.21% in FY17.

Key Rating Weaknesses
Moderate track record, relatively moderate scale of operations and moderate seasoning of portfolio
CGCL, which was earlier in the business of debt syndication & advisory and trading, has changed its business model and is focusing mainly 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 stand at Rs.943 crore and Rs.1,541 crore respectively as on March 31, 2018.
The tenure of the Wholesale (Construction Finance) loan is 1-4 years and SME is 15 years and considering the growth in the loan portfolio in the last few years, there is moderate seasoning of portfolio. However, from the disbursements and outstanding loan portfolio information for the last three years, there has been higher prepayment rates which indicate churning of portfolio to some extent.

Geographical concentration risk
There is geographical concentration in the MSME segment with three states out of the seven states accounting for 87% of the total SME portfolio including Delhi NCR (43%), Maharashtra (26%), Gujarat (19%). The company is looking to expand to other regions like Haryana, MP and Rajasthan.

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. However, these exposures are 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 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 segment. The loans to this segment are backed by collateral in the form of property including residential, commercial, and industrial and plots.

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 (Construction Finance) lending) and SME lending (loan against property) business. The company incorporated on July 24, 2013 (post change of name from MMFSL) 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)	FY17 (A)	FY18 (A)
Total operating income	231	336
PAT	58	94
Interest coverage (times)	3.51	2.34
Total Assets	1942	2818
Net NPA (%)	0.84	1.43
ROTA (%)	3.54	3.93

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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of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	15-Feb-2025	1840.90	**CARE A+; Stable**
Long term Bank Facilities (proposed)	-	-	-	2659.10	**CARE A+; 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-Term Loan	LT	2500.00	CARE A+; Stable	1) 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)	1)CARE A+ (11-Feb-16) 2)CARE A+ (21-Sep-15)
2.	Commercial Paper	ST	350.00	CARE A1+	1) CARE A+; Stable (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	300.00	CARE A+; Stable	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)	-

CONTACT

Head Office Mumbai

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

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

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@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 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
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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