Capri Global Capital Limited (Revised)
December 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Non-Convertible Debenture	150 (Rupees One Hundred Fifty crore only)	A+; Negative (CARE A Plus; Outlook:Negative)	Assigned
Non-Convertible Debenture	600 (Rupees Six Hundred crore only)	A+; Negative (CARE A Plus; Outlook:Negative)	Reaffirmed
Bank Facilities	3,750 (reduced from 3,900) (Rupees Three Thousand Seven Hundred & Fifty crore only)	A+; Negative (CARE A Plus; Outlook:Negative)	Reaffirmed

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 improvement in liquidity buffers.

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, moderation in asset quality, geographical concentration and relatively moderate scale of operations with moderate portfolio seasoning.

Key rating sensitivities:

Positive Factors: Factors that could lead to positive rating action/upgrade

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

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

- Adjusted[2] Gearing ratio exceeding 2x
- Inability to scale up asset size by 20% per annum
- Deterioration in asset quality with GNPA rising above 5% (currently 2.47% as on H1FY21)
- Decline in profitability with ROTA falling below 3% (currently 4.81% as on H1FY21)

Outlook: Negative

The outlook continues to be negative due to relatively lower business growth, the company's exposure to the real estate sector which is experiencing slowdown, and weakening of profitability metrics. Also, CARE Ratings would closely monitor the impact of COVID-19 on business and asset quality of CGCL going forward. The negative outlook will be revised to stable, in the event of sustained growth in their loan portfolio along with improvement in profitability parameters 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 38.00% (PY: 34.47%) at the end of March 2020 with Tier I CAR at 37.21% (PY: 33.95%). The improvement in capital position in FY20 was supported by internal capital generation. Debt to equity ratio declined to 1.42x as on March 31, 2020 from 1.62x as on March 31, 2019 on account of lower business growth and decrease in borrowings. CGCL's capital adequacy ratio improved to 41.6% at the end of September 2020, supported by profitability. Debt to equity ratio declined to 1.32x as on September 30, 2020 from 1.42x as on March 31, 2020 on account of decrease in borrowings.

[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*

Extended support from Promoters for liquidity; however, drawing limited comfort
The Promoter level group companies hold Rs.90 crore in the form of Fixed Deposits, Mutual Funds and Bank Balance as on March 31, 2020. In addition, they have investments in bonds and shares of listed companies worth Rs.280 crore as on March 31, 2020. 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.

Experienced Board and management team
The Board of Directors of CGCL consists of eminent personalities in the field of administration, banking and finance. CGCL 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. In July 2020, the company's CFO Mr. Ashish Gupta resigned from the position due to personal reasons and the company has put in place a process to look for a candidate for the CFO position. Currently the finance and accounts function is headed by Mr. Ashok Agarwal, Associate Director- Finance & Taxation. Mr. Agarwal is a qualified Chartered Accountant & Company Secretary having total work experience of more than 30 yrs and he has been associated with the Company since January 2008. Treasury is headed by Mr. Vinay Surana who is a qualified Chartered Accountant with 15 yrs work experience and he has been associated with the Company since August 2008. Mr. Jayesh Doshi (Ex-Whole Time Director & Group CFO of Dalmia Bharat) joined CGCL as Whole Time Director and Group President. Mr. Jayesh Doshi has more than 3 decades of experience across functions such as Finance, Strategy, M&A, & Treasury.
The other key management members also have significant 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.

Moderate profitability
Total income increased by 14.71% y-o-y in FY20 due to rise in the net interest income on loans, partly offset by the 15.70% y-o-y decline in other income. PAT increased 5.46% y-o-y to Rs.135.7 crore (PY: Rs.128.7 crore) on a total income of Rs.578.2 crore (PY: Rs.504 crore). However, profitability metrics weakened with ROTA of 3.83% in FY20 as compared to 4.10% in FY19, NIM declined marginally to 9.23% as compared to 9.33% in FY19 and RONW declined to 9.77% in FY20 from 10.13% in FY19. Operating expenses to average total assets has reduced from 4.69% in FY19 to 3.95% in FY20. Given the uncertainties and its potential impact on the macro and micro factors, the company has made an extra provision of Rs.28.66 crore for expected credit loss on financial assets in Q4FY20 and Q1FY21.
The company registered a PAT of Rs.86.9 crore over a total income of Rs.285 crore in H1FY21 compared to PAT of Rs.66.6 crore over a total income of Rs.289 crore in H1FY20. While the company's NII remained stable y-o-y, the company' managed to improve operating efficiencies. The company's return metrics improved with ROTA at 4.81% in H1FY21 vs. 3.82% in H1FY20 and RONW at 11.66% in H1FY21 vs. 9.99% in H1FY20. The improvement in profitability parameters has to be seen on a sustained basis and will remain a key monitorable.

Key Rating Weaknesses
Moderate track record, relatively moderate scale of operations and moderate seasoning of portfolio
CGCL started Wholesale (Construction Finance - CF) 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 was at Rs.962 crore and Rs.2,047 crore respectively as on March 31, 2020.
As on September 30, 2020, outstanding portfolios for Wholesale (Construction Finance), Indirect Lending and MSME stood at Rs.917 crore, Rs.187 crore and Rs.2,128 crore respectively.
The tenure of the Wholesale (CF) 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 moderate in size.

Geographical concentration risk
There is geographical concentration in the MSME segment with five states out of the seven states accounting for 96% of the total MSME portfolio including Delhi NCR (31%), Gujarat (22%), Maharashtra (17%), Madhya Pradesh (16%) and Rajasthan (9%). The company is looking to further expand to other regions for better diversification. In case of CF book, Maharashtra has the highest concentration at 42% of the total CF book, followed by Gujarat (21%) and Karnataka (13%), as on March 31, 2020.

Exposure to relatively riskier sectors albeit with secured portfolio

As on March 31, 2020, the CF book has grown majorly over the last four years from Rs.311 crore as on March 31, 2016 to Rs.962 crore. Similarly, the MSME book has also grown from Rs.748 crore as on March 31, 2016 to Rs.2,047 crore as on March 31, 2020. 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, 2020. 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.

Moderation in business growth however increasing portfolio granularity

The company's loan portfolio registered a de-growth of 5% y-o-y from Rs.3,311 crore as on March 31, 2019 to Rs.3,137 crore as on March 31, 2020. The Wholesale (Construction Finance) book declined by 19.90% y-o-y from Rs.1,201 crore in March 31, 2019 to Rs.962 crore in March 31, 2020, highlighting the company's efforts to consciously reduce their dependence on Construction Finance and diversify their loan portfolio. The SME book grew 3.86% y-o-y from Rs.1,971 crore in March 31, 2019 to Rs.2,047 crore in March 31, 2020. The Indirect Lending (IL) segment, which was started in FY18, declined 7.91% y-o-y from Rs.139 crore as on March 31, 2019 to Rs.128 crore as on March 31, 2020.

The management had a cautious stance on disbursement since H1FY20 which led to de-growth in CGCL's CF & IL book while it maintained the MSME book at similar level. However, the management expects pick up in business growth going forward as the business environment normalizes . 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 from 85 in FY19 to 87 in FY20.

While the company's wholesale (Construction Finance) book as a percentage of total portfolio outstanding declined from 36% in FY19 to 31% in FY20, its MSME book's proportion increased from 60% to 65% of the total loan portfolio. The IL book remained stable at 4% in FY20. Retail Book grew at CAGR of 15.2% i.e. from Rs.1,541 crore to Rs.2,047 crore compared to Wholesale book CAGR of only 1.8% over period of FY18 to FY20. In case of Wholesale (Construction Finance) lending book, there are 132 clients (PY: 146) and top 10 clients in this portfolio account for 7.19% of the total loan portfolio and 15.59% of the net worth as on March 31, 2020. The average ticket size for Wholesale (Construction Finance) reduced to Rs.7 crore (PY: Rs.8 crore) and that for MSME portfolio rose marginally to Rs. 0.16 crore (PY: Rs.0.15 crore) for MSME portfolio. For IL vertical, the ticket size is between Rs.5- 50 crore with tenure of 1-3 years.

Moderation in asset quality

As on March 31, 2020, CGCL's GNPA and NNPA ratio stood at 2.69% (P.Y.: 1.71%) and 0.90%, (P.Y.: 0.62%) respectively. Net NPA to Net worth ratio stood at 4.03% (P.Y.: 1.52%) as on March 31, 2020. The increase in NPAs in FY20 was mainly attributable to the higher delinquencies in the SME segment. The portfolio cuts of CGCL's overall portfolio showed early bucket delinquencies (10.91%) but have shown improvement over the collection period with substantial reduction in the delinquencies in the hard buckets (2.61%).

As on September 30, 2020, CGCL's GNPA (over loan portfolio) and NNPA ratio stood at 2.47% and 0.21% respectively. Net NPA to Net worth ratio stood at 0.44% as on September 30, 2020.

Substantial increase in NPA numbers would remain a key rating sensitivity.

Liquidity - Adequate

CGCL's cash and cash equivalent balance increased to Rs.298 crore as on September 30, 2020 which sufficiently covers the company's repayments in next one year which stood at Rs.261.42 crore. Moreover, the business collections in next one year stood at Rs.1,289 crore, resulting in a positive mismatch. CGCL's unutilized term loans and working capital loans were at Rs.460 crore as on September 30, 2020. 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.

COVID-19 Impact:

On a consolidated basis, the loan disbursements in Q2FY21 stood at Rs.519.2 crore, against Rs.199.4 crore in Q2FY20. The improvement in disbursements was aided by traction in MSME and affordable housing finance. Collections have also improved with gradual reopening of economy. Post completion of moratorium period and uptick in Indian economy, CGCL showed some improvement in collection efficiency in MSME segment in October 2020 to 80% v/s around 62% in June 2020. The company's provision coverage ratio stood at 93% at the end of Q2FY21. CGCL has not received any major request for restructuring from customers, but it is possible that some of them may approach in the coming months for restructuring.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to credit ratings
CARE's policy on default recognition
Criteria for Non Banking Financial Companies
Financial ratios – Financial Sector
Criteria for rating of short-term instruments

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 was 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)	FY19 (A)	FY20 (A)
Total operating income	504	578
PAT	129	136
Interest coverage (times)	2.04	1.88
Total Assets	3511	3569
Net NPA (%)	0.62	0.90
ROTA (%)	4.10	3.83

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	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs.Cr.)	Rating assigned with Rating Outlook
Debentures-Non Convertible Debentures	22-May-2020	INE180C07080	8.80%	22-05-2023	200	CARE A+; Negative
Debentures-Non Convertible Debentures	05-Jun-2020	INE180C07098	9.00%	05-06-2023	50	CARE A+; Negative
Debentures-Non Convertible Debentures	16-Jul-2020	INE180C07106	8.25%	16-01-2022	50	CARE A+; Negative
Debentures-Non Convertible Debentures	23-Jul-2020	INE180C07114	8.80%	23-07-2023	50	CARE A+; Negative
Debentures-Non Convertible Debentures	04-Aug-2020	INE180C07122	8.35%	04-02-2022	150	CARE A+; Negative
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	250	CARE A+; Negative
Long Term Bank Facilities	-	-	-	Jan-2026	1,947.11	CARE A+; Negative
Long Term Bank Facilities (Proposed)	-	-	-	-	1,802.89	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 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	3,750.00 (reduced from 3,900.00)	CARE A+; Negative	1) CARE A+; Negative (3-Jul-20)	1) CARE A+; Negative (24-Jan-20) 2) 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)
2.	Commercial Paper	ST	-	-	-	1) CARE A1+; (23-Jan-20) 2) CARE A1+; (5-Jul-19) 3)Withdrawn (Jan-3-2020)	1) CARE A1+; (16-Aug-18)	1)CARE A1+ (31-Jul-17)
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)
4.	Debentures-Non Convertible Debentures	LT	300	CARE A+; Negative	1) CARE A+; Negative (3-Jul-20)	1) CARE A+; Negative (28-Apr-20)	-	-
5.	Debentures-Non Convertible Debentures	LT	300	CARE A+; Negative	1) CARE A+; Negative (3-Jul-20)	-	-	-
6.	Debentures-Non Convertible Debentures	LT	150	CARE A+; Negative	-	-	-	-

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

Sr. No	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	**Simple**
2	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 clarification*

Contact us

Media Contact
Name – Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name - Mr. Himanshu Shethia
Contact no. – +91-22-6754 3468
Email ID – himanshu.shethia@careratings.com

Name – Mr. Sanjay Agarwal
Contact no. – +91-22-6754 3582
Email ID – sanjay.agarwal@careratings.com

Business Development Contact
Name – Mr. Ankur Sachdeva
Contact no. – +91-22-6754 3495
Email ID – ankur.sachdeva@careratings.com

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However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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