# Capri Global Capital Limited

**July 03, 2020**

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Remarks |
|---|---|---|---|
| Non-Convertible Debenture | 300 (Rupees Three Hundred crore only) | A+; Negative (CARE A Plus; Outlook:Negative) | **Assigned** |
| Non-Convertible Debenture | 300 (Rupees Three Hundred crore only) | A+; Negative (CARE A Plus; Outlook:Negative) | **Reaffirmed** |
| Bank Facilities | 3,900 (reduced from 4,200) (Rupees Three Thousand Nine Hundred 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 2.7% as on FY20)
- Decline in profitability with ROTA falling below 3% (currently 3.8% as on FY20)

**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 on business and asset quality of CGCL going forward owing to the nationwide lockdown due to COVID-19 outbreak and moratorium extended by the company. 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.

[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 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. Chief Financial Officer, Mr. Ashish Gupta, is a Chartered Accountant with more than 25 years of work experience. 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 has 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 have 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.12.1 crore for expected credit loss on financial assets for Q4FY20 and FY20.

**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 stands at Rs.962 crore and Rs.2,047 crore respectively as on March 31, 2020.

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.3137 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 has 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 government imposed lockdown opens-up. 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. 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%).
Substantial increase in NPA numbers would remain a key rating sensitivity.

**Liquidity - Adequate**
CGCL's cash and cash equivalent balance increased to Rs.259 crore as on June 25, 2020 from Rs. 35 crore as on March 31, 2019. The company's repayments in next one year (1st July 2020 to 1st July 2021), stood at Rs.425 crore while business collections in next one year stood at over Rs.1,000 crore, resulting in a positive mismatch. CGCL's unutilized term loans and working capital loans worth Rs.680 crore as on June 25$^{th}$, 2020. The company is in the process of repaying its future liabilities (which are due in next 12 months) to reduce borrowing cost. 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**
**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 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) | 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 (Proposed) | - | - | - | - | 350 | CARE A+; Negative |
| Debentures-Non Convertible Debentures | 22-May-2020 | INE180C07080 | 8.80% | 22-May-2023 | 200 | CARE A+; Negative |
| Debentures-Non Convertible Debentures | 5-Jun-2020 | INE180C07098 | 9% | 5-Jun-2023 | 50 | CARE A+; Negative |
| Long Term Bank Facilities | - | - | - | Jan-2026 | 2,451.44 | CARE A+; Negative |
| Long Term Bank Facilities (Proposed) | - | - | - | - | 1448.56 | 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 | 3900.00 (reduced from 4500.00) | CARE A+; Negative | - | 1) CARE A+; Negative (24-Jan-20)<br>2) CARE A+; Negative (5-Jul-19) | 1) CARE A+; Stable (07-Sept-18)<br>2) CARE A+; Stable (16-Aug-18) | 1) CARE A+; Stable (22-Feb-18)<br>2)CARE A+; Stable (31-Jul-17) |
| 2. | Commercial Paper | ST | - | - | - | 1) CARE A1+; (23-Jan-20)<br>2) CARE A1+; (5-Jul-19)<br>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 (28-Apr-20) | - | - |

***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](mailto:care@careratings.com) for any clarification*

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**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum 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.



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