Centrum Financial Services Limited

June 10,2020

Ratings

Instrument	Amount (Rs. crore)	Ratings	Rating Action
Market Linked Debentures (Proposed)	100 (Rupees hundred crore only)	**CARE PP-MLD A-; Negative (PP-MLD Single A Minus; Outlook: Negative)**	**Assigned**
Commercial Paper (Proposed)	100 (Rupees hundred crore only)	**CARE A2+ (A Two Plus)**	**Assigned**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating factors in the established presence of the Centrum Group in the financial services segment, with experienced management and comfortable capital adequacy levels of Centrum Financial Services Limited (CFSL).
The rating is however constrained by concentration in CFSL's loan portfolio towards supply chain financing and entry into newer products segments i.e. MSME which are yet to be established. The rating also takes into account CFSL's moderate profitability and concentrated resource profile amidst overall tight funding scenario for NBFC/HFC sector.
In light of current outbreak of COVID-19 and the nationwide lockdown, the liquidity profile of CFSL is primarily dependent upon collections from supply chain book. As per liquidity statement dated April 30, 2020, CFSL cash and bank balance of Rs.86.21 crores against which company has debt outflows of around Rs.132.61 crores until July'20 after considering moratorium given on bank/NBFC borrowing. The company has requested moratorium from bank/NBFC term loan borrowing and existing lenders have provided moratorium except from one lender, which is under discussion.

Outlook: Negative

The outlook is 'Negative' on account of depletion of equity funds committed for future growth and absence of equity capital raising from any other source, concentrated resource profile along with product concentration and weaker profitability amidst challenging funding environment for NBFCs & HFCs. Further 'Negative' outlook also takes into account current outbreak of COVID-19 and the nationwide lockdown which could impact the asset quality of CFSL going forward. Given the tough operating environment for real estate/commercial finance & MSME players on the back of expected lower economic growth, the asset quality and profitability of CFSL may be under pressure.
The outlook may be revised to 'Stable' if the company is able to improve its profitability, demonstrate raising of equity capital and establish visibility of equity infusion, diversify its resource profile, scale up its credit book, and maintain the asset quality at current levels.

Rating sensitivities

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

- *Sizeable capital infusion*
- *Demonstrates fund raising ability by raising funds from various sources at competitive rates*

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

- *Continuing concentration in resource and product profile*
- *No material improvement in profitability in the short to medium term and losses in the short term*
- *Inability to raise funds*
- *Material deterioration in asset quality beyond 4% on a sustained basis*
- *Increase in gearing levels beyond 4x.*

Detailed description of the key rating drivers of CFSL
Key rating strengths

Established presence of the group in the financial services segment

CFSL was 100% subsidiary of Centrum Capital Limited (CCL). However, the entire shareholding of CFSL was sold by Centrum Capital Limited (CCL) to Centrum Retail Services Limited (CRSL) as on June 30, 2019. CCL holds 93.33% of CRSL and the balance is held by Promoters. The Centrum group has presence across various segments including institutional business (investment banking, institutional broking), wealth management business (private wealth, insurance broking), lending businesses (affordable housing, NBFC and microfinance) and asset management business. Centrum Wealth Management is amongst the top private wealth management firms in India of which the asset under service as on Sept 30, 2019 stood at Rs. 21,026 crores. The group has set-up Centrum Housing Financial Ltd (CHFL) for offering affordable housing loans; CFSL for offering business loans to small and medium enterprises and Centrum Microcredit Pvt. Ltd (CMPL) for providing loans to un-served and under-served borrowers operating small businesses in semi-urban areas.

Experienced management

The Centrum group is being led by Mr. Jaspal Bindra former Asia Pacific CEO at Standard Chartered Bank in the role of Executive Chairman of Centrum group.

Mr. Ranjan Ghosh is the MD of CFSL since 2016. He is the former MD and Global Head of Banks, Financial Institutions Group for Standard Chartered Bank. Mr. Saurabh Srivastava is the Head – Credit Risk. He has 18+ years of Experience in the banking industry across various functional roles with MNCs and Leading NBFCs like HSBC and Aditya Birla Finance. Each of the business segments is managed by experienced people in the relevant segments.

Comfortable capital adequacy levels

The tangible net worth stood at Rs.292.98 crores as on March 31, 2019 as against Rs.168 crores as on March 31, 2018. CCL has infused equity of Rs.60 crores in FY18 and Rs.140 crores as equity and Compulsory convertible debentures (CCD's) in FY19. CCL has earlier committed a total equity infusion of Rs.450 crores ie Rs.150 crores in FY19 and Rs.300 crores in FY20 in CFSL, the visibility of the cashflows was seen due to the proceeds of ~Rs.900 crores received from the stake sale of Centrum Direct Limited. In light of the challenging funding environment for NBFCs, CFSL recalibrated its growth plans whereby the equity funding requirement came down from what was initially envisaged. However, the visibility of funds for equity infusion, which was evident at the parent level last year, has reduced substantially. Hence, the company/promoter will have to raise resources to meet their capital requirement in future and this remains a key rating monitor able.

In FY19, Total Capital Adequacy Ratio (CAR) stood at 23.01% (against the regulatory requirement of 15%) with Tier I CAR at 21.44%. The overall gearing stood at 3.33 times as on March 31, 2019 as compared to 2.04 times as on March 31, 2018.

As on March 31, 2020, the net worth stood at Rs.320 crores and the CAR and Tier-I Capital stood at 26.75% and 24.87% respectively. The gearing also has improved to 2.18x times as on March 31, 2020 (Provisional).

Key rating weaknesses

Portfolio concentration & seasoning of new products

As on March 31, 2019, the outstanding portfolio stood at Rs.1134 crore as against Rs.343 crore as on March 31, 2018. In FY18, CFSL had envisaged a certain portfolio mix focused with diversification of book across different asset classes primarily being commercial finance, financial institutions, supply chain and real estate. However, in FY19 CFSL bought the supply chain portfolio (with relatively granular ticket size loans) from L&T Finance Limited which constitutes almost 54% of the outstanding book as on March 31, 2019.

In case of real estate portfolio, almost 40% of the book is in the last stage of completion and the sales velocity of this book is also high which helps to derive comfort. In case of FI's portfolio, as on March 31, 2019, exposure to MFI's is 73.4% of the total financial intermediary portfolio, however it being a relatively riskier asset class on account of event risks, asset quality performance and its impact on profitability will be key rating monitor able.

In the commercial finance portfolio as on March 31, 2019, top 10 exposures contribute to 56.74% of the tangible net worth, 45.47% of the outstanding commercial finance portfolio and 14.66% of the total outstanding book. Maximum single borrower concentration is at 2.20% which is below the regulatory requirement of RBI at 15%.

Besides, LAS being a small portfolio has an average security cover of at least 2x at all times. However, this business is in the process of being wound up.

As on March 31,2020, the outstanding portfolio stood at Rs.878 crore from which FI book is around 8% of overall book, Commercial Finance is around 36% of overall book, Real Estate book is around 11% of overall book (they fund affordable housing projects ticket size of around 10 crores), MSME book is around 4% of the book and Supply Chain Finance (SPF) is around 41% of the business

The supply chain business being competitive in nature, it is imperative for CFSL to access funding at relatively lower rates to maintain the spreads on an on-going basis, with current scenario in the NBFC sector, with lower funding availability and higher cost of funds, CFSL ability to do the same needs to be monitored.

Going forward, CFSL intends to diversify its portfolio with lower ticket sizes in the SCF and MSMSE portfolio. Company is primarily focusing on expanding its portfolio through supply chain through alternate business models and financing including co-lending method, MSME financing and lending to financial institutions mainly MFI's. These new products lines are expected to improve the granularity of the overall portfolio, however the asset quality performances of these new segments through the cycles remains to be seen.

Moderate Resource Profile

As on March 31, 2019, the borrowings stood at Rs.975 crore. Post the NBFC crisis in September'18, company is mainly dependent on MLDs as its major source of finance. Post March 2019, CFSL has been raising MLD's of approx. Rs.25-30 crores in each month and same is expected to continue in FY20. Thus, Company has availed minimal loan from any bank/NBFC post March, 2019 and is largely dependent on MLD's as a source of finance thereby accessing the capital markets. However, in FY20 and currently, CFSL has been able to raise few facilities from banks viz; Union Bank of India, State Bank of India, RBL Bank, Andhra bank. As on March 31, 2020, the borrowings stood at Rs.697 crores (Provisional). At the same time, its funding source is primarily concentrated in PSU Banks. Hence, its ability to expand and diversify its funding base and raise funding from different sources remains a key monitor able going forward.

Small size of operations

As CFSL is in early years of operations, the size of business is small and the seasoning of portfolio is limited. As a result, its asset quality performance through different economic cycles and geographies is yet to be established. The portfolio outstanding as on March 31, 2019 is Rs.1134 crore. Even though the seasoning of the portfolio is low, CFSL portfolio is over-collaterised. Even in case of LAS, the company has a cover of at least 2x at all times. Besides, supply chain being a short term loan churns faster and the ability to scale up the book along with reasonable yields continues to remain a key monitor able. As on March 31, 2020, the outstanding portfolio was Rs.878 crores and the GNPA and NNPA stood comfortable at 1.99% and 0.74% respectively with a gearing of 2x(Provisional).

Moderate Profitability

The company is in early stage of operations and has achieved break even in FY19. The Yield on Advances stood at 12.36% and NIM stood at 2.67% as on March 31, 2019. The supply chain book of Rs.647 crores acquired from L&T was a part of the portfolio from January, 2019 onwards and income on the same was only accounted for 3 months and the adjusted yield would be 14.01%. High levels of liquidity was maintained in the form of deposits, investment in liquid funds and temporary advances, all of which impacted yields and thereby profitability. The cost of borrowings stood at 9.92% as on March 31, 2019. The buy-out of supply chain portfolio has resulted in rise in employee benefit and other operational expenses but has provided liquidity and diversified portfolio. The yields on the entire portfolio including the SCF yields has been repriced from Q2FY20 onwards, which would enable the Company to have better average yield.

During FY20, company has total income of Rs.150 crores and PAT of Rs.13.5 crores (Provisional), the increase being primarily due to increase in yields and acquisition of Supply Chain Book from L&T. Thus the ability to improve profitability shall continue to remain a key monitor able going forward.

Liquidity: Adequate

The Company's ALM profile shows no negative gaps in any time brackets as on April 30, 2020 and March 31,2020 on higher proportion of Supply chain book, which is short term in nature. As per liquidity statement dated April 30, 2020, CFSL cash and bank balance of Rs.86 crore against which company has debt outflows of around Rs.133 crores until July'20 after considering moratorium given on bank/NBFC borrowing. The company has requested moratorium from bank/NBFC term loan borrowing and existing lenders have provided moratorium except from one lender which is under discussion. Further, company was expecting moderated collections until June'20 on account of current COVID-19 pandemic and nationwide lockdown. In light of above, collections from supply chain book are critical to the liquidity profile of CFSL.

Analytical approach: Standalone approach with support from promoters considered.

Applicable Criteria

Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Criteria for Non-Banking Financial Companies
Financial ratios – Financial Sector
Consolidation and factoring linkages in rating

About the Company

CFSL

CFSL, a registered Non-Banking Finance Company was incorporated on 1993 and has lending products such as supply chain, real estate, MSME, commercial finance and financial intermediary. The company started to grow its portfolio since FY17 and as on March 31, 2019 the total outstanding loan portfolio stood at Rs. 1133.5 crore and as on March 31,2020 the total outstanding loan portfolio stood at Rs.878 crore(Provisional).

Brief Financials (Rs. crore)	FY18(A)	FY19(A)
Total income	70.46	101.94
PAT	0.39	0.48
Interest coverage (times)	1.06	1.21
Tangible Net worth	168.15	292.98
Loans outstanding	342.41	1133.5
Total Assets	557.50	1385.94
ROTA (%)	0.08	0.05

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

ISIN	Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
NA	Market Linked Debentures (Proposed)	-	-	-	100	CARE PP-MLD A-; Negative
NA	Commercial Paper(Proposed)	-	-	-	100	CARE A2+

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	300.00	CARE A-; Negative		1.CARE A-; Negative (09-Oct-19)	1. CARE A-; Stable (06-Jul-18)	-
2.	Commercial Paper	ST	100.00	CARE A2+	-	-	-	-
3.	Commercial Paper	ST	-	-	-	1.CARE A2+; (09-Oct-19) 2.Withdrawn (17-Oct-19)	1.CARE A2+ (21-Sep-18) 2.CARE A2+ (24-Aug-18)	-
4.	Market Linked Debenture	LT	100.00	CARE PP-MLD A-; Negative	-	-	-	-
5.	Market Linked Debenture	LT	100.00	CARE PP-MLD A-; Negative		1.CARE PP-MLD A-; Negative (09-Oct-19)	1. CARE PP-MLD A-; Stable (26-Sept-18)	-
6.	Market Linked Debenture	LT	50.00	CARE PP-MLD A-; Negative		1.CARE PP-MLD A-; Negative (09-Oct-19)	1. CARE PP-MLD A-; Stable (07-Dec-18)	-
7.	Market Linked Debenture	LT	100.00	CARE PP-MLD A-; Negative		1.CARE PP-MLD A-; Negative (09-Oct-19)	1. CARE PP-MLD A-; Stable (18-Feb-19)	-
8.	Market Linked Debenture	LT	200.00	CARE PP-MLD A-; Negative		1.CARE PP-MLD A-; Stable (13-May-19) 2.CARE PP-MLD A-; Negative (09-Oct-19)	-	-
9.	Market Linked Debenture	LT	50.00	CARE PP-MLD A-; Negative	-	1.CARE PP-MLD A-; Stable (16-Dec-19)	-	-
10.	Non-Convertible Debenture	LT	50.00	CARE A-; Negative	1)CARE A-; Negative (18-May-20)	-	-	-
11.	Commercial Paper	ST	100.00	CARE A1+ (CE)	-	1.CARE A1+ (CE) (08-Jan-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 for any clarifications*

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