

**CARE/HO/RR/2018-19/2440**

Mr. Ranjan Ghosh

MD and CEO

**Centrum Financial Services Limited,**

Centrum House, C.S.T. Road,

Vidyanagari Marg, Kalina,

Santacruz (E), Mumbai – 400 098

February 18, 2019

Dear Sir,

**Credit rating of Market Linked Debentures**

Please refer to our letters dated February 15, 2019 on the above subject.

1. A write-up (Press Release) on the above ratings is proposed to be issued to the press shortly. A draft of this is enclosed for your perusal as **Annexure - I**.
2. We request you to peruse the annexed document. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,



**[Akansha Jain]**

Analyst

[akansha.jain@careratings.com](mailto:akansha.jain@careratings.com)



**[Ravi Kumar]**

Associate Director

[ravi.kumar@careratings.com](mailto:ravi.kumar@careratings.com)

Encl: As above

**CARE Ratings Limited**  
(Formerly known as Credit Analysis & Research Limited)

## Annexure I

### Press Release

#### Centrum Financial Services Limited

#### Ratings

Instrument	Amount (Rs. Crore)	Rating	Rating Action
Principle Protected Market Linked Debentures	100 (Rs. One hundred crore only)	CARE PP-MLD A- ; Stable [PP-MLD Single A Minus; Outlook: Stable]	Assigned

*Details of Instruments/Facilities in Annexure 1*

#### Detailed Rationale & Key Rating Drivers

The rating factors in the benefits of being part of the Centrum Group which has established presence in the financial services segment through Centrum Wealth Management, Centrum Broking Services and other subsidiaries. The rating further factors in the experience of the management of CFSL, its diversified portfolio and comfortable capital adequacy with commitment from the parent company for capital infusion. The rating remains constrained by the small size of operation along with low seasoning of its portfolio and moderate profitability. Continued parent support, scalability of business, profitability, asset quality, liquidity and capitalization levels are the key rating sensitivities.

#### Detailed description of the key rating drivers

##### Key Rating Strengths

##### *Established presence of the group in the financial services segment*

Centrum Financial Services Limited (CFSL) is the 100% subsidiary of Centrum Capital Limited (CCL). The Centrum group has presence across various segments including investment banking, wealth management, broking and forex business. With the appointment of Mr. Jaspal Bindra as the Executive Chairman CCL, the group is planning to focus on the lending business which is complementary to the existing established non-fund business. The group has set-up a home finance company, Centrum Housing Financial Limited (CHFL), to focus on affordable housing loans; a NBFC, CFSL, offering loans to small and medium enterprises and Centrum MicroCredit Private Limited offering 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.

#### CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

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. Bharat Advani is the CFO of CFSL. He has 20+ years in the Finance Industry, and Former CFO of Reliance Capital, Essel Finance Group and Wall Street Finance Limited. Mr. Saurabh Srivastava is the Head – Credit Risk. He has 15+ years of Experience in the Banking sector across various functional roles with MNCs and Leading NBFCs like HSBC and Aditya Birla Finance. Apart from this each of the business segments are headed by experienced people in the relevant segments.

***Diversified presence across the segments; however, borrower concentration exists***

CFSL's portfolio is fairly diversified. Post-acquisition of L&T Finance's supply chain business as on December 31, 2018, the portfolio comprises of Supply Chain (55%), Commercial Finance (30%), Loans to Financial Intermediaries (6%), Real Estate (7%), Loan against Shares (LAS) (2%). The portfolio is also diversified across various industries.

The company has plans to grow its portfolio primarily through relationship based model by its branches.

***Comfortable capital adequacy along with promoter's commitment for equity infusion***

As on March 31, 2018, the tangible net worth of CFSL increased from Rs.110.51 crore in FY17 to Rs.168.15 crore. In FY18, Total Capital Adequacy Ratio (CAR) stood at 37.35% with Tier I CAR at 37.04%. The overall gearing stood at 2.04 times as on March 31, 2018 as compared to 2.70 times as on March 31, 2017. The gearing reduced on the back of capital infusion of around Rs.60 crore in FY18. Further, the promoters have given commitment to infuse funds aggregating to Rs.450 crore in CFSL over the next two years (~Rs. 150 crore in FY19 and ~Rs. 300 crore in FY20). The parent company has ~Rs.1000 crore of availability of funds on account of the stake sale in Centrum Direct Ltd. As part of the said infusion in FY19, Rs. 50 crore of CCD (Compulsory Convertible Debenture) was issued to the parent company out of which Rs.35 crore was converted to equity as on December 30, 2018 and Rs.90 crore of unsecured loan provided by CCL in September 30,2018 was converted to equity as on November 30,2018. As on December 31,2018, the tangible net worth stood at Rs. Rs.277 crore and the overall gearing stood at 3.04 times.

***Comfortable liquidity position***

The liquidity position of the company stands comfortable with positive cumulative mismatches in all time brackets as on December 31, 2018. The company has Cash and Bank balance (114 crore) and investments (55.4 crore) to the tune of Rs. 91 crore as on December 31, 2018.

***Key rating weakness***

***Moderate size and low seasoning of the portfolio***

Due to initial years of operations, the size of business is moderate. 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 loans outstanding as on March 31, 2018 was Rs.375.67 crore and grew to Rs.1245 crore as on

CARE Ratings Limited  
(Formerly known as Credit Analysis & Research Limited)

December 31, 2018. Even though the seasoning of the portfolio is low, CFSL's portfolio is well-collateralized with generally 2x cover in real estate and 1.2x cover in the commercial finance segment.

### **Moderate Profitability**

The company in FY18 earned a Profit after Tax (PAT) of Rs.0.39 crore on a total income of Rs.70.46 crore as compared to a PAT of Rs.5.48 crore on a total income of Rs.38.60 crore in FY17. Net Interest Margin (NIM) stood at -0.04% (PY: 7.14%) due to legacy of high cost borrowings, which is on a reducing mode with the entire issuance maturing by May 2020. Return on Total Assets (ROTA) stood at 0.08% (PY: 1.68%). The reduction in ROTA is due to rise in interest expenses from Rs.12.45 crore in FY17 to Rs.45.64 crore in FY18, increase in provisions from Rs.0.29 crore to Rs.3.28 crore and marginal increase in operating expenses from Rs.17.36 crore to Rs.18.73 crore.

### **Prospects**

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. Also with the improvement in economic environment, asset quality pressures should ease which will partially offset the impact of migration towards 90 day NPA recognition norm.

**Analytical approach:** CFSL has been analyzed on a standalone basis; however, the managerial, operational and financial support from the promoters has also been considered.

### **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

Factoring Linkages in Ratings

### **About the Company**

CFSL, a registered Non-Banking Finance Company was incorporated on 1993 and was primarily meeting the requirements within the Centrum group. In the past few years it has expanded its lending products such as supply chain, real estate, commercial finance and financial intermediary. CFSL is a 100% subsidiary of Centrum Capital Ltd. The company started to grow its portfolio since FY15 and as on March 31, 2018 the total outstanding loan portfolio stood at Rs. 375.67 crore.

<b>Brief Financials (Rs. crore)</b>	<b>FY17(A)</b>	<b>FY18(A)</b>
Total income	38.60	70.46
PAT	5.48	0.39

**CARE Ratings Limited**  
(Formerly known as Credit Analysis & Research Limited)

Interest coverage (times)	1.68	1.06
Tangible Net worth	110.51	168.15
Loans outstanding	324.22	375.67
Total Assets	429.27	552.05
ROTA (%)	1.68	0.08

(A-Audited)

Status of non-cooperation with previous CRA: Not Applicable

Any other information:

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Mr Ravi Kumar

Tel: 022-6754 3421

Mobile: +91 9004607603

Email: [ravi.kumar@careratings.com](mailto:ravi.kumar@careratings.com)

**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.

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Rating assigned along with
------------------------	------------------	-------------	---------------	-------------------	----------------------------

CARE Ratings Limited  
(Formerly known as Credit Analysis & Research Limited)

				(Rs. crore)	Rating Outlook
Proposed Principle Protected Market Linked Debenture	-	-	-	100.00	CARE PP-MLD 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	300.00	CARE A-; Stable	1. CARE A-; Stable (06-Jul-18)	-	-	-
2.	Commercial Paper	ST	200.00	CARE A2+	1. CARE A2+ (21-Sep-18) 2. CARE A2+ (24-Aug-18)	-	-	-
3.	Market Linked Debenture	LT	100.00	CARE PP-MLD A-; Stable	1. CARE PP-MLD A-; Stable (26-09-18)	-	-	-
4.	Market Linked Debenture	LT	50.00	CARE PP-MLD A-; Stable	1. CARE PP-MLD A-; Stable (07-12-18)	-	-	-
5.	Market Linked Debenture	LT	100.00	CARE PP-MLD A-; Stable	-	-	-	-

**CARE Ratings Limited**  
(Formerly known as Credit Analysis & Research Limited)