

CARE/HO/RL/2019-20/4013

Mr. Ranjan Ghosh
MD and CEO
Centrum Financial Services Limited,
Centrum House, C.S.T. Road,
Vidyanagari Marg, Kalina,
Santacruz (E), Mumbai – 400 098

January 08, 2020

Confidential

Dear Sir,

Credit Rating for Commercial Paper (CP) programme

Please refer our rating letter no. 'CARE/HO/RL/2019-20/1845' dated July 03, 2019 assigning rating of 'Provisional CARE A1+ (SO)' [Provisional A One Plus (Structured Obligation)] [modified later to 'Provisional CARE A1+ (CE)' [Provisional A One Plus (Credit Enhancement)]] in the letter no. 'CARE/HO/RL/2019-20/2759' dated September 13, 2019] to the Commercial Paper Programme of Centrum Financial Services

We are now in receipt of the following documents:

- a) Deed of Assignment dated November 24, 2019;
 - b) Indenture of Trust dated December 30, 2018 and an Amendment thereto dated July 29, 2019;
 - c) Trust and Retention Agreement dated March 25, 2019 and an Accession thereto dated July 16, 2019;
 - d) Execution version of Deed of Guarantee cum Undertaking dated December 31, 2019;
 - e) Issuing and Paying Agency Agreement dated August 24, 2018;
 - f) Legal Memorandum from Juris Corp Advocates and Solicitors dated July 17, 2019;
 - g) Legal opinion from Juris Corp Advocates and Solicitors dated January 03, 2020;
 - h) Withholding Tax Applicability Report from BSR & Co. LLP dated July 25, 2019.
2. Pursuant to the receipt of the above documents and fulfilment of other conditions, we hereby confirm the following ratings:

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(Formerly known as Credit Analysis & Research Limited)

Instrument/Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Commercial Paper	20.00 (Rs. Twenty Crore Only)	CARE A1+ (CE) [A One Plus (Credit Enhancement)]	Final Rating Assigned
	55.00 (Rs. Fifty Five Crore Only)	Provisional CARE A1+ (CE) [Provisional A One Plus (Credit Enhancement)]	Reaffirmed

3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as Annexure. We request you to peruse the annexed document and offer your comments if any. 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. In any case, if we do not hear from you by EOD we will proceed on the basis that you have no comments to offer.
4. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the debt instruments, CARE shall carry out the review on the basis of best available information throughout the life time of such instruments. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

6. All other terms and conditions contained in our rating letter no. 'CARE/HO/RL/2019-20/1845' dated July 03, 2019 and letter no. 'CARE/HO/RL/2019-20/2759' dated September 13, 2019 would remain the same.

If you need any clarification, you are welcome to approach us in this regard.

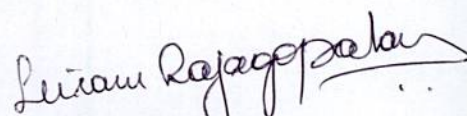
Thanking you,

Yours faithfully,



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Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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Annexure

Draft Press Release Centrum Financial Services Limited

Ratings

Instrument	Amount rated (Rs. Crore)	Rating	Rating Action
Commercial Paper Programme	20.00 (Rs. Twenty Crore Only)	CARE A1+ (CE) [A one Plus (Credit Enhancement)]	Final Rating Assigned
	55.00 (Rs. Fifty Five Crore Only)	Provisional CARE A1+ (CE) [Provisional A one Plus (Credit Enhancement)]	Reaffirmed

Other Commercial Paper Ratings

Instrument	Amount rated (Rs. Crore)	Rating
Commercial Paper Programme	25.00 (Rs. Twenty Five Crore Only)	CARE A1+ (CE) [A one Plus (Credit Enhancement)]

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

CARE had assigned a rating of 'Provisional CARE A1+ (SO)' [pronounced as Provisional A One Plus (Structured Obligation)] to the Commercial Paper Programme (Rs. 100 Crore) of Centrum Financial Services Limited (CFSL/ Issuer). On Aug 20, 2019, the first tranche of the CP (amounting to Rs. 25 Crore) was assigned final rating based on submission of executed documents and legal opinion. Further, as per SEBI circular on suffixing SO/CE, the rating was modified to 'Provisional CARE A1+ (CE)' [pronounced as Provisional A One Plus (Credit Enhancement)] and 'CARE A1+ (CE)' [pronounced as A One Plus (Credit Enhancement)] accordingly.

The rating of the next tranche (Rs. 20 Crore) is now confirmed at 'CARE A1+ (CE)' [pronounced as A One Plus (Credit Enhancement)] for the Commercial Paper issuance of CFSL. The rating assigned is finalized based on the structure provided to CARE by CFSL, the Issuer. CARE has also reviewed the executed documents namely Deed of Assignment (and Addendum thereto), Indenture of Trust and an Amendment thereto, Trust and Retention Agreement and an Accession thereto, Deed of Guarantee cum Undertaking, Issuing and Paying Agency Agreement, Legal Memorandum and a Withholding Tax Applicability Report from an external auditor. CARE has also been provided a copy of the Consent Letter signed by IDBI Trusteeship, accepting the appointment as the Trustee to this CP Programme and as a signatory to the executed documents. Further, CARE has relied on the opinion from an independent legal counsel certifying the compliance of the executed documents with the structure originally provided to CARE.

The rating is based on the credit profile of CFSL (rated 'CARE A-; Negative') coupled with additional cover provided to the CP investors in the form of vendor receivables. Further, comfort is drawn from the vendor receivables being due from strong counterparty i.e. Larsen &

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Toubro Ltd., the transaction structure with defined payment mechanism and the bankruptcy remoteness of the structure.

CFSL (is a part of the Centrum Group) which has an established presence in the financial services segment through Centrum Wealth Management, Centrum Broking Services and other subsidiaries.

Vendors of Larsen & Toubro Limited (L&T/Anchor) avail financing from CFSL against the receivables due from the Anchor by means of invoice discounting. All the receivables from the invoice discounting program have been assigned to a Trust (Vendor Trust). The Vendors have authorized CFSL to assign these receivables on their behalf to avail funding. The receivables being part of the Vendor Trust are bankruptcy remote from the creditors of both CFSL and Vendors.

The CP is backed by an unconditional and irrevocable guarantee from the Vendor Trust, for the entire tenure of this CP tranche. The Anchor has confirmed that it would make all payments against these invoices directly into the Designated Account; to ensure no commingling of cash flows with CFSL.

The asset cover (pool of receivables) is available for the payment of CP obligation if CFSL fails to arrange the funds as per the payment mechanism. The receivables assigned to each CP tranche must be a minimum of 1.2x times the maturity value of that CP tranche at all times.

Invoices that are raised against goods and certified as 'good for payment' (Certified Invoices) shall comprise the asset cover. Also, the residual maturity of pool receivables must be at least 30 days prior to the maturity date of the CP. This would ensure that the monies lying in the account are sufficient to meet payment obligations of the CP. Vendors that are overdue by more than 5 days have been excluded from the pool that would be assigned to the CP tranche. Similarly, receivables originating from a single vendor are less than 5% and no one invoice accounts for more than 1% of the pool assigned to this CP tranche.

While the primary obligation of repayment of the CP is of CFSL, the receivables act as a layer of security to the transaction. If the Issuer is unable to meet its obligations, the Vendor Trust Guarantee shall be invoked and the collections from the Pool shall be utilized for making payment to the CP investors. Thus the CP investors are benefitted from this additional layer of security in case payment obligation is not met by Issuer.

The Pool is dynamic wherein collections from matured invoices can be used to purchase new vendor receivables that meet the eligibility criteria while maintaining asset cover. The issuer can withdraw money lying in the Designated Account provided it is replaced through an unconditional and irrevocable SBLC rated 'CARE A1+' in favour of the CP Trustee or new invoices are assigned to the CP tranche so that asset cover is maintained.

Detailed description of the key rating drivers: NA

 **Key Rating Strengths: NA**

Key Rating Weaknesses: NA

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Applicable Criteria

CARE's methodology for Asset / Mortgage Backed Securitization

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Rating Methodology: Factoring Linkages in Ratings

Financial ratios – Financial sector

Criteria for Non Banking Financial Companies

Liquidity Profile- Strong

The CP investors have the benefit of dual recourse i.e. on the Issuer and on the Vendor Trust in the event of default by the Issuer. There must be a minimum gap of 30 days between cash flow realizations from the invoices assigned to each CP tranche and maturity of the CP tranche. This would ensure sufficient liquidity is available with the Vendor Trust to cover any shortfalls in payment to the CP investors.

Further, CFSL's ALM profile shows no negative gaps in any time brackets as on September 30, 2019. Company has been able to raise MLD's of Rs.25-30 crore each month and has also raised CP of Rs.25 crore. Also, the company had cash balance of Rs.142 crore as on September 30, 2019. As on September 30, 2019, the borrowings upto 1 year stands at Rs 720.66 crores as against the cash inflows of Rs. 829 crores.

Rating Sensitivities

Negative Factors:

1. *Substantial moderation in the credit profile of the Anchor*
2. *Shrinkage in availability of eligible assets that could be assigned to the pool*
3. *Liquidity stress at entity level for CFSL*

About the Company

CFSL, a registered Non-Banking Finance Company was incorporated in 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 was a 100% subsidiary of Centrum Capital Ltd. However, the entire shareholding of CFSL has been sold from 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 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.

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

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ROTA (%)	0.08	0.05
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(A-Audited)

Status of non-cooperation with previous CRA:

N.A

Any other information:

N.A

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.

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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.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other

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commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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
Commercial Paper	-	-	-	55.00	Provisional CARE A1+ (CE)
Commercial Paper	-	-	-	20.00	CARE A1+ (CE)

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	300.00	CARE A-; Negative	-	1)CARE A-; Stable (06-Jul-18)	-	-
2.	Commercial Paper	ST	-	-	1)Withdrawn (17-Oct-19) 2)CARE A2+ (09-Oct-19)	1)CARE A2+ (26-Sep-18) 2)CARE A2+ (24-Aug-18)	-	-
3.	Debentures-Market Linked Debentures	LT	100.00	CARE PP MLD A-; Negative	-	1)CARE PP MLD A-; Stable (26-Sep-18)	-	-
4.	Debentures-Market Linked Debentures	LT	50.00	CARE PP MLD A-; Negative	-	1)CARE PP MLD A-; Stable (07-Dec-18)	-	-
5.	Debentures-	LT	100.00	CARE PP	-	1)CARE	-	-

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	Market Linked Debentures			MLD A-; Negative		PP MLD A-; Stable (18- Feb-19)		
6.	Debentures- Market Linked Debentures	LT	200.00	CARE MLD A-; Negative	1)CARE PP MLD A-; Stable (13-May-19)	-	-	-
7.	Commercial Paper	ST	25.00	CARE A1+ (CE)	1)CARE A1+ (SO) (20-Aug-19) 2)Provisional CARE A1+ (SO) (03-Jul-19)	-	-	-
8.	Commercial Paper	ST	55.00	Provisional CARE A1+ (CE)	1)Provisional CARE A1+ (SO) (20-Aug-19)	-	-	-
9.	Debentures- Market Linked Debentures	LT	50.00	CARE PP MLD A-; Negative	1)CARE PP MLD A-; Negative (16-Dec-19)	-	-	-
10.	Commercial Paper	ST	20.00	CARE A1+ (CE)	-	-	-	-

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