

No. CARE/HO/RL/2020-21/2985

Mr. Ranjan Ghosh

MD and CEO

Centrum Financial Services Limited,

Centrum House, C.S.T. Road,

Vidyanagari Marg, Kalina,

Santacruz (E), Mumbai – 400 098

October 21, 2020

Confidential

Dear Sir,

Credit rating for proposed Principal Protected Market Linked Debenture issue

Please refer to your request for rating of proposed Principal Protected Market Linked Debenture issue aggregating to Rs.100 crore of your company.

2. The following ratings have been assigned by our Rating Committee:

Sr. No.	Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
1.	Principal Protected Market Linked Debentures	100.00	CARE PP-MLD BBB+; Stable (Principal Protected- Market Linked Debentures Triple B Plus; Outlook: Stable)	Assigned
	Total Instruments	100.00 (Rs. One Hundred Crore Only)		

3. Please arrange to get the rating revalidated, in case the proposed issue is not made within a period of six months from the date of our initial communication of rating to you (i.e. April 20, 2021)

4. In case there is any change in the size or terms of the proposed issue, please get the rating revalidated.

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

5. Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

Instrument type	ISIN	Issue Size (Rs cr)	Coupon Rate	Coupon Payment Dates	Terms of Redemption	Redemption date	Name and contact details of Debenture Trustee	Details of top 10 investors
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6. Kindly arrange to submit to us a copy of each of the documents pertaining to the MLD issue, including the offer document and the trust deed.
7. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which will be provided to you separately. We request you to peruse the 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.
8. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
9. 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 bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the aforementioned rating actions in any manner considered appropriate by it, without reference to you.
10. 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.

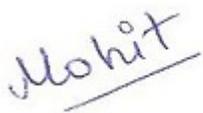
CARE Ratings Ltd.

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

11. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
12. CARE ratings are **not** recommendations to buy, sell or hold any securities.
13. If you need any clarification, you are welcome to approach us in this regard. We are indeed, grateful to you for entrusting this assignment to CARE.

Thanking you,

Yours faithfully,



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Encl.: As above

Disclaimer

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Centrum Financial Services Limited
October 22, 2020

Ratings

Instrument	Amount (Rs. crore)	Ratings	Rating Action
Market Linked Debentures (Proposed)	100 (Rupees hundred crore only)	CARE PP-MLD BBB+; Stable (PP-MLD Triple B Plus; Outlook: Stable)	Assigned
Non-Convertible Debentures (Proposed)	200 (Rupees two hundred crore only)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned

Details of instruments/facilities in Annexure-1

The rating factors in longer time being taken for stabilization of business model leading to weaker profitability, concentrated resource profile amidst overall tight funding scenario and slower expansion in resource base and entry into newer product segments, i.e. MSME which is yet to be stabilized.

The rating also factors in the presence of the Centrum Group in the financial services segment, with experienced management and comfortable capital adequacy levels of CFSL.

In light of current outbreak of COVID-19 and its impact on the economic activity, the liquidity profile of CFSL is primarily dependent upon collections from supply chain book. As per liquidity statement dated June 30, 2020, CFSL cash and bank balance of Rs.112.38 crores against which company has debt outflows of around Rs.264 crores until December 2020. The company had a cash and bank balance of Rs.168 crores as on September 30, 2020

Rating sensitivities

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

- *Scaling of loan book size substantially with sustainable profitability*
- *Demonstrates fund raising ability by raising funds from various sources at competitive rates*

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

- *Further de growth in loan book*
- *No material improvement in profitability in the short to medium term and losses in the short term*
- *Continuing concentration in resource and product profile and 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 94.33% of CRSL and the balance is held by Promoters as on June 30, 2020. 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 March 31, 2020 stood at Rs.23,100 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 the group and the promoter of the group is Mr. Chandir Gidwani.

Mr. Ranjan Ghosh is the MD of CFSL since 2016. He was 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. CFSL's Board includes well experience industry experts as independent directors.

Comfortable capital adequacy levels

In FY20, Total Capital Adequacy Ratio (CAR) stood at 25.27% (against the regulatory requirement of 15%) with Tier I CAR at 23.43%. The improvement in the capital adequacy was mainly on account of significant reduction in the size of loan portfolio over FY19. The overall gearing stood at 2.56 times as on March 31, 2020 as compared to 3.79 times as on March 31, 2019. (Compulsory Convertible Debentures amounting to Rs.15.09 crore have been considered as debt in calculations)

Key rating weaknesses**Longer time being taken for stabilizing of business model**

According to the earlier plans, the company was to grow to a substantial size with presence across various segments along with large equity infusion coming from the group. These plans have not materialized as envisaged, and the business model of the company is still not fully stabilized, and sustainability of profits is yet to be seen. The loan book of the company shrunk during the last year with portfolio outstanding reducing from Rs.1,134 crore as on March 31, 2019 to Rs.878 crore as on March 31, 2020

Weak Profitability

During FY20, company had total income of Rs.149.42 crore and PAT of Rs.8.23 crore compared to total income of Rs. 101.98 crore and a loss of Rs.8.84 crore during FY19. The net interest income saw a rise but there was also a significant rise in the operating expense thereby reducing the overall profits. The profitability was aided by of gain of around Rs. 11.85 crore due to fall in Nifty in Q4FY20, and is associated with accounting for MLDs and is likely to be reversed subsequently. Overall profit from operations is low and the profitability of the company remains vulnerable to external environment, due to exposure to Real Estate and Commercial Finance sector which are facing significant headwinds. The company has provided for the additional provisions of Rs.5.71 crore as per the RBI requirement from the retained earnings instead of taking it in P&L statement. Thus the ability to improve profitability would continue to remain a key monitor able going forward.

The Yield on Advances stood at 13.45% (previous year 12.16%) and NIM improved to 4.9% for FY20 (previous year 2.72%). The cost of borrowings stood at 10.13% for FY20 as against 10.09% for FY19. However, Opex / Average Assets ratio was relatively higher at 4.09% for FY20 as against 3.36% for FY19, resulting in RoTA of 0.68% for FY20 (previous year -0.93%).

Moderate Resource Profile

Post the NBFC crisis in September'18, company was 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. Thus, Company has availed minimal loans till end of FY20 and was largely dependent on MLD's as a source of finance thereby accessing the capital markets. As on March 31, 2020, the borrowings stood at Rs.720 crore. The company had majority of its borrowings through MLD's and term loans in FY20 similar to FY19 with a very small component through Commercial Papers. However, in the past few months, CFSL has been able to raise few facilities from banks. The company in Q1FY21 has started to expand its resource profile and had borrowed through NCD's (most of which are PCG backed NCD's) expanding their resource profile along with MLD's and Term loans. However, this has to be seen on sustained basis. Earlier commitment in terms of equity infusion from the group for future growth did not materialize and the company has not been able to raise equity capital from any other source as well.

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. CFSL has been able to raise around Rs.300 crores in H1FY21 through various instruments, many of which are from the various schemes announced by the government.

Portfolio concentration & seasoning of new products

As on March 31,2020, the outstanding portfolio stood at Rs.878 crore from which, Commercial Finance is around 36% of overall book, Supply Chain Finance (SCF) is around 41%, Real Estate book is around 11%, MSME book is around 4% and Financial Intermediary (FI) book is around 8% of overall book of the business. The company has higher portfolio concentration in Real Estate and Commercial Finance segment. Top 12 exposures are equal to around 83% of Net worth.

Going forward, CFSL intends to diversify its portfolio with lower ticket sizes in the SCF and MSMSE portfolio. SCF business continues to show resilience during pandemic. The company is also reducing its commercial finance book and has reduced it by around Rs.53 crores in the last 6 months through prepayments and assignments. Company is primarily focusing on expanding its portfolio through supply chain through alternate business models and financing including co-lending method, and MSME financing.

The SCF 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, and CFSL's ability to do the same needs to be monitored.

The other focus area of growth would be MSME, which is more granular and has higher margins. However, this business is in initial phase and it would take time before this becomes profitable due to upfront costs.

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 Asset Quality

As on March 31, 2020, the GNPA and NNPA (Principal only) were moderate at 1.99% and 0.74%. Also the company has concentrated exposures in Real Estate and Commercial Finance segments, which are facing significant headwinds in the current challenging economic conditions. There is higher concentration in the loan book as the top 12 exposures are equal to 83% of Net worth as on March 31, 2020. However, the company is planning to grow majorly in MSME and Supply Chain business in the short to medium term, which are more granular and the exposures are not very lumpy.

Covid-19 Impact

CFSL has not made any significant disbursements except SCF segment and Commercial Finance segment. Management has conveyed that around 60% of the clients opted for moratorium in Phase 1 and 52% of the client opted for Moratorium in phase 2. Moratorium for RE and CF business was much higher than other segments. Collection efficiency (Actual collections in a month / Scheduled collections before considering moratorium) improved from around 59.4% in April to 100.6% in June 2020 as there were some prepayments and overdue payments. However, the collection efficiency has worsened to some extent to around 72.6% in August 2020. The collection efficiency after considering moratorium for the above mentioned three months were 99.1%, 102.8% and 98.3% respectively. While there has not been any significant impact on asset quality till now, exposures in Real estate and Commercial Finance segments need to be monitored carefully to assess any potential impact on asset quality.

Liquidity: Adequate

The Company's ALM profile shows no negative gaps on a cumulative basis as on June 30, 2020 on higher proportion of Supply chain book, which is short term in nature. As per liquidity statement dated June 30, 2020, CFSL cash and bank balance of Rs.112.38 crore against which company has debt outflows of around Rs.264 crore until December 2020. The company had a cash and bank balance of Rs.168 crores and undrawn sanctioned bank lines of Rs.90 crores as on September 30, 2020. During September 2020, the company has prepaid debt obligations amounting to Rs.23.50 crore 1-2 months ahead of their due date. The SCF book provides flexibility to the ALM.

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](#)
[Rating Methodology of Market Linked Notes](#)

About the Company

CFSL

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

Brief Financials (Rs. crore)	FY19(A)	FY20(A)
Total income	101.98	149.42
PAT	-8.84	8.23
Tangible Net worth [§]	267.26	280.62
Loans outstanding	1133.5	877.56
Total Assets	1353.26	1068.76
ROTA (%)	-0.93	0.68

A: Audited

§: Compulsory Convertible Debentures amounting to Rs.15.09 crore have been considered as debt in calculations

All analytical ratios in this release are based on CARE's calculations

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 BBB+; Stable
NA	Non-Convertible Debentures (Proposed)	-	-	-	200	CARE BBB+; 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 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 BBB+; Stable	1. CARE BBB+; Stable (07-Oct-20)	1. CARE A-; Negative (09-Oct-19)	1. CARE A-; Stable (06-Jul-18)	-
2.	Commercial Paper	ST	-	-	1. Withdrawn (29-Sep-20) 2. CARE A2+; (10-Jun-20)	-	-	-
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 BBB+; Stable	-	-	-	-
5.	Market Linked Debenture	LT	-	-	1. Withdrawn (09-Jul-20) 2. CARE PP-MLD A-; Negative (10-Jun-20)	-	-	-
6.	Market Linked Debenture	LT	42.40	CARE PP-MLD BBB+; Stable	1. CARE PP-MLD BBB+; Stable (07-Oct-20) 2. CARE PP-MLD A-; Negative (09-Jul-20)	1. CARE PP-MLD A-; Negative (09-Oct-19)	1. CARE PP-MLD A-; Stable (26-Sept-18)	-
7.	Market Linked Debenture	LT	50.00	CARE PP-MLD BBB+; Stable	1. CARE PP-MLD BBB+; Stable (07-Oct-20)	1. CARE PP-MLD A-; Negative (09-Oct-19)	1. CARE PP-MLD A-; Stable (07-Dec-18)	-
8.	Market Linked Debenture	LT	100.00	CARE PP-MLD BBB+; Stable	1. CARE PP-MLD BBB+; Stable (07-Oct-20)	1. CARE PP-MLD A-; Negative (09-Oct-19)	1. CARE PP-MLD A-; Stable (18-Feb-19)	-
9.	Market Linked Debenture	LT	200.00	CARE PP-MLD BBB+; Stable	1. CARE PP-MLD BBB+; Stable	1. CARE PP-MLD A-; Stable	-	-

					(07-Oct-20)	(13-May-19) 2.CARE PP-MLD A-; Negative (09-Oct-19)		
10.	Market Linked Debenture	LT	50.00	CARE PP-MLD BBB+; Stable	1. CARE PP-MLD BBB+; Stable (07-Oct-20)	1.CARE PP-MLD A-; Stable (16-Dec-19)	-	-
11.	Non-Convertible Debenture	LT	50.00	CARE BBB+; Stable	1. CARE BBB+; Stable (07-Oct-20) 2)CARE A-; Negative (18-May-20)	-	-	-
12.	Non-Convertible Debenture	LT	100.00	CARE BBB+; Stable	1. CARE BBB+; Stable (07-Oct-20) 2)CARE A-; Negative (09-July-20)	-	-	-
13.	Non-Convertible Debenture	LT	200.00	CARE BBB+; Stable	-	-	-	-

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	Market Linked Debentures	Highly Complex
3	Non-Convertible Debentures	Simple
4	Commercial Paper	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

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About CARE Ratings:

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