CARE Ratings
Professional Risk Opinion

CARE/HO/RL/2019-20/3628
Mr. Ranjan Ghosh
MD and CEO
Centrum Financial Services Limited,
Centrum House, C.S.T. Road,
Vidyanagari Marg, Kalina,
Santacruz (E), Mumbai – 400 098

December 12, 2019

Confidential

Dear Sir,

Credit rating for proposed Principal Protected Market Linked Debenture

Please refer to your request for rating of proposed Principal Protected Market Linked Debenture issue aggregating to Rs.50 crore of your company.

2. The following rating has been assigned by our Rating Committee:

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Principal Protected Market Linked Debenture	50 (Rs. Fifty crore only)	**CARE PP-MLD A-; Negative (PP-MLD Single A Minus; Outlook: Negative)**	**Assigned**

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.

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

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

6. Kindly arrange to submit to us a copy of each of the documents pertaining to the NCD issue, including the offer document and the trust deed.

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

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)
4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (E), Mumbai - 400 022.
Tel.: +91-22- 6754 3456 • Fax: +91-22- 6754 3457 • www.careratings.com • CIN-L67190MH1993PLC071691

7. The rationale for the rating will be communicated to you separately.

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 debt instrument, CARE shall carry out the review on the basis of best available information throughout the life time of such instrument. 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.

10. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.

11. CARE ratings are **not** recommendations to buy, sell or hold any securities.

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,

[Shailee Sanghvi]
Deputy Manager
shailee.sanghvi@careratings.com

[Aditya Acharekar]
AGM
aditya.acharekar@careratings.com

Encl.: As above

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.

CARE Ratings Ltd.

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (E), Mumbai - 400 022.
Tel.: +91-22- 6754 3456 • Fax: +91-22- 6754 3457 • www.careratings.com • CIN-L67190MH1993PLC071691

CARE Ratings
Professional Risk Opinion

CARE/HO/RR/2019-20/1886
Mr. Ranjan Ghosh
MD and CEO
Centrum Financial Services Limited,
Centrum House, C.S.T. Road,
Vidyanagari Marg, Kalina,
Santacruz (E), Mumbai – 400 098

December 31, 2019

Dear Sir,

Rating of Bank facilities

Please refer to our letters dated December 12, 2019 on the above subject.

2. A write-up (brief rationale) 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.**

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

Thanking you,

Yours faithfully,

[Shailee Sanghvi]
Deputy Manager
Shailee.sanghvi@careratings.com

[Ravi Kumar Dasari]
AGM
ravi.kumar@careratings.com

Encl: As above

Annexure-I

Centrum Financial Services Limited (CFSL)

Ratings

Instrument	Amount (Rs. crore)	Ratings	Rating Action
Market Linked Debentures	50	CARE PP-MLD A-;Negative [PP-MLD Single A Minus; Outlook :Negative]	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale of CFSL

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 weak profitability and concentrated resource profile amidst overall tight funding scenario for NBFC/HFC sector.

The rating factors in the utilization of the proceeds received from stake sale of Centrum Direct Ltd towards general corporate purposes by Centrum Group which was earlier committed towards equity infusion in CFSL in line with the then proposed growth plans. Ability to raise equity through external sources, improve profitability and ability to scale up the portfolio through diversification continues to remain a key rating sensitivity.

Outlook: Negative

The outlook is 'Negative' on account of depletion of equity funds committed for future growth, concentrated resource profile along with product concentration and weaker profitability amidst challenging funding environment for NBFCs & HFCs. The outlook may be revised to 'Stable' if the company is able to improve its profitability and scale up its credit book, diversify its resource profile and establish visibility of equity infusion.

Rating sensitivities

Positive Factors

- *Sustained growth in loan book while improving profitability*
- *Diversification of resource profile*
- *Diversification of loan book while maintaining asset quality*
- *Sizeable capital infusion*

Negative Factors

- Weakening of parent's credit profile
- Material deterioration in asset quality
- Further deterioration in profitability

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. It is also because of the established presence of Centrum Wealth Management that the company has been able to raise MLD every month of Rs.25-30 crores though HNI investors. The group has set-up Centrum Housing Financial Ltd (CHFL) for offering affordable housing loans and a non-banking finance company, Centrum Financial Services Limited (CFSL) for offering business loans to small and medium enterprises and Centrum MicroCredit Pvt Ltd 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 15+ years of Experience in the Banking 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 networth 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 monitorable.

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 3.33x times as on March 31, 2019 as compared to 2.04 times

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (E), Mumbai - 400 022.
Tel.: +91-22- 6754 3456 • Fax: +91-22- 6754 3457 • www.careratings.com • CIN-L67190MH1993PLC071691

as on March 31, 2018. As on September 30, 2019, CAR and Tier-I Capital stood comfortable at 23.01% and 21.44% respectively.

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 monitorable.

In the commercial finance portfolio as on March 31, 2019, top 10 exposures contribute to 56.74% of the tangible networth, 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 not expected to be scaled up.

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.

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 generally 1.2x or 2x of the loan amount for the exposures in commercial finance, real estate and Financial Intermediary segment. 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 monitorable. As on March 31, 2019, GNPA and NNPA stood comfortable at 1.40% and 1.26% respectively.

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 Q2 FY 20 onwards, which would enable the Company to have better average yield.

As on September 30, 2019, company has earned a marginal post tax profit of Rs.16 lakhs on a total income of Rs.79 crores. The yield on advances stood at 14.64% and cost of borrowing is 11.81%.

Thus the ability to maintain profitability with the increasing borrowings costs shall continue to remain a key monitorable going forward.

Moderate Resource Profile

As on March 31, 2019, the borrowings stood at Rs.975 crore . Post the NBFC crisis in September'18, company's major source of finance has been only through MLD's. 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. Apart from that company has raised CP of Rs.25 crores in August'19 and September'19 at 9.75%. 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 FY 20, CFSL has been able to raise few facilities from PSU banks (availed a cash credit facility from Union Bank of India)

Liquidity –Moderate: The Company'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.

Analytical approach: Standalone approach with support from promoters considered.

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
Factor Linkages in Ratings

About the Company

CFSL

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 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
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

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Market Linked Debentures	-	-	-	50	CARE PP-MLD 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 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-; Negative (09-Oct-19)	1. CARE A-; Stable (06-Jul-18)	-	-
2.	Commercial Paper	ST	200.00	Withdrawn	1.CARE A2+; (09-Oct-19) 2.Withdrawn (17-Oct-19)	1.CARE A2+ (21-Sep-18) 2.CARE A2+ (24-Aug-18)	-	-
3.	Market Linked Debenture	LT	100.00	CARE PP-MLD A-; Negative	1.CARE PP-MLD A-; Negative	1. CARE PP-MLD A-; Stable	-	-

					(09-Oct-19)	(26-Sept-18)		
4.	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)	-	-
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 (18-Feb-19)	-	-
6.	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)	-	-	-
7.	Market Linked Debenture	LT	50.00	CARE PP-MLD A-; Negative	-	-	-	-

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*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact 1
Mr. Ravi Kumar
Contact No.: 022-67543421
Email: ravi.kumar@careratings.com

Analyst Contact 2
Mr. Sanjay Agarwal
Contact No.: 91-22-6754 3500 / 582
Email: sanjay.agarwal@careratings.com

Relationship Contact
Mr. Ankur Sachdeva
Contact no. : + 91 98196 98985
Email: ankur.sachdeva@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.

***For detailed Rationale Report and subscription information, please contact us at www.careratings.com**