CARE Ratings
Professional Risk Opinion

CARE/HO/RR/2019-20/1310
Mr. Ranjan Ghosh
MD and CEO
Centrum Financial Services Limited,
Centrum House, C.S.T. Road,
Vidyanagari Marg, Kalina,
Santacruz (E), Mumbai – 400 098

May 10, 2019

Dear Sir,

Credit rating of Market Linked Debentures

Please refer to our letters dated May 10, 2019 on the above subject.

2. The rationale for the ratings is attached as an **Annexure - I.**

3. 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.

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

Thanking you,

Yours faithfully,

[Akansha Jain]	**[Ravi Kumar]**
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Encl: As above

Annexure I

Rating Rationale

Centrum Financial Services Limited

Ratings

Instrument	Amount (Rs. Crore)	Rating	Rating Action
Principle Protected Market Linked Debentures	200 (Rs. Two hundred crore only)	**CARE PP-MLD A- ; Stable [PP-MLD Single A Minus; Outlook: Stable]**	**Assigned**

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 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 in the housing finance sector along with defined operational framework for operating in the retail housing segment

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. 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. Thus, there was an infusion of Rs. 140 crore which comprised of Rs. 125 crore of equity in 9MFY19 and Rs. 15 crore as CCD. 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 March 31, 2019. As on March 31, 2019, the company has cash & bank balance of Rs. 102.32 crore and investments to the tune of Rs.74.48 crore

Key rating weakness

Moderate size and low seasoning of the portfolio

Due to initial years of operations, the size of business is small. 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 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

Over the last few years, the NBFC sector has gained systemic importance with increase in share of NBFC total assets to bank total assets. The same has resulted in the Reserve Bank of India (RBI) taking various policy actions resulting in NBFCs attracting higher support and regulatory scrutiny. The RBI has revised the regulatory framework for NBFCs which broadly focuses on strengthening the structural profile of NBFC sector, wherein focus is more on safeguarding depositors' money and regulating NBFCs which have increased their asset-size over time and gained systemic importance. On the asset quality front, gradual change in the NPA recognition norms would lead to deterioration in asset quality parameters during the transition phase. Overall the revised regulations are positive for the NBFC sector making it structurally stronger, increase transparency and improve their ability to withstand asset quality shocks in the long run.

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.

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

Liquidity Profile: The liquidity position of the company stands comfortable with positive cumulative mismatches in all time brackets as on March 31, 2019. As on March 31, 2019, the company has cash & bank balance of Rs. 102.32 crore and investments to the tune of Rs.74.48 crore. The company has no unutilized bank lines as on May 06, 2019.

About 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 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.

Financial Performance

(Rs. crore)

Particulars	**FY 17**	**FY 18**
	12M, A	**12M, A**
P&L:		
Interest income	35.77	45.46
Other income	2.83	25.01
Total income	**38.60**	**70.46**
Interest expenses	12.45	45.64
Employee Expenses	1.76	9.58
Admin Expenses	15.56	8.31
Depreciation	0.04	0.85
Total operating expenses	**17.36**	**18.73**
Indirect Expense	-	-
Provisions	0.29	3.28
PBT	8.50	2.82
PAT	**5.48**	**0.39**
Bal sheet:		
Tangible Net worth	**110.51**	**168.15**
Borrowings	298.34	342.42
Total Assets	**429.27**	**552.05**
Investments	33.92	37.82
Loans	324.22	375.67
Cash and Bank	46.82	72.70
Ratios (%)		
Overall gearing	2.70	2.04
Interest coverage	1.68	1.06
CAR (%)	-	37.34
Tier I CAR (%)	-	37.04
Total Income / Average Total Assets	11.81	14.36

Yield on advances	14.12	12.99
Interest / Avg. Borrowed Funds (B)	6.14	14.25
Interest spread (A-B)	7.98	(1.26)
Net Interest Margin	7.14	(0.04)
Operating Expenses/Average Total Assets	5.31	3.82
ROTA (PAT / Average Total Assets)	1.68	0.08
RONW	5.02	0.28
Gross NPA %	-	0.48
Net NPA %	-	0.00
Net NPA to Net worth %	-	-

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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.

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
Proposed Principle Protected Market Linked Debenture	-	-	-	200.00	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 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-; 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-Sept-18)	-	-
4.	Market Linked Debenture	LT	50.00	CARE PP-MLD A-; Stable	-	1. CARE PP-MLD A-; Stable (07-Dec-18)	-	-
5.	Market Linked Debenture	LT	100.00	CARE PP-MLD A-; Stable	-	1. CARE PP-MLD A-; Stable (18-Feb-19)	-	-
6.	Market Linked Debenture	LT	200.00	CARE PP-MLD A-; Stable	-	-	-	-