

CARE/HO/RL/2020-21/1646

Mr. Ranjan Ghosh

MD and CEO

Centrum Financial Services Limited,

Centrum House, C.S.T. Road,

Vidyanagari Marg, Kalina,

Santacruz (E), Mumbai – 400 098

June 10, 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:

Instrument	Amount (Rs. crore)	Rating¹	Rating Action
Proposed Principal Protected Market Linked Debentures	100.00 (Rs. Hundred 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 (that is December 09,2020).

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:

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

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 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 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 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. 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.

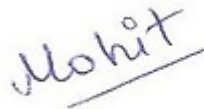
CARE Ratings Ltd.

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.

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,



[Mohit Dave]
Rating Analyst
mohit.dave@careratings.com



[Himanshu Shethia]
Associate Director
himanshu.shethia@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.

Centrum Financial Services Limited

June 10, 2020

Ratings

Instrument	Amount (Rs. crore)	Ratings	Rating Action
Market Linked Debentures (Proposed)	100 (Rupees hundred crore only)	CARE PP-MLD A-; Negative (PP-MLD Single A Minus; Outlook: Negative)	Assigned
Commercial Paper (Proposed)	100 (Rupees hundred crore only)	CARE A2+ (A Two Plus)	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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

In light of current outbreak of COVID-19 and the nationwide lockdown, the liquidity profile of CFSL is primarily dependent upon collections from supply chain book. As per liquidity statement dated April 30, 2020, CFSL cash and bank balance of Rs.86.21 crores against which company has debt outflows of around Rs.132.61 crores until July'20 after considering moratorium given on bank/NBFC borrowing. The company has requested moratorium from bank/NBFC term loan borrowing and existing lenders have provided moratorium except from one lender, which is under discussion.

Outlook: Negative

The outlook is 'Negative' on account of depletion of equity funds committed for future growth and absence of equity capital raising from any other source, concentrated resource profile along with product concentration and weaker profitability amidst challenging funding environment for NBFCs & HFCs. Further 'Negative' outlook also takes into account current outbreak of COVID-19 and the nationwide lockdown which could impact the asset quality of CFSL going forward. Given the tough operating environment for real estate/commercial finance & MSME players on the back of expected lower economic growth, the asset quality and profitability of CFSL may be under pressure.

The outlook may be revised to 'Stable' if the company is able to improve its profitability, demonstrate raising of equity capital and establish visibility of equity infusion, diversify its resource profile, scale up its credit book, and maintain the asset quality at current levels.

Rating sensitivities

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

- *Sizeable capital infusion*
- *Demonstrates fund raising ability by raising funds from various sources at competitive rates*

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

- *Continuing concentration in resource and product profile*
- *No material improvement in profitability in the short to medium term and losses in the short term*
- *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 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. 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 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 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.

Comfortable capital adequacy levels

The tangible net worth 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 monitor able.

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 3.33 times as on March 31, 2019 as compared to 2.04 times as on March 31, 2018.

As on March 31, 2020, the net worth stood at Rs.320 crores and the CAR and Tier-I Capital stood at 26.75% and 24.87% respectively. The gearing also has improved to 2.18x times as on March 31, 2020 (Provisional).

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 monitor able.

In the commercial finance portfolio as on March 31, 2019, top 10 exposures contribute to 56.74% of the tangible net worth, 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 in the process of being wound up.

As on March 31,2020, the outstanding portfolio stood at Rs.878 crore from which FI book is around 8% of overall book, Commercial Finance is around 36% of overall book, Real Estate book is around 11% of overall book (they fund affordable housing projects ticket size of around 10 crores), MSME book is around 4% of the book and Supply Chain Finance (SPF) is around 41% of the business

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.

Moderate Resource Profile

As on March 31, 2019, the borrowings stood at Rs.975 crore. Post the NBFC crisis in September'18, company is 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 and same is expected to continue in FY20. 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 FY20 and currently, CFSL has been able to raise few facilities from banks viz; Union Bank of India, State Bank of India, RBL Bank, Andhra bank. As on March 31, 2020, the borrowings stood at Rs.697 crores (Provisional). 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.

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. 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 monitor able. As on March 31, 2020, the outstanding portfolio was Rs.878 crores and the GNPA and NNPA stood comfortable at 1.99% and 0.74% respectively with a gearing of 2x(Provisional).

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 Q2FY20 onwards, which would enable the Company to have better average yield.

During FY20, company has total income of Rs.150 crores and PAT of Rs.13.5 crores (Provisional), the increase being primarily due to increase in yields and acquisition of Supply Chain Book from L&T. Thus the ability to improve profitability shall continue to remain a key monitor able going forward.

Liquidity: Adequate

The Company's ALM profile shows no negative gaps in any time brackets as on April 30, 2020 and March 31,2020 on higher proportion of Supply chain book, which is short term in nature. As per liquidity statement dated April 30, 2020, CFSL cash and bank balance of Rs.86 crore against which company has debt outflows of around Rs.133 crores until July'20 after considering moratorium given on bank/NBFC borrowing. The company has requested moratorium from bank/NBFC term loan borrowing and existing lenders have provided moratorium except from one lender which is under discussion. Further, company was expecting moderated collections until June'20 on account of current COVID-19 pandemic and nationwide lockdown. In light of above, collections from supply chain book are critical to the liquidity profile of CFSL.

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](#)

About the Company**CFSL**

CFSL, a registered Non-Banking Finance Company was incorporated on 1993 and has lending products such as supply chain, real estate, MSME, commercial finance and financial intermediary. 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 and as on March 31,2020 the total outstanding loan portfolio stood at Rs.878 crore(Provisional).

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

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 A-; Negative
NA	Commercial Paper(Proposed)	-	-	-	100	CARE A2+

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 A-; Negative		1.CARE A-; Negative (09-Oct-19)	1. CARE A-; Stable (06-Jul-18)	-
2.	Commercial Paper	ST	100.00	CARE A2+	-	-	-	-
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 A-; Negative	-	-	-	-
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 (26-Sept-18)	-
6.	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)	-
7.	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)	-
8.	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)	-	-
9.	Market Linked Debenture	LT	50.00	CARE PP-MLD A-; Negative	-	1.CARE PP-MLD A-; Stable (16-Dec-19)	-	-
10.	Non-Convertible Debenture	LT	50.00	CARE A-; Negative	1)CARE A-; Negative (18-May-20)	-	-	-
11.	Commercial Paper	ST	100.00	CARE A1+ (CE)	-	1.CARE A1+ (CE) (08-Jan-20)		

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. Himanshu Shethia

Contact No.: 9987261161

Email: himanshu.shethia@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.

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.

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