

August 20, 2019

## Centrum Financial Services Limited: Provisional rating of [ICRA]A1+(SO) confirmed as final for Rs. 25.00 crore Commercial Paper programme

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	100.00	25.00	[ICRA]A1+(SO); confirmed as final
		75.00	Provisional [ICRA]A1+(SO); outstanding
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

ICRA has confirmed the rating of [ICRA]A1+(SO) [pronounced ICRA A one plus (Structured Obligation)] assigned to the Rs. 25.00 crore commercial paper (CP) programme, out of the Rs. 100.0 crore CP programme of Centrum Financial Services Limited ('CFSL/ Issuer'). Rating of Provisional [ICRA]A1+(SO) remains outstanding for the balance Rs. 75.00 crore CP programme. The letters SO, in parenthesis, suffixed to the rating symbol stand for structured obligation. An SO rating is specific to the rated issue, its terms and structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned. The provisional ratings are subject to the fulfillment of all conditions under the structure, review by ICRA of the documentation pertaining to the transaction, and Issuer furnishing a legal opinion and tax opinion on the transaction to ICRA.

In March 2019, ICRA had assigned a Provisional [ICRA]A1+(SO) rating to the Rs. 100-crore CP programme of CFSL. As the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction has been provided to ICRA, the said ratings have now been confirmed as final.

### Outlook: Not Applicable

### Key rating drivers

#### Credit strengths

**Bankruptcy remote nature of Cover Pool and availability of dual recourse to the CP investors** – The CP investors shall have the benefit of dual recourse i.e. recourse on the Issuer, and recourse on the Vendor Trust/ Cover Pool assets if the Issuer does not pay. Cover Pool Assets are 'bankruptcy remote' and outside the reach of creditors of both CFSL and the vendors. Payments from the Anchor directly happen in the Designated Account belonging to the Vendor Trust and there is no commingling of cashflows with the Issuer.

**Quality of Cover Pool** – Cover pool comprises of receivables due from an entity rated AAA/ A1+ by ICRA. Only invoices certified as "good for payment" and from vendors that are not overdue by more than 5 days shall be part of the cover pool. 20% overcollateralization and a liquidity buffer of minimum 30 days should ensure that the proceeds realised from the cover pool assets are enough to meet all payments due on the CP. Caps on Invoice level and Vendor level concentration adds to the granularity of the Cover Pool Assets.

**Payment mechanism** – The payment mechanism is designed to ensure timely payment to CP investors even if CFSL defaults, and the payment is made from proceeds lying in the Designated account (i.e. Vendor Trust assets/ property) through invocation of Vendor Trust guarantee by the CP Trustee.

**Centrum Group (the Group) has an established presence in the domestic financial services industry** – The Group, through Centrum Capital Limited (CCL) and its subsidiaries, has diversified offerings in the financial services space with an established presence in the fee-based businesses such as investment banking, broking, wealth management, insurance broking and asset management. CCL is an investment bank and a holding company for the Group. It has an established position in the debt capital markets with clientele across public sector units, banks, state-level undertakings, private corporates and various provident funds. The Group's wealth management business has witnessed healthy traction in recent years with assets distributed and managed at Rs. 20,400 crore as on March 31, 2019, registering a six-year compound annual growth rate of ~37%. The Group held a leading position in the forex business through Centrum Direct Limited (CDL); the Group exited the business in April 2018. The Group ventured into distribution of insurance products and asset management business in FY2018. The Group also has a small equity broking operation under Centrum Broking Limited. The Group has now shifted its focus to grow the fund-based businesses and has set up a non-banking financial company (CFSL), a housing finance company (Centrum Housing Finance Limited) and a micro-finance institution (Centrum Microcredit Limited). With this diversification, the Group expects to expand its reach and customer base, thus increasing opportunity to cross-sell its offerings.

**Committed financial support from CCL, the ultimate holding company; comfortable capitalisation of CCL and availability of investible surplus with the Group provides comfort** – Centrum Group received cash flows to the tune of ~Rs. 1,000 crore in June 2018, on account of the stake sale in CDL, which is being used by the Group to fund the growth capital requirement of subsidiaries and step-down subsidiaries, including CFSL. CCL has given commitment to infuse funds aggregating to Rs. 450 crore in CFSL over FY2019 and FY2020 (of ~Rs. 150 crore committed in FY2019, CCL has invested Rs. 125 crore; commitment for FY2020 is ~Rs. 300 crore). As part of the said infusion in FY2019, Rs. 50 crore was infused by CCL by subscribing to CFSL's compulsorily convertible debentures (CCD), out of which Rs. 35 crore was converted to equity in FY2019. Further, Rs. 90 crore of unsecured loan provided by CCL in September 30, 2018 was also converted to equity on November 30, 2018. Effectively, Rs. 125 crore of equity has been infused by CCL into CFSL in FY2019, in addition to the Rs. 60 crore infusion in March 2018. This capital infusion aided CFSL in acquiring loan portfolio and grow its book to Rs. 1,134 crore as on March 31, 2019 from ~Rs. 370 crore as on March 31, 2018. Gearing as on March 31, 2019 stands moderately at 3.34 times. Capital adequacy stands comfortable at 23.01%. The committed equity support from CCL will be used to grow the book further, while also maintaining the leverage and capital adequacy at comfortable levels.

## Credit challenges

**Payment obligation from Anchor is a contractual payment** – Payment obligation against the Cover Pool assets is an operational or contractual obligation and not a financial obligation of the Anchor. While the obligation is unconditional and irrevocable in nature, there can be some instances of delays in the payment. However, the quality of the cover pool, and over-collateralisation/ liquidity buffer available in the transaction act as a risk mitigant. Also, in case of delay or default in payment, the vendor trustee (as an operational creditor) shall be able to take legal recourse against the Anchor under Insolvency and Bankruptcy Code, 2016 (IBC).

**Moderate scale of operations with low seasoning of credit portfolio** – CFSL's current scale of operations is moderate and is planning to grow the same through organic as well as inorganic routes. CFSL's loan book, which stood at ~Rs. 370 crore as on March 31, 2018 more than trebled to ~Rs. 1,134 crore as on March 31, 2019. Growth in the loan book was supported by the acquisition of the supply chain finance business from L&T Finance. CFSL's portfolio includes supply

chain finance (54% of loan book as on March 31, 2019), loans to financial institutions (5%), loans to small and medium enterprises (33%), real estate finance (6%), and loan against shares (2%). ICRA, however, notes that the Group has limited experience in the lending business. Nonetheless, to scale up lending businesses, the Group has hired experienced professionals from the industry.

**Recent tightening of liquidity in the market and resulting increase in cost of funds will test CFSL’s ability to scale up business profitably** – The liquidity available to non-banking finance companies (NBFCs) and housing finance companies (HFCs) has shrunk significantly over the past six months and this has increased their cost of borrowings considerably. With CFSL being in the growth phase, availability of fairly-priced funds is critical for a sustainable and profitable growth of the business. The company’s ability to successfully scale up the business is a key rating sensitivity.

### Liquidity Position

There shall be a minimum 30-day liquidity buffer between the due date of the cover pool assets and the maturity date of the corresponding CP tranche.

With CFSL’s asset maturity profile being shorter term (maximum maturity in 120 days bucket), the asset-liability gap in the shorter term is positive. Liabilities mature over the next 24 months, with average maturity of 13 months. In addition, the company maintains sizeable cash and bank balance (Rs. 77.04 crore as on March 31, 2019), providing considerable liquidity cushion. The liquidity carried in its books stood at Rs. 79 crore as on June 30, 2019.

### Analytical approach

The rating action is based on the executed transaction documents and the shared legal opinion, which is in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Approach for rating debt instruments supported by structural features (Non-securitized transactions)</a> <a href="#">Rating Methodology for Non-Banking Finance Companies</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	Not Applicable

### About the company

Centrum Financial Services Limited (CFSL) is a registered Systemically Important Non-Deposit taking Non-Banking Finance Company (NBFC – NDSI) incorporated in August 2009. CFSL was a 100% subsidiary of CCL till June 30, 2019. Subsequently, owing to a group restructuring, CFSL has become a 100% subsidiary of Centrum Retail Services Limited (CRSL), which in turn is a 93.33% subsidiary of CCL. CFSL is focused on providing short term financing products such as short-term corporate loans, loan against securities and margin funding to Corporates and high net worth individuals (HNIs), functioning primarily as a service to the Group’s wealth and investment banking verticals. CFSL has now started to focus on supply chain financing (dealer and vendor financing) as a key lending segment.

The Group, founded by Mr. Chandir Gidwani – currently Chairman Emeritus of CCL, has presence across various segments including investment banking, wealth management, broking and forex business. With the appointment of Mr. Jaspal Bindra (more 30 years of global banking experience; previously the Asia-Pacific Head of Standard Chartered Bank and has also worked with Bank of America and UBS) as the Executive Chairman of CCL, the Group is planning to focus on the lending business which is complementary to the existing established non-fund business. In August 2016, the

management decided to shift the focus to assisting SMEs, mid-sized companies and their founders to scale up their businesses, through loan products in a variety of forms, structures and collaterals. It targets entities in metros and tier II cities, that are either in a stage of building up or diversifying and are generally not addressed sufficiently by the mainstream banking system.

As on June 31, 2019, CFSL's portfolio stood at Rs. 1,023 crore, diversified across Supply Chain (52%), Commercial Finance (34%), Real Estate (8%), Loans to Financial Intermediaries (4%), and Loan against Shares (LAS) (1%).

### Key financial indicators

CFSL	FY2018 I-GAAP	FY2019 I-GAAP
Total Income	65.33	101.94
Profit after tax (PAT)	0.39	0.48
Tangible Net worth	170.93	312.85
Total Loan Book	367.84	1,133.50
Total Assets	557.50	1,385.94
Return on average assets	0.08%	0.05%
PAT/ Average Net worth (ROE)	0.28%	0.20%
Gearing (times)	2.21	3.34

Source: Company, ICRA research

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for last three years

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					August 2019	April 2019	-
1 CP Programme	Short-Term	25.00	25.00	[ICRA]A1+(SO)	Provisional [ICRA]A1+(SO)	-	-
		75.00	75.00	Provisional [ICRA]A1+(SO)	Provisional [ICRA]A1+(SO)	-	-

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	CP Programme	-	-	7-365 days	25.00	[ICRA]A1+(SO)
NA	CP Programme	-	-	7-365 days	75.00	Provisional [ICRA]A1+(SO)

Source: Centrum Financial Services Limited

## ANALYST CONTACTS

**Abhishek Dafria**

+91 22 6114 3440

[abhishek.dafria@icraindia.com](mailto:abhishek.dafria@icraindia.com)

**Sankha Subhra Banerjee**

+91 22 6114 3420

[sankha.banerjee@icraindia.com](mailto:sankha.banerjee@icraindia.com)

**Sachin Joglekar**

+91 22 6114 3470

[sachin.joglekar@icraindia.com](mailto:sachin.joglekar@icraindia.com)

**Karthik Srinivasan**

+91 22 6114 3444

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Samriddhi Chowdhary**

+91 22 6114 3462

[samriddhi.chowdhary@icraindia.com](mailto:samriddhi.chowdhary@icraindia.com)

**Shreekiran Rao**

+91 22 6114 3469

[shreekiran.rao@icraindia.com](mailto:shreekiran.rao@icraindia.com)

## RELATIONSHIP CONTACT

**L Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

### About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents