Press Release

Capri Global Capital Ltd.

February 6, 2019

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Cash Credit	120.00	IVR AA / Stable Outlook (IVR Double A with Stable Outlook)	Assigned
Term Loans	4,380.00 (including proposed term loans of Rs.2,881.05 crore)	IVR AA / Stable Outlook (IVR Double A with Stable Outlook)	
Non-Convertible Debentures	300.00 (including proposed NCDs of Rs.225 crore)	IVR AA / Stable Outlook (IVR Double A with Stable Outlook)	
Proposed Commercial Papers	350.00	IVR A1+ (IVR A One Plus)	
Total	**5,150.00**		

Details of Facility are in Annexure 1

Detailed Rationale

The rating derives comfort from the strength of the comfortable capital structure and leverage position with well-matched ALM, experienced Board and management team, growing portfolio, profitable operations, satisfactory asset quality and broad network with strong risk management systems. The rating also takes into consideration the moderately seasoned portfolio, geographical and customer concentration in the construction finance segment and exposure to riskier segments of MSME and CF. The key rating sensitivities are asset quality, profitability and growth in scale of operation.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Comfortable capital adequacy and leverage position with well-matched ALM

The Capital Adequacy Ratio (CAR) of CGCL is still very high at 39.3% as on March 31, 2018 (53.0% as on March 31, 2017), while the Tier I CAR stood at 38.4% (52.1% as on March 31, 2017). The CAR is reduced in FY18 as the company had growth in loan assets. Though the Debt to Equity Ratio increased to 1.2x as on March 31, 2018, as compared to 0.7x as on March 31, 2017, it was still comfortable. As the company plans to grow its portfolio in the future and would be increasing its reliance on external borrowings to fund the growth, its overall gearing is expected to increase, but is likely to remain within a comfortable range. The liquidity position of the company is comfortable as there are surplus cash flow in each bucket leading to overall balanced assets and liabilities maturities.

Experienced Board of Directors

The company has made efforts to bolster its Board of Directors by inducting professionals and independent directors with experience in requisite fields. Of the seven members on its Board, six are independent directors who are accomplished professionals with careers in fields as varied as Banking, Insurance, Capital Markets and the Indian Administrative Service.

Experienced management team, though having low vintage in CGCL

CGCL has experienced personnel who have been associated with the company for long tenures, and heading different verticals relating to lending , Banking & Finance, Real Estate Investment, Risk & Portfolio Management and Investment Banking. The support functions of Accounts, Finance and Secretarial Departments are also headed by seasoned professionals with more than 10 years of experience in the lending business in various banks and NBFCs.

Growing portfolio

CGCL began its lending business in 2011 with its entry in to CF business. The company entered in to the MSME lending business in 2013 and shifted its focus from CF since then. It is evident from the increase in the proportion of MSME loans as a percentage of the total portfolio from 8% in FY13 to 59% at the end of FY18. The total disbursements in FY18 was Rs.1725 crore, as compared to Rs.1322 crore in FY17. The portfolio outstanding as on March 31, 2018 was Rs.2594 crore (Rs.1802 crore as on March 31, 2017). The entire portfolio is secured in nature.

Profitable operation

CGCL reported a Net Profit of Rs.94.3 crore in FY18, up from Rs.57.8 crore in FY17. The company steadily grew its profit level, in spite of incurring higher operating expenses, as it embarked on strengthening its branch network and headcount to have enhanced focus on MSME lending on the back of increased borrowings. The profitability margins are generally comfortable. Return on Total Assets (ROTA) for FY18 stood at 4.0% as compared to 3.6% in FY17.

Satisfactory Asset Quality

The Gross NPA and Net NPA for CGCL stood at 1.68% and 1.44%, respectively as on March 31, 2018 (0.98% and 0.84% respectively as on March 31, 2017). Currently, the NPAs are nearly entirely from the MSME segment. Any slippages from the CF segment may push the NPAs up significantly given the high ticket sizes.

Broad network coupled with strong risk management systems

CGCL has a wide network of 76 branches in eight states, mainly across the North and West of India. The company has a staff strength of over 1800 employees and is well positioned to sustain the growth in its portfolio. CGCL has adopted the best practices to build a strong risk management system supported by an efficient MIS platform for effective monitoring of its portfolio. It has a well-defined credit and operations policy in place. The credit underwriting policy ensures rigorous risk assessment with clear division of the sourcing and credit underwriting teams. Field investigation and fraud control checks are strictly followed to reinforce the focus on risk mitigation. The collection and recovery team is independent of the sourcing team to reduce the likelihood of any malpractices.

Key Rating Weaknesses

Moderate seasoning of portfolio

The company started CF lending in the beginning of FY12 by disbursing loans mainly to real estate players. Later in FY13, CGCL started lending to MSMEs with an aim to build a portfolio that qualifies for priority sector status. The company has limited track record of operations and the loan book is moderately seasoned. The company's outstanding loan portfolio grew by 44% in FY18 and stood at Rs.2594 crore as on March 31, 2018. It further grew to Rs.2978 crore as on September 30, 2018. The performance of the recently built portfolio remains to be more time tested.

Geographical concentration and customer concentration, especially in its CF business

The customer concentration in its CF lending segment is high with around 130 borrowers accounting for its entire CF portfolio of Rs.1050.1 crore as on September 30, 2018. The top 20 exposures aggregating to Rs.752.0 crore as on March 31, 2018 accounted for 22% of its entire portfolio and 61% of its tangible Net Worth.

The Delhi NCR region accounts for 39% of the MSME loans by value, while the Mumbai Metropolitan Region along with Pune accounts for around 47% of its CF loans as on September 30, 2018. As the company expands its presence, the issue of geographical concentration is expected to be addressed gradually.

Exposure to riskier segments of MSME and CF

CGCL is directly exposed to the real estate sector through the CF segment, and indirectly in the case of the MSME segment as these loans are secured by property. Though the real estate sector is relatively risky, the CF exposures are secured against cash flows and property of the real estate project of the concerned developer. The receivables from the sale of units in the projects funded by CGCL are also escrowed and a fixed proportion of these sale proceeds flow into CGCL's account. The MSME segment has shown signs of stress with the economic slowdown. The loans to this segment are backed by collateral in the form of property including residential, commercial, industrial and plots to mitigate the risk.

Analytical Approach&Applicable Criteria

Standalone Approach

Rating Methodology for Financial Institutions/NBFCs

Financial Ratios & Interpretation (Financial Sector)

Liquidity

CGCL enjoys strong liquidity with well-matched asset liability position across both short term (up to one year) and long term (greater than one year) tenure buckets. The overall gearing ratio of the company is low. The company has significant undrawn lines. As on December 31, 2018only ~61% of the total CC limits were utilised. The company has sizeable balances (Rs.175crore as on September 30, 2018) maintained as cash and liquid investments which further strengthens its liquidity profile.

About the Company

Capri Global Capital Ltd (CGCL) is a Non Deposit Taking – Systemically Important NBFC. CGCL commenced a strategic tie-up in August 2013, with Capri Investment

Group LLC – a multi-billion dollar real estate investment management firm in USA. CGCL is promoted by Mr. Rajesh Sharma, who continues as Managing Director. The company began its lending business in FY12. The shares of CGCL are listed on the BSE and NSE. CGCL lends to two main segments namely MSMEs and Construction Finance. It began lending to other NBFCs/MFIs for onward lending to retail borrowers from FY18. These loans are categorised as Indirect Retail (IR) loans.

Financials(Standalone)

(Rs. Crore)

For the year ended / Rs. Crs	**31-03-2017**	**31-03-2018**
	Audited	**Audited**
Total Income	228.8	359.6
Interest	38.0	99.2
PAT	57.8	94.3
Tangible Net Worth	1,141.5	1,229.4
Total Loan Assets	1,799.5	2,578.6
Ratios		
a. PAT Margin	25.3	26.1
b. Overall Gearing ratio	0.7	1.2

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Cash Credit	Long Term	120.00	IVR AA / Stable Outlook	--	--	--
	Term Loans	Long Term	4,380.00 (including proposed term loans of Rs.2,881.05 crore)	IVR AA / Stable Outlook	--	--	--
	Non-Convertible Debentures	Long Term	300.00 (including proposed NCDs of Rs.225 crore)	IVR AA / Stable Outlook	--	--	--
	Proposed Commercial Papers	Short Term	350.00	IVR A1+	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facility

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility(Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	120.00	IVR AA / Stable Outlook
Term Loans	-	Varied (9.15%-10.65%)	Varied (Maximum balance tenor- 84 months)	4,380.00 (including proposed term loans of Rs.2,881.05 crore)	IVR AA / Stable Outlook
Non-Convertible Debentures	-	Varied	24-36 months	300.00 (including proposed NCDs of Rs.225 crore)	IVR AA / Stable Outlook
Proposed Commercial Papers	-	-	-	350.00	IVR A1+