Press Release

CAPRI GLOBAL CAPITAL LIMITED

10 January, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Short Term Rating	SMERA A1+

** Refer Annexure for details*

Rating Rationale

SMERA has assigned the Short term rating of **SMERA A1+ (read as SMERA A one plus)** to the proposed Rs.50.00 crore CP issue of Capri Global Capital Limited (CGCL).

CGCL is a non-deposit taking systemically important (NBFC-ND-SI) financing company engaged in lending to the construction sector (Construction Funding) and SME lending (loan against property) business. The company was incorporated in 1994 andis listed on the Bombay Stock Exchange & National Stock Exchange. CGCL's Board of Directors comprises experienced professionals from financial services like Mr. Rajesh Sharma, Mr. Bipin Kabra and Mr. Desh Raj Dogra. The Chairman is Mr. Quintin E. Primo III with over three decades experience in real estate lending and investments.

The company started with wholesale lending business and has gradually diversified to SME lending since 2013, offering loan against property. The company has a loan portfolio of Rs. 2086.5Cr.as on Sep, 2017 with the SME and Construction Finance (CF) segments accounting for Rs. 1347.9Cr.and Rs. 783.6 Cr. respectively.

Key Rating Drivers

Strengths

Experienced management team

The company's senior management team comprises seasoned industry professionals having a strong background in Small and Medium Enterprises (SME) and construction lending. Over the past two fiscals, there has been a complete revamp of the company's internal organization structure with experience industry professionals brought on board in various leadership roles.

The day to day operations are overseen by Mr. Bipin Kabra, Executive Director of CGCL, having more than 25 years of experience in Banking, Insurance and Capital Markets. Mr. Surender Sangar, the Head of Construction Finance lending business has been associated with leading banks and financial institutions in the past. He has over 37 years of experience in handling Large/Mid Corporate, formulation of credit policy and restructuring. Mr. Kaushik Chatterjee is the Group Chief Risk Officer with 18 years of experience in handling risk framework for Mortgages, housing finance and construction finance and launching new products the senior management personnel are supported by professionals for carrying out the day to day functions.

Established player with presence in SME & Construction lending segment

CGCL started its lending business with a focus on construction funding i.e. construction financing to real estate players. Over the past 4 years, it has forayed into SME lending which will be the focus area and keygrowth driver of the company over the near to medium term. The Average Ticket Size of the MSME portfolio has dropped from Rs. 0.79 Crore as on Mar 31, 2015 to Rs. 0.40 Crore as on the September 30, 2017. As of September 30, 2017, the SME lending book accounted for 64.6% of its overall loan book.
In the real estate segment, the company's focus will be on small/medium sized builders with average exposure ranging between ~ Rs.20 – 25 Cr. The shift by the management towards lower ticket size loans with incremental sanctions in H1FY2018 having an average ticket size of Rs. 14 crore as compared with the average ticket size of Rs. 28 crore outstanding as on March 31, 2017.The SME segment will focus on small units/ traders with modest documentation requirements i.e. a segment which has limited access to bank finance. The increasing growth prospects for SME lending in India augurs well for companies like CGCL.

CGCL operates through a network of 45 branches with more than 1000 employee at group level across India with a presence mainly in Western, Northern and Southern regions of India. The company has put in place risk management systems and processes to support the scaling up of the loan book while maintaining the asset quality and the profitability margins.

SMERA believes that CGCL's business profile will benefit from the experience of its management team and its increasing thrust on the SME segment.

Healthy Profitability Levels

The company reported a PAT of Rs. 57.8 Cr for FY17 as against Rs. 41.2 Cr. for FY16. The profitability for FY16 was impacted by write offs of Rs. 68.8 Cr. The NIMs of the company moderated to 10.62% in FY17 (12.79% during FY16) mainly due to higher debt levels. Notwithstanding the decline in margins, the NIMs continue to be at healthy levels (vis a vis peers) mainly on account of the high capitalization levels. ROAAs continue to be comfortable at 3.56% for FY17 (3.38% during FY16).

The margins are expected to moderate over the near to medium term mainly on account of expected lower NIMs and high operating costs. Hitherto, CGCL has relied on its own funds for the loan book growth. However, going forward CGCL will be required to fund its loan book expansion through additional debt intake. This in turn will impact its NIMs. Besides the higher debt funded expansion, the higher operating costs (due to focus on SME segment) will also impact the margins. The increasing competition from banks and NBFCs will also result in margin pressures.

SMERA believes that CGCL's ability to maintain its margins in a competitive landscape will depend on its ability to raise funds at a competitive cost and keep its operating cost and expenses under control.

Weaknesses

Vulnerability of asset quality

The Gross NPA (GNPA) for the company stood at 0.98% as on Mar 31, 2017 up from 0.88% as on Mar 31, 2016; the GNPA ratio further declined to 1.84% as on Sep 30, 2017 largely driven by change in NPA recognition norms from 120 days to 90 days and fresh slippages.The Gross NPAs stood at Rs. 36.52 cr as on Sep 30, 2017 up from Rs. 17.84 cr as on Mar 31, 2017of which Rs. 9 cr in CF segment and Rs. 27.52 cr in SME segment..

Besides the asset quality pressures in construction finance segment the delinquency in the SME segment is also on the rise. The NPAs of the SME segment increased from 1.48% (of total SME advances) in March 2017 to 2.03 % as on September 2017.The SME portfolio is yet to be adequately seasoned as a major portion of the SME exposures have been initiated in FY17 & H1FY18. CGCL's ability to scale up its

SME portfolio while maintaining a healthy return and asset quality will be critical to its future profitability.

Significant exposure to real estate sector

CGCL has been focusing more on the SME lending segment as a derisking strategy. However its loan portfolio still has a significant exposure to real estate segment.

As on September 30, 2017 the company's construction lending comprised of 35.4% of the total loan portfolio (33.3% as on March 31, 2017). The real estate sector has been facing a challenging operating environment which has impacted the demand for real estate and the cash flows and credit profiles of the realtors. Though these exposures are secured by way of a mortgage of the immovable properties, the overall tepid environment limits the lender's flexibility to unwind such exposures in the event of a distress. CGCL's exposure of Rs. 738.6 Cr.as on Sep 30, 2017 was spread across 51 clients.

Though, the company has diversified into SME segment, which is more granular and less risky. The portfolio of the company has ~65% exposure to the SME segment with an average ticket size of 40 lakh. Going forward, with more disbursement in the segment the overall riskiness of the portfolio is expected to reduce.

CGCL's ability to curtail its real estate exposure and expand the overall loan book by focusing on SME segment while maintaining a healthy asset quality will be crucial to maintenance of a stable credit profile.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of the company.

About the Rated Entity - Key Financials

	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	1944.65	1303.88	1132.53
Total Income	Rs. Cr.	193.66	174.70	187.46
PAT	Rs. Cr.	57.78	41.21	85.18
Net Worth	Rs. Cr.	1143.81	1086.03	1033.14
Return on Assets (RoA)	(%)	3.56	3.38	15.04
Return on Net Worth(RoNW)	(%)	5.18	3.89	16.49
Total Debt/Tangible Net Worth (Gearing)	Times	0.64	0.13	0.05
Gross NPA	(%)	1.0	0.9	1.0
Net NPA	(%)	0.8	0.8	0.9
Net Worth/ Net NPA	Times	75.30	130.53	123.88

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- DefaultRecognition-https://www.smera.in/criteria-default.htm
- Non - Banking Financing Entities -https://www.smera.in/criteria-nbfc.htm

Note on complexity levels of the rated instrument
https://www.smera.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Proposed Commercial Paper	Not Applicable	Not Applicable	Not Applicable	50.00	SMERA A1+

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ABOUT SMERA

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