

Press Release

Centrum Financial Services Limited

October 18, 2021

Assigned and Reaffirmed



Total Facilities Rated	Rs.50.00 Cr.
Long Term Rating	ACUITE A- Under watch with developing implications (Reaffirmed)
Commercial Paper Programme	Rs.25.00 Cr.
Short Term Rating	ACUITE A2+ (Assigned) Under watch with developing implications

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs.50.00 Cr. bank facilities of Centrum Financial Services Limited (CFSL). The rating continues to be '**under watch with developing implications**'.

Further, Acuite has assigned the short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.25.00 Cr Proposed Commercial Paper Programme of CFSL. The rating is placed '**under watch with developing implications**'.

The Reserve Bank of India (RBI) has issued a Small Finance Bank licence on October 12, 2021 to the consortium of the Centrum Group and BharatPe. The new SFB has been incorporated as "Unity Small Finance Bank (Unity SFB)". All the assets and liabilities of CFSL and Centrum Microcredit Limited (CML) will be transferred to Unity SFB for 51% stake of the Group and Bharat Pe will be infusing capital for its 49% stake.

The details related to the scheme of amalgamation of PMC bank into SFB are not known to Acuite at this point of time. Further, Business Transfer Agreements are yet to be executed between CFSL/ CML & Unity SFB for transfer of CFSL and CML assets & liabilities to Unity SFB.

Acuite will continue to engage with CFSL's management to understand the contours and monitor the progress. Acuite will resolve the watch once clarity emerges on the takeover of assets and liabilities of Punjab and Maharashtra Co-operative Bank (PMC Bank) and outcome on the credit profile and business profile of Centrum Group is ascertained.

The rating takes into account Centrum Group's established track record in financial services with diversified business profile adequate capitalisation levels with the group's gearing of 3.22 times as on March 31, 2021 (2.76 times as on March 31, 2020). The rating also factors in the group's strategic focus to scale up its wealth management business and granularise CFSL's portfolio with gradual shift from wholesale SME lending to retail MSME and SCF lending reflective in retail segment share of 52.0% of the AUM as on March 31, 2021 (44.9% of the AUM as on March 31, 2020). For Q1FY2022, lower disbursements in SCF segment on account of Covid-19 pandemic stress led to decline in share of SCF segment to 34.5% and consequently retail segment share to 48.9% as on June 30, 2021. The rating also takes into account CFSL's resource raising ability with the company raising debt aggregating to Rs.477 Cr. during FY2021 from multiple financial institutions.

The rating is partially offset by modest scale of operations coupled with limited seasoning of its portfolio of CFSL with GNPA at 1.5% as on March 31, 2021 (2.2% as on March 31, 2020) given that its operations gained momentum in recent years. The GNPA stood at 1.5% as on June 30, 2021. The

rating is further constrained by high concentration in wholesale segment as reflected in top 10 wholesale SME borrowers constituting about 26.9% of the total AUM as on June 30, 2021. Acuite takes cognizance of the company's strategy to downsize its wholesale portfolio and gradually build its retail MSME and SCF portfolio including engaging with financial institutions for lending under co-origination model which will keep it asset light and provide granularity to loan portfolio. Although the earnings' profile of the Group continued to remained subdued with losses of Rs.6.9 Cr. for Q1FY2022 (FY2021: losses of Rs.41.8 Cr. FY2020: Losses (excluding exceptional items of Rs.68.0 Cr.) of Rs.67.3 Cr.), it is expected that earnings' profile will gain traction on account of turnaround in wealth management businesses with Asset (Distributed/ Managed/Advised) of Rs.26,000 Cr. as on March 31, 2021 and sustained focus on lending businesses. Nonetheless, the ability of the Group to sustain improvement in its earnings' profile while maintaining potential asset quality risks in the current operating environment and intense competition in retail segment would remain key rating monitorable.

About the Group

Centrum Capital Limited (CCL), the holding company of Centrum Group, was incorporated in 1997 and has diversified its line of operations across various fund based and non-fund based businesses. Centrum offers a bouquet of financial services to a diversified client base including individuals and institutional investors. Its key line of business includes; Credit (Retail and Wholesale), Institutional Business (Investment Banking and Institutional Broking), Wealth Management (Private Wealth, Retail Broking and Insurance Broking) and Asset Management.

The Centrum Group comprises Centrum Capital Limited, 14 subsidiaries (including 5 step down subsidiaries) and one associate company as on March 31, 2021. The Group has a pan India presence with overseas office in Singapore, Hong Kong and Mauritius.

About the Company:

Incorporated in 1993, Centrum Financial Services Ltd., is a Mumbai-based Systematically Important Non-Banking Financial Company (ND-SI NBFC) of Centrum Group. The company is a wholly owned subsidiary of Centrum Retail Services Limited (CRSL) and became systematically important in 2017. The company's lending business is divided into three categories, namely SME, Supply Chain Finance (SCF) and MSME, catering to clients based in Metros, Tier I and II cities through loan products in a variety of forms, structures and collaterals. The company has a network of 7 branches spread across seven states namely, Maharashtra, New Delhi, West Bengal, Tamil Nadu, Gujarat, Telangana and Karnataka and reported Assets Under Management (AUM) of about Rs.849 Cr. as on March 31, 2021.

Analytical Approach

Acuite has taken a consolidated view on the business and financial risk profiles of Centrum Capital Limited and its subsidiaries, Centrum Financial Services Ltd. and others. The consolidation is in view of shared brand and strong operational and financial synergies between the group companies (Refer Annexure 2).

Extent of Consolidation: Full

Key Rating Drivers:

Strengths:

- **Strong Parentage and Diversified Product Offerings**

Centrum Group is engaged in financial services industry for over two decades and has a diverse business profile in financial services with presence in both fees based and fund based services. The fee based business spans across investment banking, broking, wealth

management, insurance broking and asset management. The investment banking business includes loan syndication, corporate debt restructuring, mergers and acquisitions, corporate advisory services, infrastructure advisory solutions and private equity and is carried out through Centrum Capital Limited (CCL), flagship company of the Group and forayed into asset management in 2019. The wealth management business, which commenced in 2011, offers family office, distribution and corporate treasury services to a wide spectrum of clients including individuals, family offices and institutions and has Assets (Distributed/Managed/Advised) of about Rs.26,000 Cr. as on March 31, 2021. The group's insurance broking business has tie ups with twenty five insurance companies (seven life insurance, fourteen general insurance and four health insurance partners). Equity broking services in secondary markets including IPOs/QIPs are offered to retail and institutional investors. The Group's fund based businesses i.e SME lending, affordable housing finance and microfinance are carried out independently through CFSL (non-banking financial company), Centrum Housing Finance Limited (a housing finance company) and Centrum Microcredit Limited (a microfinance institution) respectively. Most of the businesses of the group present significant synergies amongst themselves and growth potential both on the assets and liabilities side. The access to a pool of HNIs can be leveraged to create fund-based structures which can be utilized to support the AUM growth of the group.

- **Experienced Management Team**

The Group is led by qualified and experienced management team having vast experience in banking and financial services. The Group is being led by Mr. Jaspal Bindra former Asia Pacific CEO at Standard Chartered Bank in the role of Executive Chairman of the Group and Mr. Chandir Gidwani, the promoter of the Group. Mr. Ranjan Ghosh, Managing Director (MD) of CFSL since 2016, is the former MD and Global Head of Banks, Financial Institutions Group for Standard Chartered Bank. CFSL's board comprising seven members including four independent directors along with senior management team have considerable experience in banking and financial services.

- **Adequate capitalisation and gearing levels**

CFSL's draws strength from the Group in the form of funding support and received capital aggregating to Rs.200.4 Cr. since FY2018 (including Rs.15.1 Cr. through Compulsory Convertible Debentures). Concomitantly, the network (including compulsory convertible debentures) stood at Rs.318.3 Cr. as on March 31, 2021 (Rs.314.4 Cr. as on March 31, 2020). Against this, outstanding debt stood at Rs.737.4 Cr. as on March 31, 2021 (Rs.701.0 Cr. as on March 31, 2020) translating to gearing ratio of 2.32 times as on March 31, 2021 (2.23 times as on March 31, 2020). During FY2021, CFSL raised debt of about Rs.477 Cr. from multiple financial institutions including public sector banks in the form of term loans, NCDs under TLTRO and PCG backed schemes, Commercial paper/ Pass Through certificates (CPs/PTCs) and Market Linked Debentures (MLDs). Consequently, the company's dependence on Market Linked Debenture (MLD) borrowings reduced to 55.7% of the outstanding debt as on March 31, 2021 from 70.1% of the outstanding debt as on March 31, 2020, while increasing its bank borrowings to 36.4% of the outstanding debt from 11.1% of the outstanding debt in the same period. Outstanding debt stood at Rs.631.3 Cr. as on June 30, 2021, of which MLDs shares stood at 57.6% of the outstanding debt. Acuite understands that the company is in talks with multiple lenders to raise additional debt which is expected to further diversify its resource profile. Capital Adequacy Ratio (CAR) stood at 30.69% as on March 31, 2021 (25.27% as on March 31, 2020) with Tier I Ratio at 24.03% as on March 31, 2021 (23.43% as on March 31, 2020). The improvement in CAR is primarily on account of Rs.50 Cr. funding in the form of Tier II Capital from Resilient Innovations Private Limited (Bharat Pe).

At consolidated level, the Group is adequately capitalised with network (including compulsory convertible debentures) Rs.593.6 Cr. and gearing of 3.22 times as on March 31, 2021

(Rs.634.7 Cr. and gearing of 2.76 times as on March 31,2020). The Group has demonstrated its ability to raise capital with sale of foreign exchange business for Rs.1200 Cr. to Ebix Inc. during FY2018 and dilution of 25% stake in Centrum Housing Finance Limited to a PE fund of Morgan Stanley for Rs.200 Cr.

Acuité believes that while the capitalisation levels are expected to moderate as the Group scales up its operations, its ability to sustain it at comfortable levels in the medium term will be a key monitorable.

Weaknesses:

- **Modest Scale of operations and limited portfolio seasoning**

CFSL's key product offerings are categorised into wholesale and retail segments. The retail segment (52.0% of the AUM as on March 31,2021) comprises Supply Chain Financing (SCF) (38.8% of the AUM as on March 31,2021) acquired from L&T Finance in 2018, having tenor ranging 90-120 days with average ticket size of Rs.1.35 Cr. and MSME lending (13.2% of the AUM as on March 31,2021) launched in 2019 with average ticket size of Rs.0.19 Cr. and average tenor of 5 years. On other hand, wholesale segment (47.9% of the AUM as on March 31,2021) which has relatively higher average ticket size of Rs.12.35 Cr. is sub-categorised into lending to Financial Intermediaries, Real Estate lending and Commercial Lending. This segment has high concentration as reflected in top 10 wholesale SME borrowers constituting about 26.9% of the total AUM as on March 31,2021. The share of top 10 wholesale SME borrowers stood at 26.9% as on June 30,2021. Acuité takes cognizance of the company's strategy to downsize its wholesale portfolio and gradually build its retail MSME and SCF portfolio, also reflective in increased retail segment share at 52.0% of the AUM as on March 31,2021 (44.9% of the AUM as on March 31,2020). For Q1FY2022, lower disbursements in SCF segment on account of Covid-19 pandemic stress led to decline in share of SCF segment to 34.5% and consequently retail segment share to 48.9% as on June 30,2021. Acuité understands that the company is also engaging with financial institutions for lending under co-origination model which will keep it overall portfolio asset light and provide granularity to loan portfolio.

CFSL's GNPA stood at Rs.12.8 Cr. (1.5% as on March 31,2021) as against Rs.19.2 Cr. (2.2% as on March 31,2020). The GNPA stood at Rs.12.1 Cr. (1.5% as on June 30,2021). While Acuité takes cognizance of the improvement in asset quality due to reduced incremental exposure to large and medium exposures coupled with no slippages, given that all the segments were recently started, overall portfolio has less seasoning and the ability of the company to contain asset quality risks as portfolio seasons in the light of evolving operating environment will remain key monitorable.

- **Moderate Earnings Profile**

CFSL reported subdued profitability in FY2021 with PAT at Rs.1.8 Cr. for FY2021 as compared to Rs.8.2 Cr. for FY2020. This decline is due to subdued interest income of Rs.116.4 Cr. (Rs.141.9 Cr. during FY2020) on the back of lower disbursements (about Rs.1702 Cr. during FY2021 as against about Rs.3,113 Cr. during FY2020) as company tightened credit underwriting standards amid

Covid-19 induced uncertainty. Further, net unrealised expense of Rs.7.9 Cr., in the nature of unrealised loss on MLDs (marked-to market) and unrealised gain in investments further led to decline in profitability. Acuite takes note of cost optimisation measures undertaken by the company as reflected in Opex to earning assets ratio in FY2021 to 4.4% in FY2021 which had spiked to 5.2% in FY2020 (2.6% in FY2019) on account of additional infrastructure and manpower costs for MSME portfolio. For Q1FY2022, the company reported PAT of Rs.0.2 Cr. on a total income of Rs.33.0 Cr..

At consolidated level, the Group reported losses of Rs.41.8 Cr. during FY2021 (FY2020: Losses (excluding exceptional items of Rs.68.0 Cr.) of Rs.67.3 Cr.). For Q1FY2022, losses stood at Rs.6.9 Cr. on total income of Rs.136.3 Cr. While the profitability continues to remain subdued, it is expected that earnings' profile will gain traction on account of turnaround in investment banking and wealth management businesses and sustained focus on lending businesses. Nonetheless, Acuite takes note of volatility in earnings of fee-based business given its strong linkage with capital markets.

Acuite believes that Group's ability to sustain improvement in earnings' profile while maintaining potential asset quality risks in the current operating environment and intense competition in the retail segment will be key rating monitorable.

Rating Sensitivities

- Movement in profitability
- Movement in capitalization and liquidity levels
- Asset quality pressures

Material Covenants

Centrum Group is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others. As per confirmation received from the company via email dated October 14, 2021, "The Group is adhering to all terms and conditions stipulated as covenants by all its lenders/investors."

Liquidity Position: Adequate

CFSL has well matched liquidity profile based with no negative cumulative mismatches across time buckets as on March 31, 2021. The company reported cash and cash equivalents of Rs.61.3 Cr. and unutilised lines of Rs.1 Cr. as on August 31, 2021 against debt obligations of Rs.19.4 Cr. for four months ended December 2021.

At consolidated level, the Group reported cash and liquid investments of Rs.331.9 Cr. and unutilised bank lines of Rs.155.9 Cr. as on August 31, 2021 against debt obligations of Rs.212.9 Cr. for four months ended December 2021.

Outlook: Not Applicable

About the Rated Entity Financials – CCL (Consolidated)

	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	3108.5	2875.4
Total Income*	Rs. Cr.	274.7	281.6
PAT	Rs. Cr.	-41.8	0.7
Networth (including Compulsory Convertible Debentures)	Rs. Cr.	593.6	634.74
Return on Average Assets (RoAA)	(%)	-1.40	0.03
Return on Net Worth (RoNW)	(%)	-6.81	0.11

Total Debt/Tangible Net Worth (Gearing)	Times	3.22	2.76
Gross NPA's	(%)	**	**_
Net NPA's	(%)	_**	**_

*Total income equals to Total Income net off interest expense

Ratios as per Acuité calculations

**Not Applicable

About the Rated Entity Financials - CFSL (Standalone)

	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	1147.6	1072.3
Total Income*	Rs. Cr.	48.1	61.7
PAT	Rs. Cr.	1.8	8.2
Networth (including Compulsory Convertible Debentures)	Rs. Cr.	318.3	314.4
Return on Average Assets (RoAA)	(%)	0.16	0.68
Return on Net Worth (RoNW)	(%)	0.57	2.66
Total Debt/Tangible Net Worth (Gearing)	Times	2.32	2.23
Gross NPA's	(%)	1.5	2.2
Net NPA's	(%)	0.6	0.9

*Total income equals to Total Income net off interest expense

Ratios as per Acuité calculations

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

None

Any other information

Not Applicable

Applicable Criteria

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
 - Commercial Paper: <https://www.acuite.in/view-rating-criteria-54.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
August 06, 2021	Term Loan	Long Term	7.50	ACUITE A-/Rating under watch with developing implications (Reaffirmed)
	Term Loan	Long Term	25.00	ACUITE A-/ Rating under watch with developing implications (Reaffirmed)
	Term Loan	Long Term	16.17	ACUITE A-/ Rating under watch with developing implications (Reaffirmed)
	Proposed Facility	Long Term	1.33	ACUITE A-/ Rating under watch with developing implications (Reaffirmed)
23-Jul-21	Term Loan	Long Term	7.50	ACUITE A-/Rating under watch with developing implications (Reaffirmed)
	Term Loan	Long Term	25.00	ACUITE A-/ Rating under watch with developing implications (Reaffirmed)
	Term Loan	Long Term	16.17	ACUITE A-/ Rating under watch with developing implications (Reaffirmed)
	Proposed Facility	Long Term	1.33	ACUITE A-/ Rating under watch with developing implications (Reaffirmed)
16-Jun-21	Term Loan	Long Term	7.50	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	25.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	16.17	ACUITE A-/Stable (Assigned)
	Proposed Facility	Long Term	1.33	ACUITE A-/Stable (Assigned)

Annexure 1 - Details of Instruments rated

Bank Facilities

Lender Name	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outlook
Ratnakar Bank Ltd (RBL)	Term Loan	31-12-2019	9.20%	31-Dec-21	7.50	ACUITE A- (Under watch with developing implications) (Reaffirmed)

Union Bank of India - Andhra Bank	Term Loan	28-08-2020	10.90%	30-Mar-25	25.00	ACUITE A- (Under watch with developing implications) (Reaffirmed)
State Bank of India	Term Loan	21-03-2020	10.90%	4-Feb-25	16.17	ACUITE A- (Under watch with developing implications) (Reaffirmed)
Not Applicable	Proposed Facility	Not Applicable	Not Applicable	Not Applicable	1.33	ACUITE A- (Under watch with developing implications) (Reaffirmed)

Commercial Paper Programme

Lender Name	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A2+ (Assigned) Under watch with developing implications

Annexure 2

The following subsidiaries and associate of CCL have been considered for consolidation: As on March 31, 2021

Sr.No.	Name of Entity	Relationship with CCL
1	Centrum Retail Services Limited (formerly known as Centrum Retail Financial Services Limited)	Subsidiary
2	Centrum Broking Limited	Subsidiary
3	Centrum Microcredit Limited (formerly known as Centrum Microcredit Private Limited)	Subsidiary
4	Centrum Housing Finance Limited	Subsidiary
5	Centrum International Services PTE	Subsidiary
6	Centrum Alternatives LLP India	Subsidiary
7	Centrum Capital International Limited (formerly known as Commonwealth Centrum Advisors Limited)	Subsidiary
8	Centrum Alternative Investment Managers Limited	Subsidiary
9	Centrum Capital Advisors Limited	Subsidiary
10	Centrum Insurance Brokers Limited	Step Down Subsidiary
11	Centrum Investment Advisors Limited	Step Down Subsidiary
12	Centrum Wealth Limited (formerly known as Centrum Wealth Management Limited)	Step Down Subsidiary
13	Centrum Financial Services Limited	Step Down Subsidiary
14	Acorn Fund Consultants Private Limited	Associate
15	CCAL Investment Management Limited	Step Down Subsidiary

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About Acuite Ratings & Research:

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