

Press Release

Centrum Microcredit Limited

October 22, 2021

Rating Reaffirmed



Total Facilities Rated	Rs.230.00 Cr.
Proposed Bank Facility	Rs.150.00 Cr.
Long Term Rating	ACUITE A- Under watch with developing implications (Reaffirmed)
Proposed Bank Facility	Rs.50.00 Cr.
Long Term Rating	ACUITE A- Under watch with developing implications (Reaffirmed)
Proposed Commercial Paper Programme	Rs.30.00 Cr.
Short Term Rating	ACUITE A2+ Under watch with developing implications (Reaffirmed)

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE A-' (read as ACUITE A minus)**' on the Rs.150.00 Cr. proposed bank facilities and reaffirmed the long term rating of '**ACUITE A-' (read as ACUITE A minus)**' on the Rs.50.00 Cr. proposed bank facilities of Centrum Microcredit Limited (CML). The rating continues to be '**under watch with developing implications**'.

Acuité has reaffirmed the short term rating of '**ACUITE A2+' (read as ACUITE A two plus)**' on the Rs.30.00 Cr. proposed Commercial Paper Programme. The rating continues to be '**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". All the assets and liabilities of CFSL and 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 Acuité 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.

Acuité will continue to engage with Centrum Group's management to understand the contours and monitor the progress. Acuité 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 the 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 of CFSL 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 CML's resource

raising ability with the company raising debt (including securitisation and direct assignment transactions) aggregating to Rs.288.3 Cr. during FY2021 from multiple financial institutions.

The rating is partially offset by moderate earnings profile of CML with profit after tax (PAT) of Rs.0.2 Cr. for Q1FY2022 (Rs.0.9 Cr. for FY2021), modest portfolio size and asset quality challenges in tepid operating environment. CML's portfolio delinquencies in 30dpd+ and 90dpd+ as on September 30,2021 stood at 18.32% and 1.15% respectively. While the collection efficiency (current month basis) has sequentially shown steady improvement (68.30%, 70.88% and 82.97% for July, August and September 2021 respectively), this has been partially on account of restructuring carried out under RBI Resolution framework 1.0 and 2.0, which collectively stood at about Rs.69 Cr. (15% of the portfolio as on September 30,2021). Acuité believes the ability of the Group to manage asset quality and maintain and improve collections given the evolving operating environment will remain key monitorable. At the Group level, 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.), 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 2016, Centrum Microcredit Ltd., is a Mumbai-based Non-Banking Financial Company- Micro Finance Institution (NBFC-MFI) of Centrum Group. The company is a wholly owned subsidiary of Centrum Capital Limited (CCL). The company is engaged in providing microfinance services to women borrowers in rural and urban areas through JLG model started off its operations by acquisition of microfinance portfolio of about Rs.105 Cr. of FirstRand Bank India in December 2017 followed by another acquisition of microfinance portfolio of about Rs.92 Cr. of Altura Financial Services Ltd. in November 2019. The company has a network of 130 branches spread across nine states namely, Maharashtra, Gujarat, Odisha, Bihar, Jharkhand, West Bengal, Haryana, Chhattisgarh and Rajasthan and reported Assets Under Management (AUM) of about Rs.451 Cr. as on September 30,2021.

Analytical Approach

Acuité 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. Prashant Thakker, CEO and Executive Director (ED) of CML, is the former Global Head of Microfinance, for Standard Chartered Bank. CML's board comprises six members including two independent directors along with senior management team have considerable experience in banking and financial services.

- **Adequate capitalisation and gearing levels**

CML draws strength from the Group in the form of funding support and received capital aggregating to Rs.108.5 Cr. since 2017. Concomitantly, the networth (including compulsory convertible debentures of Rs.29.1 Cr.) stood at Rs.107.4 Cr. as on March 31, 2021 (Rs.101.3 Cr. as on March 31, 2020). Against this, outstanding debt stood at Rs.379.2 Cr. as on March 31, 2021 (Rs.410.2 Cr. as on March 31, 2020) translating to gearing ratio of 3.53 times as on March 31, 2021 (4.05 times as on March 31, 2020). In FY2021, the company raised debt (including securitisation and direct assignment transactions) aggregating Rs.288.4 Cr. from Banks and FIs including NBFCs. Outstanding borrowings stood at Rs.379.4 Cr. as on June 30, 2021 with a gearing of 3.52 times. 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 23.33% as on March 31, 2021

(18.96% as on March 31, 2020) with Tier I Ratio at 12.24% as on March 31, 2021 (10.18% as on March 31, 2020). The improvement in CAR is primarily on account of funding in the form of Tier II Capital from the Group.

At consolidated level, the Group is adequately capitalised with networth (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.

Acuite 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:

- **Moderate Earnings Profile**

CML reported subdued profitability in FY2021 with PAT at Rs.0.9 Cr. for FY2021 as against Rs.5.4 Cr. for FY2020. While marginal improvement was seen in Net Interest Income (NII) at Rs.38.7 Cr. during FY2021 as against Rs.36.5 Cr. during FY2020, spike in credit costs to Rs.5.6 Cr. from Rs.1.5 Cr. primarily led to decline in profitability. Furthermore, Opex to earning assets ratio rose to 8.4% in FY2021 from 7.3% in FY2020. For Q1 FY2022, the company reported PAT of Rs.0.2 Cr. on total income of Rs.22.5 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 Q1 FY2022, 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.

- **Challenges to grow portfolio and maintain asset quality in tepid operating environment**

CML primarily extends micro finance loans to women borrowers with lack of access to formal credit in the rural and urban areas through the JLG model. Given the credit profile of microfinance borrowers, any impact on the income flow of these households as a result of economic shocks could impair their repayment ability. The company reported portfolio of Rs.459.2 Cr. as on March 31, 2021 (Rs.468.8 Cr. as on March 31, 2020 and Rs.217.5 Cr. as on March 31, 2019). In FY2021, the portfolio declined on account of lower disbursements primarily due to impact of Covid-19 pandemic. Disbursements stood at Rs.326.7 Cr. during FY2021 (Rs.410.3 Cr. during FY2020). While the portfolio declined marginally to Rs.451.4 Cr. as on September 30, 2021, disbursement levels steadily picked up from June 2021 with disbursements for September 2021 at about 56% of that in March 2021. On the asset quality front, while portfolio delinquencies i.e 30dpd+ and 90dpd+ deteriorated to 18.32% and 1.15% respectively as on September 30, 2021 (5.78% and 0.43% as on March 31, 2021) primarily on account of impact of second wave of Covid-19 pandemic, collection efficiency (current month basis) has sequentially shown steady improvement

(68.30%, 70.88% and 82.97% for July, August and September 2021 respectively). This improvement has been partially on account of restructuring carried out under RBI Resolution framework 1.0 and 2.0, which collectively stood at about Rs.69 Cr. (15% of the portfolio as on September 30, 2021). The performance of restructured book besides overall book in the near term will be monitored.

Acuite believes the ability of the Group to manage asset quality and maintain and improve collections given the evolving operating environment will remain key monitorable.

Rating Sensitivities

- Growth in fund-based and fee-based revenues of the Group
- Movement in profitability
- Movement in capitalization and liquidity levels
- Asset quality pressures
- Changes in Regulatory environment

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 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

CML has well matched liquidity profile based with no negative cumulative mismatches across time buckets as on March 31, 2021. As on August 31, 2021, the company reported liquid assets of Rs.46.9 Cr. and unutilised lines of Rs.50 Cr. against debt obligations of Rs.124.2 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

****Not Applicable**

Ratios as per Acuite calculations

About the Rated Entity Financials - CML (Standalone)

	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	508.9	519.4
Total Income*	Rs. Cr.	42.8	40.1
PAT	Rs. Cr.	0.9	5.4
Networth (including Compulsory Convertible Debentures)	Rs. Cr.	107.39	101.3
Return on Average Assets (RoAA)	(%)	0.18	1.33
Return on Net Worth (RoNW)	(%)	0.86	6.46
Total Debt/Tangible Net Worth (Gearing)	Times	3.53	4.05
Gross NPA's	(%)	0.91	0.27
Net NPA's	(%)	0.15	0.01

*Total income equals to Total Income net off interest expense

Ratios as per Acuite 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	Proposed Bank Facility	Long Term	50.00	ACUITE A- (Under watch with developing implications) (Reaffirmed)
	Proposed Bank Facility	Long Term	150.00	ACUITE A- (Under watch with developing implications)

				(Reaffirmed)
	Proposed Commercial Paper Programme	Short Term	30.00	ACUITE A2+ (Assigned)
July 26,2021	Proposed Bank Facility	Long Term	50.00	ACUITE A-/Under watch with developing implications) (Assigned)

Annexure- Details of Instruments rated

Lender Name	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A- (Under watch with developing implications) (Reaffirmed)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A- (Under watch with developing implications) (Reaffirmed)
Not Applicable	Proposed Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2+ (Under watch with developing implications) (Reaffirmed)

Annexure 2

The following subsidiaries 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 Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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