

Press Release

Centrum Microcredit Limited

July 18, 2022



Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	200.00	ACUITE A- Reaffirmed & Withdrawn	-
Commercial Paper (CP)	30.00	-	ACUITE A2+ Reaffirmed & Withdrawn
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	230.00	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs.200.00 Cr. proposed bank facilities of Centrum Microcredit Limited (CML).

Acuite has reaffirmed and withdrawn the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.30.00 Cr. proposed Commercial Paper Programme of Centrum Microcredit Limited (CML).

This rating withdrawal is in accordance with the Acuite's policy on withdrawal of rating. The rating is being withdrawn on account of request received from the company and NOC received from banks.

Unity Small Finance Bank Limited ("UNITY SFB"), incorporated on Aug 25, 2021 was granted a Small Finance Bank licence on October 12, 2021 by Reserve Bank of India (RBI). UNITY SFB is formed as the consortium of Centrum Financial Services Ltd. (CFSL), MSME lending arm of Centrum Group and Resilient Innovations Private Ltd. (RIPL) ('Bharat Pe'). As a part of the arrangement to operationalize this license, all the assets and liabilities of CFSL and Centrum Microcredit Limited (CML) have been transferred to UNITY SFB for 51% stake via business transfer agreement with effect from November 1, 2021 while Bharat Pe has infused capital as cash for its 49% stake.

The rating takes into account the Group's established track record in financial services with diversified business profile. 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. 189.94 Cr. during FY2022 (includes the banking business post amalgamation), (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 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 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) were transferred to Unity SFB w.e.f November 01, 2021 via business transfer agreement. Punjab and Maharashtra Co-operative Bank Ltd. (PMC Bank) got amalgamated with Unity SFB with effect from January 25, 2022. 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.

About the Group

Centrum Capital Limited (CCL), the holding company of Centrum Group, was incorporated in 1997 and currently promoted by Mr. Chandir Gidwani, who is the founder and the chairman, along with Mr. Jaspal Singh Bindra, The Executive Chairman, 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.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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)

Key Rating Drivers

Strength

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 fundbased 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. Acuité 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.

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.

Weakness

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 Q1FY2022, 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. 189.94 Cr. during FY2022 (includes the banking business post amalgamation) against 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, Acuité takes note of volatility in earnings of fee-based business given its strong linkage with capital markets.

Acuité 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 disbursals 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.

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.

Rating Sensitivity

- 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

Key Financials - Standalone / Originator

	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 Acuité calculations

Key Financials (Consolidated)

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	11709.45	3108.5
Total Income*	Rs. Cr.	373.66	274.7
PAT	Rs. Cr.	-189.94	-41.8
Net Worth	Rs. Cr.	674.90	579.50
Return on Average Assets (RoAA)	(%)	-2.56	-1.40
Return on Average Net Worth (RoNW)	(%)	-30.28	-6.96
Debt/Equity	Times	9.06	3.32
Gross NPA	(%)	**	**
Net NPA	(%)	**	**

*Total income equals to Net Interest Income plus other income

Ratios as per Acuité calculations

^FY22 consolidated figures include recently amalgamated banking business of PMC Bank

**Not Applicable

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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Oct 2021	Proposed Commercial Paper Program	Short Term	30.00	ACUITE A2+ (Ratings Under Watch)
	Proposed Bank Facility	Long Term	50.00	ACUITE A- (Ratings Under Watch)
	Proposed Bank Facility	Long Term	150.00	ACUITE A- (Ratings Under Watch)
06 Aug 2021	Proposed Term Loan	Long Term	50.00	ACUITE A- (Ratings Under Watch)
	Proposed Commercial Paper Program	Short Term	30.00	ACUITE A2+ (Assigned)
	Proposed Bank Facility	Long Term	150.00	ACUITE A- (Ratings Under Watch)
26 Jul 2021	Proposed Term Loan	Long Term	50.00	ACUITE A- (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2+ Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A- Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A- Reaffirmed & Withdrawn

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

The following subsidiaries of CCL have been considered for consolidation: As on March 31, 2022

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	Subsidiary
11	Centrum Investment Advisors Limited	Subsidiary
12	Centrum Wealth Limited (formerly known as Centrum Wealth Management Limited)	Subsidiary
13	Centrum Financial Services Limited	Subsidiary
14	Acorn Fund Consultants Private Limited	Associate
15	CCAL Investment Management Limited	Subsidiary
16	Unity Small Finance Bank Limited	Subsidiary
17	Centrum ESPS Trust	Trust
18	Ignis Capital Advisos Limited	Subsidiary

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294041 mohit.jain@acuite.in Yash Bhalotia Analyst-Rating Operations Tel: 022-49294065 yash.bhalotia@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.