CARE Ratings
Professional Risk Opinion

**CARE/HO/RL/2020-21/3087**
**Mr. Prashant Thakker,**
**CEO and Executive Director,**
**Centrum Microcredit Limited**
Level 4, Office 402, 4th floor,
Neelkanth Corporate Park,
Kirol road, Vidyavihar (W)
Mumbai- 400086

November 03, 2020

**Confidential**

Dear Sir,

**Credit rating for Long-term Debt**

1. On the basis of recent developments including operational and financial performance of your company for FY20 (audited) and Q1FY21 (unaudited) our Rating Committee has reviewed the following rating:

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long term Bank Facilities | 200<br>(Rs. Two Hundred crore only) | **CARE BBB; Negative**<br>**[Triple B; Outlook: Negative]** | **Reaffirmed** |
| Total | **200**<br>**(Rs. Two Hundred crores only)** | | |

2. Refer **Annexure-1** for details of rated facilities.

3. Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

| Instrument type | ISIN | Issue Size (Rs cr) | Coupon Rate | Coupon Payment Dates | Terms of Redemption | Redemption date | Name and contact details of Debenture Trustee | Details of top 10 investors |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |

4. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2.** We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by **09th November 2020** we will proceed on the basis that you have no comments to offer.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

5. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
6. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the debt instruments, CARE shall carry out the review on the basis of best available information throughout the life time of such instruments. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
7. Our ratings do not factor in any rating related trigger clauses as per terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
8. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
9. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
10. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

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Encl.: As above

**Disclaimer**

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

## Annexure-1

**Details of Rated Facilities**

| Name of Bank | Type of Sanction | Sanction Amount (In Rs. Crores) | Amount Outstanding (In Rs. Crores) |
|---|---|---|---|
| YES Bank Limited | Term Loan | 15.00 | 5.00 |
| YES Bank Limited | Term Loan | 3.00 | 1.13 |
| Jana Small Finance Bank | Term Loan | 15.00 | 12.21 |
| Suryoday Small Finance Bank Ltd. | Term Loan | 5.00 | 3.54 |
| IDFC Bank Limited | Term Loan | 10.00 | 2.50 |
| IDFC Bank Limited | Term Loan | 10.00 | 3.85 |
| IDFC Bank Limited | Term Loan | 15.00 | 15.00 |
| IDFC Bank Limited | Term Loan | 15.00 | 11.50 |
| | | **Total Bank Facilities** | **54.72** |
| | | **Proposed Bank Facilities** | **145.28** |
| | | **Total** | **200.00** |

**Total long-term bank facilities as on August 31, 2020 is Rs.200 crore**

The above columns can change as per information provided by the client and acceptable to CARE.



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**Annexure-2**
**Draft Press Release**
**Centrum Microcredit Limited**
**November xx, 2020**

**Ratings**

| Facilities | Amount (Rs. crore) | Rating | Rating Action |
|---|---|---|---|
| Long term Bank Facilities | 200.00 (Rs. Two Hundred crore only) | CARE BBB; Negative [Triple B; Outlook: Negative] | Reaffirmed |
| Non-Convertible Debentures | 75.00 (Rs. Seventy Five crores only) | CARE BBB; Negative [Triple B; Outlook: Negative] | Assigned |
| Commercial Paper | 10.00 (Rupees Ten Crore only) | CARE A3+ [CARE A Three Plus] | Reaffirmed |
| Total | **285.00 (Rs. Two Hundred and eighty five crores only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The reaffirmation of ratings assigned to the bank facilities and instruments of Centrum Microcredit Limited (CML) derives strength by being part of the Centrum Group which has established presence in the financial services segment. The ratings also take into account the company's experienced management, growth in scale of operations in FY20 albeit stagnation in disbursements in H1FY21, and adequate internal control system. The rating remains constrained by susceptibility of business to event based risks like COVID-19, limited track record of operations, concentrated resource profile, moderate capitalization, stretched liquidity, geographical concentration albeit improvement due to portfolio buyout of Altura Financial Services Limited (AFSL).*

*CARE will continue to observe the performance of the portfolio in terms of collection efficiency, asset quality, and profitability, which would be key rating monitorables. CARE notes that the company had applied for moratorium for the month of Apr'20 and May'20 from its lenders and received approval for moratorium from some of the lenders.*

**Outlook: Negative**

The outlook on the long-term rating is 'Negative' on account of the heightened risk profile of the microfinance lending business, liquidity profile of the company, coupled with the challenging funding and operating environment, which could exert pressure on the credit profile of the company. The outlook may be revised to 'Stable' if the company is able to improve its collection efficiency, asset quality, diversify its resource profile and establish visibility of equity infusion.

**Rating Sensitivities**

**Factors that could lead to positive rating action / upgrade**

- Improvement in scale of business, profitability & asset quality
- Continued mobilization of resources in this challenging environment

**Factors that could lead to negative rating action / downgrade**

- Deterioration of asset quality in the portfolio.
- Deterioration  in the liquidity profile
- Significant deterioration in gearing levels
- Dilution in group support to CML's business

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Established presence of the group in the financial service segment***

CML is wholly owned subsidiary of Centrum Capital Limited (CCL). CCL is an investment banking company registered with SEBI as category I Merchant Banker with expertise across the Equity & Debt spectrums.

CCL is also the holding company of the Centrum group with investments across various segments including lending business, wealth management business, institutional business and asset management business. Centrum Wealth Management is amongst the top private wealth management firms in India. Centrum Financial Services Limited (rated CARE BBB+; Stable), has lending products such as supply chain, real estate, commercial finance and financial intermediary. Centrum Housing Finance Limited (rated CARE A-; Stable) is a housing finance company registered with NHB. As on March 31, 2020, CCL is the holding company of about 14 subsidiaries (Including step-down subsidiaries) and 1 Associate company and 1 Joint Venture.

By virtue of parent-subsidiary relationship, CML benefits from synergies arising out of shared brand name. CML receives support in the form of capital from CCL. CCL has infused Rs.21.00 crore in equity share capital in FY20.

**Experienced Management**

CML benefits on account of its experienced senior management team. The company's CEO & ED, Mr.Prashant Thakker, has over two decades of experience in financial inclusion and impact investing sector. He has prior working experience of 18 years with Standard Chartered Bank. Mr. Praveen Saha, COO and Business Head at CML has experience of more than 17 years in financial services and microfinance industry. The board of directors which is represented by Mr. Ranjan Ghosh, Mr. Rishad Byramjee, Mr. Shailendra Apte, Mr. Suresh Krishna Kodihalli, Ms. Jayshree Venkatesan, and Mr. Prashant Thakker have vast experience in finance sector.

**Growth in scale of operations albeit stagnation in disbursements in recent months due to current pandemic situation.**

CML has reported growth in interest income by 97.08% in FY20 on account of increase in volume of portfolio in FY20. Total AUM (including securitized portfolio) increased by 126% from Rs. 217.56 crore as on March 31, 2019 to Rs. 468.75 crore as on March 31, 2020. The loan book has grown both organically as well as inorganically, through microfinance portfolio buyout of Altura Financial Services Limited in November 2019. This acquisition enhanced CML franchise by 4 new states (Chhattisgarh, Haryana, Rajasthan and West Bengal), over 50,000 customers, a rural branch network of 48 branches and 225 employees.

However, due to the current pandemic, there were no disbursements till July 2020 and disbursement of only Rs. 24 crore was done in the month of August 2020. The loans outstanding on books as on June 30$^{th}$ 2020 has reduced to Rs. 435.63 crore compared to Rs. 446.95 crore as on March 31$^{st}$ 2020.

***Adequate internal control system***

CML has adopted JLG in the urban and semi-urban areas wherein it provides loans only to women. CML undertakes adequate verification and due diligence during formation of the group. Subsequently, compulsory group training is also provided by experienced personnel to train the groups on the objective, rules, regulations, procedures, rights and obligation of members and products of the credit program. Also, CML has proper credit evaluation system in place and undertakes group recognition tests which helps in reducing the time taken for loan disbursement.

***Improvement in profitability in FY20; albeit rising challenge to maintain profitability in post covid scenario***
CML reported PAT of Rs.5.40 crore in FY20, compared with a loss of Rs.0.37 crore in FY19. Interest income doubled from Rs.40.53 crore in FY19 to Rs.81.50 crore in FY20 due to increase in size of the loan portfolio. Increase in other income is due to gain on direct assignment of Rs.3.05 crore and recovery of loans written back of Rs. 2.12 crore in FY20. Net Interest Income (NII) improved from Rs.18.40 crore in FY19 to Rs.33.49 crore in FY20. With reported profit in FY20, ROTA improved to 1.40% from negative value (-0.18%) in FY19. RONW also turned positive from -1.03% reported for FY19 to 8.56% reported for FY20. The existing portfolio for disbursements upto 31st March 2020, has helped CML to report total income of Rs.27.22 crore through the lockdown. CML reported NII of Rs.11.68 crore and PAT of Rs.0.28 crore for period ending 30th June 2020.

**Key Rating Weaknesses**
***Susceptibility of business to event based risks***
The company's business operations are highly susceptible to event based risks like socio-political intervention, religious risks, regulatory risk and natural calamities. Due to pandemic situation, no new loans were disbursed from month of April 2020 to July 2020. Approximately Rs.24 crore were disbursed in the period from August2020 to September 2020. Collection efficiency dropped to below 50% during the first quarter of FY21. It has shown signs of recovery in recent months reporting 81.62% till end of September 2020, however, the collection efficiency was lower at around 70% for the state with highest business i.e. Maharashtra. Improvement in collection efficiency and disbursements remain key monitorable.

***Geographical concentration albeit improvement due to inorganic growth***
Post buyout of AFSL CML has diversified its portfolio from four to nine states. The loan portfolio was moderately diversified across geographic locations with highest concentration in three states i.e Maharashtra of 45.22% followed by 15.08% in Gujarat and 15.03% in Bihar as on March 31, 2020. It has branch network of 130 and work force of 938 as on March 31, 2020. However, majority concentration of the portfolio stills comes from Maharashtra. (44.16% as on 30th September 2020 which is around 2.29x of total networth)

***Limited track record of operations with moderate asset quality***
CML started lending operations in September 2017 and has relatively limited track record and limited seasoning of the loan portfolio. CML acquired micro finance business of FirstRand Bank (FRB) including portfolio of Rs.105 crore, 298 employees and 25 branches in December 2017. Post Altura buyout in FY20, CML operates through 130 branches across 9 states.
CML assets majorly includes unsecured loans through JLG in urban and semi urban areas. CMLs Net NPAs to Net Advances has been 0.01% for the year ended 31st March 2020. As for quarter ended June 30, 2020, CML has reported gross NPA's of Rs. 1.64 crore which forms 0.37% of the AUM. Also, reported Net NPA was Rs.0.38 crore which formed 0.09% of the AUM. Provisioning and performance of the portfolio in terms of asset quality will remain a key rating monitorable.

***Moderate capitalization and gearing levels***
Capital Adequacy of the company moderated to 18.96% as on March 31, 2020 compared to 23.40% as on March 31, 2019. CML has maintained CAR over the regulatory requirement of 15%. CML's gearing was 5.38x as on March 31, 2020 compared to 4.46x as on March 31, 2019.. CAR was moderate at 20% as on July 31st 2020.



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***Concentrated resource profile***

CML has funding from banks (56%) from NBFC's (21%) and privately placed NCDs (23%) as on March 31, 2020 compared to funding from banks (25%), from NBFC's (52%) and privately placed NCDs at 23% as on March 31, 2019. CML's balance sheet borrowings mix is skewed towards funding from FIs and banks constituting 77% and privately placed NCDs constituting 23% as on March 31st, 2020. The company also taps off-balance sheet funding through direct assignments and securitization. CML has raised Rs.41.30 crore in the first two quarters of FY21.

**Analytical approach:** CARE has analysed standalone credit profile of CML along with CML's linkages with its parent, CCL, in the form of financial & managerial linkages and a shared brand name.

**Applicable Criteria**

***CARE's Criteria on assigning Outlook and Credit Watch to Credit Ratings***
***Policy of Default Recognition***
***Rating of Short term instruments***
***Rating Methodology- Non Banking Finance Companies***
***CARE's Criteria for Market Linked Notes/Debentures***
***Financial Ratios-Financial Sector***

**Liquidity position - Stretched**

CML's ALM has no cumulative mismatch in any of the time buckets as on June 30, 2020. The company has managed liquidity during the last 2 quarters by reducing disbursements sharply. As on August 31st, 2020, the company had Rs.36.25 crore of bank balance and had undrawn lines of Rs.6.00 crore. CML had applied for moratorium for the month of Apr'20 and May'20 to all of its lenders and received approval for moratorium from some of the lenders. There is no outstanding moratorium beyond 30th June 2020.

**About the Company**

Centrum Microcredit Limited (CML) is a microfinance institution and a non-deposit accepting NBFC-MFI registered with the Reserve Bank of India. CML is wholly owned subsidiary of Centrum Capital Limited (CCL). Incorporated in August 2016, CML was originally incorporated as Nobita Trading Private Limited. Name of the company changed to Centrum Microcredit Private Limited in May 2017. Consequently company was converted to public company from private company in November 2018 and named as Centrum Microcredit Limited.

CML acquired micro finance business of FirstRand Bank (FRB) including portfolio of Rs.105 crore, 298 employees and 25 branches in December 2017. In November 2019, CML carried out a microfinance portfolio buyout of Altura Financial Services Limited. CML had total AUM of Rs.468.75 crore (including securitization/assignment) registering a growth of 126%.

CML follows the JLG (Joint Liability Group) model. As on March 31, 2020, CML operates through 130 branches across 9 states.

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 41.26 | 88.17 |
| PAT | -0.37 | 5.40 |
| Interest coverage (times) | 1.02 | 1.13 |
| Total Assets | 275.79 | 494.30 |
| Net NPA to Net Advances (%) | 0.01 | 0.01 |
| ROTA (%) | -0.18 | 1.35 |

*A: Audited; All ratios are as per CARE Ratings' Calculations*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure – 1: Details of instruments / facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Term Loan-Long Term | - | - | - | 200.00 | CARE BBB; Negative |
| Non-convertible Debentures | - | - | - | 75.00 | CARE BBB; Negative |
| Commercial Paper-Commercial Paper (Standalone) | - | - | 7 days to 1 year | 10.00 | CARE A3+ |

**Annexure – 2: Rating history of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Term Loan-Long Term | LT | 200.00 | CARE BBB; Negative | 1)CARE BBB; Negative (22-May-20) | 1)CARE BBB; Stable (04-Jun-19) | - | - |
| 2. | Debentures- Non convertible debentures | LT | 75.00 | CARE BBB; Negative | - | - | - | - |
| 3. | Commercial Paper-Commercial Paper (Standalone) | ST | 10.00 | CARE A3+ | 1)CARE A3+ (22-May-20) | 1)CARE A3+ (08-Jan-20)<br>2)CARE A3+ (05-Dec-19) | - | - |

***Annexure 3: Complexity level of various instruments rated for this company***

| *Sr. No* | *Name of Instrument* | *Complexity Level* |
|---|---|---|
| *1* | Commercial Paper-Commercial Paper (Standalone) | Simple |
| *2* | Term Loan-Long Term | Simple |
| *3* | Debentures- Non convertible debentures | Simple |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

## Contact us

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**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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