



RATING RATIONALE

23 Sept 2020

Centrum Capital Limited

Brickwork Ratings assigns 'BWR BBB'/Stable for the Principal Protected Market Linked Debentures (PPMLD) and reaffirms the rating for the existing PPMLDs of Centrum Capital Limited

Particulars

Instruments	Amount (Rs.Crs)		Tenure	Rating*	
	Previous	Present		Previous (Nov, 2019)	Present @
PPMLDs	-	100.00	Long Term	-	BWR PPMLD BBB (Stable) (Assigned)
	100.00	100.00	Long Term	BWR PPMLD BBB (Stable)	BWR PPMLD BBB (Stable) (Reaffirmed)
Total	200.00	200.00	Rupees Two Hundred Crores Only/-		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of the MLDs are provided in Annexure-I&II

Brickwork Ratings (BWR) has assigned 'BWR BBB'/Stable to the Rs.100 Crs PPMLDs of Centrum Capital Limited (CCL or the company) while reaffirming the ratings on the company's existing debt instruments at 'BWR BBB'/Stable, as tabulated above.

The ratings factor in the experienced promoters and management team, diversified businesses in the Centrum Group (Group), comfortable capitalisation and sound asset quality in fund-based businesses. However, the ratings are constrained by high levels of the promoter share pledged and thin profitability at consolidated levels.

The Stable outlook indicates a low likelihood of a rating change over the medium term. BWR believes that CCL will continue to maintain its credit risk profile.

ANALYTICAL APPROACH

For arriving at the ratings, BWR has combined the business and financial risk profiles of the Centrum Group companies, which mainly include CCL and its subsidiaries Centrum Financial Services Limited (CFSL), Centrum Housing Finance Limited (CHFL), Centrum Microcredit Limited (CML), Centrum Wealth Management Limited (CWML) and Centrum Broking Limited (CBL). These are material businesses for the Group. There are many more entities consolidated in CCL. The list of the same is provided in the annexure.

KEY COVENANTS OF THE CREDIT ENHANCED INSTRUMENT RATED:NA

KEY RATING DRIVERS

Credit Strengths:

- **Experienced promoters and management team:** The Centrum Group is being led by Mr. Jaspal Bindra former Asia Pacific CEO at Standard Chartered Bank (30 years of experience) in the role of Executive Chairman. The Group was promoted by Mr. Chandir Gidwani, a chartered accountant and first-generation entrepreneur. Centrum Group has a leadership team of seasoned experts with a long track record. The management team, consisting of qualified professionals with vast experience in their respective fields, are the promoters of the company. Additionally, each of the Group's businesses is led by an experienced management team.
- **Diversified business profile of the Group:** The Centrum Group has diversified fee-based businesses (wealth management, institutional business and insurance broking) and a lending business (including housing finance, microfinance and business loans to SMEs, supply chain and MSMEs). Centrum Group's Institutional services include Investment Banking, SME, MSME and an Institutional Broking Desk catering to FIIs, Pension Funds, Indian Mutual Funds, Domestic Institutions and HNIs. Centrum Group provides comprehensive Wealth Management Services to HNIs and Family Offices, Affordable Housing Finance in Tier 2 & 3 cities, Micro Finance and Insurance plans across Life, General & Health Insurance. Our Alternative Investment Management business offers funds across private debt, venture capital as well as Real Estate Management & Advisory. The Group is a PAN India company operating out of 142 cities, 200 offices, 1,735 team size and have an international presence in Singapore. During FY20, while the fee-based businesses showed a declining trend, growth was supported by the lending business. To that extent, a diversified business profile supports the consolidated financial condition during weak market conditions.
- **Comfortable capital position:** As on 31 March 2020, the Group-level networth stood at Rs. 817.03 Crs, compared with Rs 656.77 Crs as on 31 March 2019. The Centrum Group's lending entities have maintained its capital adequacy ratio of above regulatory requirement during the last three years for all its lending entities. Centrum Group has equity raising capability and has been demonstrated by the recent equity raise by Centrum Housing Limited of Rs 190 crs from a fund managed by Morgan Stanley Private Equity Asia.
As on 31 March 2020, the capital-to-risk weighted assets ratio (CRAR) of CHFL stood at 174.52%, of CML at 18.96% and of CFSL at 25.27%. During FY20, the Group's total borrowing decreased slightly as it repaid a part of its high-cost debt, and further during Q1FY21. On account of the above, the Group's debt to net worth ratio improved to 2.12 times as on 31 March 2020, compared with 2.74 times as on 31 March 2019. The net worth to net NPA cover was high and at comfortable levels as on 31 March 2020 for all lending businesses.
- **Sound asset quality:** The Group's fund-based business carried out through CHFL, CML and CFSL uniquely operates on an individual basis as an NBFC. As on 31

March 2020, the gross non-performing assets (GNPA) were at 1.46% (CHFL), 0.27% (CML) and 1.99% (CFSL). The Non performing assets (NNPA) were at 1.10% (CHFL), 0.01% (CML) and 0.74% (CFSL). Although there is a minor increase in the GNNP and NNPA, compared with the previous year, the asset quality remains sound. As on 31 Aug 2020, around 30% to 40% borrowers have availed moratorium in lending business and the Group expect the same may come down substantially. However, post moratorium, the performance of lending entities will be a key monitorable.

Credit Risks:

- **High level of promoter share pledge:** As on 31 August 2020, the promoters of CCL had 49% of their holding in the company pledged to lenders against the loan availed by them. The promoters have given shares worth Rs 124 Crs as pledged to the outstanding loan amounting to Rs. 81 Crs. The promoters share pledged was at ~ 84% as on 30 June 2019 and promoter lowered the same to the current level during FY20. The promoters are planning to reduce the share pledge in the medium to long term. Hence, the reduction in the share pledge will be a key monitorable.
- **Thin profitability at consolidated level:** During FY20, the Group's lending business performed well, compared with the fee-based businesses, which were suffering. The major impact on the profitability was on account of losses in Centrum Broking Limited and Centrum Wealth Management Limited. The overall earnings profile was impacted due to the sale of the Group's forex arm to Ebix Cash in FY19. In addition, traditionally, the Group had higher operating costs during FY20, of which the maximum goes into employee costs. At the consolidated level, revenue grew to Rs. 480.48 Crs in FY20 from Rs.366.27 Crs in FY19. However, the profit after tax declined to Rs. 0.72 Crs in FY20, against Rs. 141.52 Crs in FY20. Given the COVID-19 impact on the domestic economy, the Group's overall credit profile will be a key monitorable over the medium term.

RATING SENSITIVITIES

Positive: A significant improvement in the financial risk profile and market share of the Group, including a substantial increase in revenue and profitability while maintaining asset quality, and reducing the promoter share pledge will be a rating positive.

Negative: A significant deterioration in business volumes, asset quality or earning profile will be a key rating negative.

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organisation (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending to the retail low-income borrower segments could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest



and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers and to collect accumulated interest and principal dues on a timely basis will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

LIQUIDITY INDICATORS: ADEQUATE

As on 31 August 2020, on a consolidated level, the Group had liquidity of Rs. 366 Crs, i.e., cash and cash equivalent of Rs. 127 Crs, FDs of Rs.229 Crs and mutual funds of Rs. 10 Crs. The Group also has undisbursed sanctions of Rs. 282 Crs as on date. The repayment obligation of the Group during 1 October 2020 to 31 March 21 is Rs. 774 Crs, and dues collection for the same period is Rs. 920 Crs. The Group has opted for a moratorium in CSFL and CML from few of its lenders.

COMPANY PROFILE

The Centrum Group was founded in 1997 by Chandir Gidwani and Late. Khushroo Byramjee with forex and merchant banking arms. Currently Mr. Jaspal Bindra leads the Group as Executive Chairman. It operates in diversified fee businesses (wealth management, institutional business and insurance broking) and lending business (including housing finance, microfinance and business loans to SMEs and MSMEs). Other business segments include broking and asset management services, offering funds across private debt, public equity, venture capital and real estate. The Group grew its business by launching a credit fund and acquiring the supply chain finance business of L&T Finance. The total lending AUM grew to ~Rs. 1800 Crs. in FY20, with operations across 142 cities domestically and an international presence in Singapore.

Centrum Wealth Management business offers distribution, investment advisory and family office services across the asset classes of equity, fixed income, real estate and alternative investments. The family office platform provides services to UHNI families and assists them on matters related to investment advisory, tax planning and succession planning, among others. It has a strong management team with 150+ man years of experience and a global presence in Singapore.

Centrum Financial Services Limited is a systemically important NBFC and operates primarily in five segments/products, viz. commercial lending, supply chain, financial institutions, real estate and MSME. As on 31 March 2020, CFSL's total AUM was Rs.878 Crs, compared with Rs 1134 Crs as on 31 March 2019. CFSL's future strategy while fueling growth is to increase the asset book with smaller exposures and have a more granular asset base.

Centrum Housing Finance Limited was founded in 2016. This lending arm caters to the middle class segment and provides financial inclusion to lower and middle income (LMI) families by giving them access to long-term housing finance. The business offers home loans, self-construction loans, top-up loans and loans against property to cater to specific needs. The loan book grew up to Rs.440 Crs in FY20, against Rs. 354 Crs. in FY19 (y-o-y 24% growth).

Centrum Microcredit Limited is the company formed by the Group post the acquisition of the microfinance business of FirstRand Bank India (FRB) in December 2017. Centrum Microcredit is an NBFC-MFI regulated by the RBI. The business provides loans under the joint liability Group model to low-income women entrepreneurs in urban, semi-urban and rural areas. It has increased its reach to 9 states with 130 branches and AUM growth of 115% in FY20, with AUM of Rs 469 Crs.

KEY FINANCIAL INDICATORS Centrum Capital Limited (Consolidated)

Key Financial Indicators	Units	FY 19	FY20
Result Type		Audited	Audited
Total Income	Rs.in Crs	366.27	480.48
Profit after tax	Rs.in Crs	141.52	0.72
Networth	Rs.in Crs	656.77	817.03
Total Debt	Rs in Crs	1798.05	1733.61
Debt to Networth	Times	2.74	2.12

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Instrument	Tenure	Current Rating		Rating History		
		Amount Rs. Crs	Rating Sep-20	8 Nov 19	2018	2017
PPMLD	Long Term	100.00	BWR PPMLD BBB (Stable) (Assigned)	-	-	-
PPMLD	Long Term	100.00	BWR PPMLD BBB (Stable) (Reaffirmed)	BWR PPMLD BBB (Stable) (Assigned)	-	-
Total		200.00	INR Two Hundred Crores Only/-			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks & Financial Institutions](#)

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Centrum Capital Limited

ANNEXURE I

Details of Bank Loan Facilities rated by BWR : NA

ANNEXURE II INSTRUMENT (PPMLD) DETAILS

Instrument s	Issue Date	Amount in Crs	Coupon rate%	Maturity Date	ISIN Particulars
PPMLD	17-Dec-19	4.41	Market linked	31-Dec-21	INE660C07719
PPMLD	30-Dec-19	1.3	Market linked	09-Jul-23	INE660C07727
PPMLD	22-Jan-20	2.5	Market linked	01-Aug-23	INE660C07743
PPMLD	28-Jan-20	4.79	Market linked	31-Dec-21	INE660C07719
PPMLD	31-Jan-20	2.81	Market linked	01-Aug-23	INE660C07743
PPMLD	13-Feb-20	2.05	Market linked	31-Dec-21	INE660C07719
PPMLD	25-Feb-20	2.5	Market linked	01-Aug-23	INE660C07743
PPMLD	06-Mar-20	2.3	Market linked	31-Dec-21	INE660C07719
PPMLD	13-Mar-20	1	Market linked	01-Aug-23	INE660C07743
PPMLD	20-Mar-20	0.75	Market linked	31-Dec-21	INE660C07719
PPMLD	08-May-20	1.1	Market linked	31-Dec-21	INE660C07719
PPMLD	05-Jun-20	1.3	Market linked	04-Mar-22	INE660C07750
PPMLD	19-Jun-20	7.75	Market linked	21-Mar-22	INE660C07768
PPMLD	24-Jun-20	2.75	Market linked	04-Jan-24	INE660C07776
PPMLD	26-Jun-20	4.1	Market linked	21-Mar-22	INE660C07768
PPMLD	30-Jun-20	1.35	Market linked	04-Jan-24	INE660C07776
PPMLD	02-Jul-20	0.6	Market linked	21-Mar-22	INE660C07768
PPMLD	10-Jul-20	2.7	Market linked	21-Mar-22	INE660C07768
PPMLD	17-Jul-20	4.25	Market linked	21-Mar-22	INE660C07768
PPMLD	21-Jul-20	2.4	Market linked	04-Jan-24	INE660C07776

PPMLD	24-Jul-20	3.75	Market linked	21-Mar-22	INE660C07768
PPMLD	29-Jul-20	3.9	Market linked	04-Jan-24	INE660C07776
PPMLD	03-Aug-20	3.04	Market linked	21-Mar-22	INE660C07768
PPMLD	14-Aug-20	3.04	Market linked	21-Mar-22	INE660C07768
PPMLD	19-Aug-20	0.65	Market linked	21-Mar-22	INE660C07768
PPMLD	21-Aug-20	1.01	Market linked	04-Jan-24	INE660C07776
PPMLD	28-Aug-20	8.55	Market linked	21-Mar-22	INE660C07768
PPMLD	02-Sep-20	1.4	Market linked	04-Jan-24	INE660C07776
PPMLD	04-Sep-20	4.25	Market linked	21-Mar-22	INE660C07768
PPMLD	09-Sep-20	9.48	Market linked	21-Mar-22	INE660C07768
PPMLD	16-Sep-20	4.3	Market linked	04-Jan-24	INE660C07776
Total		96.08			

Rupees ninety-six crores and eight lakhs only/-

ANNEXURE III

List of entities consolidated

Name of Entity	% ownership	% Extent of consolidation	Rationale for consolidation
Centrum Retail Services Limited (formerly Centrum Retail Financial Services Limited)	94.33%	94.33%	Subsidiaries
Centrum Broking Limited	51.01%	51.01%	Subsidiaries
Centrum Microcredit Limited (formerly Centrum Microcredit Private Limited)	100.00%	100.00%	Subsidiaries
Centrum Housing Finance Limited	56.39%	56.39%	Subsidiaries
Centrum International Services PTE Limited	100.00%	100.00%	Subsidiaries
Centrum Alternatives LLP	100.00%	100.00%	Subsidiaries
Centrum Capital International Limited (formerly Commonwealth Centrum Advisors Limited)	100.00%	100.00%	Subsidiaries
Centrum Capital Advisors Limited	100.00%	100.00%	Subsidiaries
Centrum Alternative Investment Managers Limited	100.00%	100.00%	Subsidiaries
CCAL Investment Management Limited	100.00%	100.00%	Subsidiaries
Centrum Financial Services Limited	100.00%	100.00%	Step down Subsidiaries
Centrum Wealth Management Limited	65.59%	65.59%	Step down Subsidiaries
Centrum Insurance Brokers Limited	100.00%	100.00%	Step down Subsidiaries
Centrum Investment Advisors Limited	100.00%	100.00%	Step down Subsidiaries



Centrum REMA LLP	88.00	88.00%	Joint Venture
Acorn Fund Consultants Private Limited	49.00%	49.00%	Associates

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