



## RATING RATIONALE

24 Aug 2022

### Centrum Capital Limited

**Brickwork ratings (BWR) reaffirms the ratings of outstanding PPMLDs of Centrum Capital Ltd. and assigns a Negative outlook while resolving the credit watch**

#### Particulars:

Instruments / Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present#		Previous 01 Jul 2021	Present
PPMLDs	200.00	<b>43.14</b>	Long Term	BWR PPMLD BBB (Credit Watch with developing implications)^	<b>BWR PPMLD BBB/ Negative (Reaffirmed and Outlook assigned as Negative and resolved Credit Watch with developing implications)</b>
Total	200.00	<b>43.14</b>	<b>Rupees Forty Three Crore and Fourteen Lakhs only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of PPMLDs are provided in Annexure-II

#Reduction in amount is due to prepayments/ redemptions

^ BWR has placed the ratings of PPMLDs of Centrum Capital Limited on Credit Watch with developing implications considering the in-principle approval received from the Reserve Bank of India (RBI) by Centrum Financial Services Ltd. (CFSL), a step down subsidiary of CCL, to set up a Small Finance Bank (SFB).

\$A press release was made on 14 Oct 2021 as a credit update on receipt of Small Finance Bank (SFB) License

#### RATING ACTION / OUTLOOK

Brickwork ratings (BWR) has reaffirmed the ratings of outstanding PPMLDs of Centrum Capital Ltd. (CCL/the Company) and assigned the Negative outlook while resolving the credit watch, as tabulated above.

For arriving at the ratings, BWR has combined the business and financial risk profiles of the Centrum Group companies and followed a consolidated approach.

The reaffirmation of ratings factor in the experienced promoters and management team, diversified businesses in the Centrum Group (Group) and comfortable capitalisation. However, the ratings are constrained by high levels of the promoter share pledged, increasing losses at consolidated levels and deterioration in asset quality of the lending entities of the Group.

The negative outlook is assigned considering the continuation of high losses incurred by the group since FY22 mainly on account of high provisioning, operational costs and incremental finance cost incurred by the company to support the set up of Small Finance Bank (Unity Small Finance Bank/SFB) and merger of Punjab and Maharashtra Co-operative Bank Ltd. (PMC Bank). While BWR takes a note that the majority of credit cost pertain to PMC Bank advances have been provided by the group in Q4 FY22, going forward, the loss is expected to continue from its banking segment in the near term given the high operating expenses in early stages, limited lending activities and increase in finance cost coupled with impact of fair



valuation of the assets and liabilities of the PMC Bank. Centrum group, being 51% of stakeholder in SFB, is expected to have a considerable financial bearings on its consolidated financials due to the ongoing transformational phase of the SFB.

BWR had placed the ratings of PPMLDs of Centrum Capital Limited on Credit Watch with developing implications considering the in-principle approval received from the Reserve Bank of India (RBI) by Centrum Financial Services Ltd. (CFSL), a step down subsidiary of CCL, to set up a Small Finance Bank (SFB) which was accorded in specific pursuance to CFSL's offer dated February 1, 2021 in response to the Expression of Interest notification dated November 3, 2020 published by the Punjab & Maharashtra Co-operative Bank Ltd., Mumbai. Since the SFB has already been set up and amalgamation of PMC Bank is completed in Q4 FY22, BWR resolves the credit watch with developing implications placed on the rating of the company.

## **KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED**

*NA*

## **KEY RATING DRIVERS**

### **• Credit Strengths:-**

- ❖ **Experienced promoters and management team:** The Centrum Group is led by Mr. Jaspal Bindra former Asia Pacific CEO at Standard Chartered Bank (more than 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 finances and Small Finance Bank). 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. Its Alternative Investment Management business offers funds across private debt, venture capital as well as Real Estate Management & Advisory. The Group has a PAN India presence and has an international presence in Singapore and Hongkong.
- ❖ **Comfortable capitalisation of Lending entities:** Post amalgamation of Centrum Financial Services Ltd (CFSL) and Centrum Microcredit Lts. (CML) into the SFB, the group had two main lending entities as at end of FY22 viz SFB and Centrum Housing Finance Ltd (CHFL). Both these entities are adequately capitalized with SFB having CRAR of 58.91% and CHFL having CRAR of 113.26%. While the lending activities of the group are moderate since a year, there has been upfront capitalisation in SFB which is expected to meet the requirements of SFB for meeting its business growth and repayment of liabilities over a near term.

### **Credit Risks:**

- ❖ **Continued losses at consolidated level albeit improvement in income:** On consolidated basis, CCL continues to incur the losses since FY21. The losses for Q1 FY23 stood at R.114.5 Crs against the full year losses of Rs.189.9 crs fro FY22 which had substantially increased from losses of Rs.41.8 Crs. BWR notes that the increase in losses is due to higher provisioning and increase in operational cost Finance cost due to incremental borrowings mainly to support the SFB set up and AMC merger. This coupled with the merger of CFSL and CML into the SFB has caused slowdown on disbursements by the lending entities resulting into the moderate income generation and AUM growth of the group's lending entities. While consolidated income from operations have improved to Rs.263.65 Crs for Q1 FY23 from Rs.237.10 Crs previous quarter, registering ~90% growth y-o-y basis, increase in operational expenses and Finance cost have resulted into the losses during Q1FY23. While, the group's Wealth management vertical remains profitable, institutional and lending business continues to incur losses. The Group's ability to turnaround the loss making entities will be a key monitorable over the medium term.
- ❖ **Deterioration of asset quality:** The stagnant growth AUM due to moderate disbursements since FY21 coupled with slower recovery amid covid Pandemic has resulted in to spike in NPAs of the lending entities of the group. Further, SFB has also inherited stressed advances of the PMC Bank against which the group has to incur heavy credit cost. As a result, GNPA of SFB stood at 62.94% and NNPA stood at 8.14% as on 31 Mar 22. The GNPA slightly improved to 59.4% and NNPA 7.42% as on 30 Jun 22. Asset quality of CHFL also stood moderate with GNPA at 2.66% and NNPA at 1.66% as at end of FY 22 and 2.9% and 2.06% respectively as at the end of FY21. GNPA further spiked to 2.97% and NNPA to 1.89% as on 30 Jun 2022. Goingforward, group's entity to improve its asset quality while revamping its lending activities will be a key rating monitorable.
- ❖ **Increase in borrowings:** The total borrowings at the consolidated level have increased substantially resulting into high gearing. Incremental borrowings include deposits inherited from PMC bank. The gearing level at consolidated level stood 9.5 times as on 31 Mar 22 significantly increased from 2.70 times as on 31 Mar 21. However, BWR notes that deposits are repayable over medium term as per the approved repayment schedule. Going forward, company's ability to moderate the gearing levels at consolidated level will be a key rating monitorable.
- ❖ **High level of promoter share pledge:** Though the shareholding of promoters in CCL has been constant at around 38% since FY21, the percentage of pledge of promoter's shares have been increasing and it stood at 52.72% as at end of June 30, 2022. Going forward, maintaining the promoter's stake in CCL being the ultimate parent company for the group entities while reducing the pledge at reasonable level shall be a rating monitorable.

## **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**



For arriving at the ratings, BWR has combined the business and financial risk profiles of the Centrum Group companies. The list of the same is provided in the Annexure III.

## **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 will be a rating positive.

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

## **LIQUIDITY INDICATORS: Adequate**

As on 30 Jun 2020, on a consolidated level, the Group had liquidity of about Rs. 3,633.21 Crs, including cash and cash equivalent and Bank balances of Rs.899.09 Crs, Unutilised bank lines of Rs.110.92 Crs and Liquid investments and Deposits of Rs.2,623.20 Crs. The repayment obligation of the Group till 30 Jun 23 is around Rs.383.75 Crs at consolidated level. While the borrowings of SFB including deposits pertaining to PMC Bank are considerable, staggered repayment has been allowed by the regulatory authorities. Also, other borrowings are long term in nature. Hence to meet near term obligations, liquidity seems adequate.

At a standalone basis as on 30 Jun 22, CCL has liquidity of Rs.38.76 Crs including Cash and bank balance of Rs.0.56 Crs, unutilised bank lines of Rs.14.5 Crs and liquid investments of Rs.23.70 Crs. Against the above, the company has repayment obligations of Rs.23.4 Crs till Jun 2023. Hence, liquidity seems adequate.

## **COMPANY'S / FIRM' PROFILE**

The Centrum Group was founded in 1997 by Chandir Gidwani and Late. Khushrooh 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. Centrum Capital Ltd. is a Category I Merchant Banker registered with the Securities and Exchange Board of India ('SEBI') providing a full spectrum of capital markets services in equity and debt related services.

## **KEY FINANCIAL INDICATORS**

**CENTRUM CAPITAL LTD. (CONSOLIDATED)**

Key Financial Indicators	Units	FY2021	FY 2022
Result Type		Audited	Audited
Total Income	Rs.in Crs	513.15	703.65
Profit after tax	Rs.in Crs	-41.80	-189.93
Networth	Rs.in Crs	776.25	674.90
Total Debt	Rs in Crs	2096.66	6445.17
Debt to Networth	Times	2.70	9.55*

\*incl. restructured liabilities of SFB inherited from PMC Bank

**CENTRUM CAPITAL LTD. (STANDALONE)**

Key Financial Indicators	Units	FY2021	FY 2022
Result Type		Audited	Audited
Total Income	Rs.in Crs	55.78	66.19
Profit after tax	Rs.in Crs	-9.03	-33.59
Networth	Rs.in Crs	535.95	502.79
Total Debt	Rs in Crs	328.08	540.72
Debt to Networth	Times	0.61	1.08

**RATING HISTORY FOR THE PREVIOUS THREE YEARS**

S. No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable		
		Type(Long Term/Short Term)	Amount Outstanding (Rs. Crs)	Rating	01 Jul 21	23 Sept 20	8 Nov 19
1	PPMLD	Long Term	43.14	BWR PPMLD BBB/ Negative (resolved Credit Watch with developing implications)	BWR PPMLD BBB (Credit Watch with developing implications)	BWR PPMLD BBB (Stable) (Reaffirmed/ Assigned)	BWR PPMLD BBB (Stable) (Assigned)

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Highly Complex**



For more information, visit

[www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks & Financial Institutions](#)
- [Criteria for Consolidation of Companies](#)

Analytical Contact	
<b>Sonam Vora</b> Senior Analyst - Ratings +91 22 6745 6638 <a href="mailto:sonam.v@brickworkratings.com">sonam.v@brickworkratings.com</a>	<b>Hemant Sagare</b> Associate Director - Ratings +91 80 4040 9999 Ext -333 <a href="mailto:hemant.s@brickworkratings.com">hemant.s@brickworkratings.com</a>
1-860-425-2742	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>

### CENTRUM CAPITAL LIMITED

ANNEXURE I: Details of Bank loan Facilities: N/A

### ANNEXURE II

Details of PPMLD rated by BWR

Instruments	Issue Date	Amount in Crs*	Coupon rate%	Maturity Date	ISIN Particulars
PPMLD	30-Dec-19	1.3	Market Linked	9-Jul-23	INE660C07727
PPMLD	22-Jan-20	2.5	Market Linked	1-Aug-23	INE660C07743
PPMLD	31-Jan-20	2.81	Market Linked	1-Aug-23	INE660C07743
PPMLD	25-Feb-20	2.5	Market Linked	1-Aug-23	INE660C07743
PPMLD	13-Mar-20	1	Market Linked	1-Aug-23	INE660C07743
PPMLD	24-Jun-20	2.75	Market Linked	4-Jan-24	INE660C07776
PPMLD	30-Jun-20	1.35	Market Linked	4-Jan-24	INE660C07776
PPMLD	21-Jul-20	2.4	Market Linked	4-Jan-24	INE660C07776
PPMLD	29-Jul-20	3.9	Market Linked	4-Jan-24	INE660C07776
PPMLD	21-Aug-20	1.01	Market Linked	4-Jan-24	INE660C07776
PPMLD	2-Sep-20	1.4	Market Linked	4-Jan-24	INE660C07776
PPMLD	16-Sep-20	4.3	Market Linked	4-Jan-24	INE660C07776
PPMLD	1-Oct-20	15.92	Market Linked	4-Jan-24	INE660C07776
		<b>43.14</b>	<b>(Rupees Forty Three crore and Fourteen Lakhs only)</b>		

\*outstanding as on 31 Jul 2022

### ANNEXURE III

**List of entities consolidated**

<b>Name of Entity</b>	<b>Rationale for consolidation</b>
Centrum Capital Ltd	Parent
Centrum Retail Services Limited	Subsidiary
Centrum Broking Limited	Subsidiary
Centrum Microcredit Limited	Subsidiary
Centrum Housing Finance Limited	Subsidiary
Centrum Financial Services Ltd	Subsidiary
Centrum International Services PTE Limited	Subsidiary
Centrum Alternatives LLP	Subsidiary
Centrum Capital International Limited	Subsidiary
Centrum Capital Advisors Limited	Subsidiary
Centrum Alternative Investment Managers Limited	Subsidiary
Centrum Wealth Limited	Subsidiary
Centrum Insurance Brokers Limited	Subsidiary
Centrum Investment Advisors Limited	Subsidiary
Unity Small Finance Bank Ltd	Subsidiary
Ignis Capital Advisors Ltd	Subsidiary
Acorn Fund Consultants Private Limited	Associates
Centrum EPS Trust	Trust

**For print and digital media** The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the





wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

**About Brickwork Ratings :** Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non-convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**DISCLAIMER :** Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "**BWR Party**") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not





available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, [www.brickworkratings.com](http://www.brickworkratings.com). More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.