December 16, 2021

To,
The Manager
Department of Corporate Services
Bombay Stock Exchange Limited
Phiroze, Jeejeebhoy Towers
Dalal Street, Mumbai-400001

Scrip Code: 530067

Sub: Intimation of Long-Term Issuer Rating assigned by India Ratings and Research (Ind-Ra)

Dear Sir/Madam,

Pursuant to Regulation 30 & 51 read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("the Regulations"), we would like to inform that India Ratings and Research (Ind-Ra) has assigned a Long-Term Issuer Rating of 'IND BBB+' with a Stable Outlook to the Company ("CSL Finance Limited")

In accordance with the Regulation, please find attached copy of press release issued by India Ratings and Research (Ind-Ra).

The same may please be taken on record. This information is also being uploaded on the company's website at www.cslfinance.in

Thanking you,
For **CSL Finance Limited**

Preeti Gupta

CSL Finance Limited NOIDA

Preeti Gupta
Company Secretary & Compliance Officer

Encl: A/a

India Ratings & Research
A Fitch Group Company

India Ratings Assigns CSL Finance ‘IND BBB+’; Outlook Stable

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DEC 2021

By Asutosh Patro

India Ratings and Research (Ind-Ra) has assigned CSL Finance Limited (CSLFL) a Long-Term Issuer Rating of ‘IND BBB+’ with a Stable Outlook.

KEY RATING DRIVERS

Well-managed Wholesale Loan Book: CSLFL has a strong presence in the micro-markets of Delhi-National Capital Region (NCR) and an experience of financing developers there over the past decade, which has helped it understand the various micro-markets in that region. From April 2019 to June 2021, the company disbursed INR7,143 million and managed to recover INR7,159 million. Judicious customer selection and tight underwriting has helped CSLFL keep the delinquencies under check with the gross non-performing assets being 0.1% in the wholesale book at end-September 2021. The tight underwriting is also backed by the regular monitoring of the portfolio by an in-house team. CSLFL is the sole lender in most of the projects and has the exclusive charge on the assets with an asset cover of 1.5x-2.0x. Financing projects where the residential units were priced in an affordable range has ensured strong sales velocity even amid the COVID-19 outbreak and resulted in healthy collection efficiencies. The accounts under moratorium also saw principal repayment due to the sale of underlying units.

High Micro-market Understanding leading to Appropriate Origination and Control: CSLFL’s product offerings in real estate lending is backed by its micro market understanding of the Delhi-NCR section. CSLFL typically lends to small and mid-size developers (non-Grade I developers) with moderate credit profiles. The small developers work typically on a single project before they start a new venture. These small developers churn their portfolio fast i.e. the moment one project is sold, a new project is undertaken. The sales velocity in these low-ticket affordable projects has been robust, leading to improved collections. Each borrower undergoes an extensive credibility check, including profile and project screening based on the assessment of the supply-demand trend. The minimum receivable cover is comfortable despite a conservative estimate of sales velocity and property prices. A site inspection is carried out bi-monthly to review the project progress. The team constantly monitors collections, sales, inventories, market price, and costs for early warning signals. The company usually does not lend to project with existing lenders. In situations where there is a co-lender, the company ensures it takes control of the escrow.

CSLFL cautiously grew its wholesale loan book to about INR3.2 billion at end-2QFY22 (FYE21: INR2.7 billion, FYE20: INR2.5 billion) by being selective in picking up projects. This wholesale book contributed 84% to the total portfolio at end-2QFY22.

Stable Earnings Profile: CSLFL has generated steady returns over the past few years with a return on assets (ROA) of 7%-8% due to the judicious risk management and a tighter control on credit cost (1HFY22: 1.5%, FYE21: 1.4%, FYE20: 1.7%). The low leverage also boosts the company's ROA. During the pandemic, the wholesale portfolio performed reasonably well without pressurising the credit costs. CSLFL's operating cost is on the higher side (opex to asset: 1HFY22: 3.8%, FYE21: 3.1%, FYE20: 3.7%) due to the expenses incurred on the small & medium enterprises portfolio. CSLFL is growing its SME book (end-September 2021: 16% of the assets under management) and increasing the productivity of the branches. The SME book is also putting pressure on credit cost due to the legacy portfolio of school financing reporting higher delinquencies. Over the medium term, the SME portfolio is likely to contribute meaningfully to the loan book, making it granular. An increased leverage on the SME book will result in some moderation in the profitability, although the return ratios could remain comfortable if CSLFL is able to manage asset quality in the SME book.

Comfortable Capital Position: CSLFL's capital position (Tier I: 1HFY22: 72%, FY21: 77.4%, FY20: 71.6%) is supported by healthy internal accruals and low leverage (1HFY22: 0.4x, FY21: 0.3x). The improvement in the capitalisation profile in FY21 was on account of a moderation in growth in the SME portfolio. Given the comfortable capital position, there may not be any equity infusion over the near term. The last equity infusion took place in FY17 when the promoter reduced its shareholding by issuing additional shares to public and raised INR535 million. The leverage is likely to rise as CSLFL grows its SME portfolio, which will operate at a leverage of 3x against a wholesale book operating at a leverage of 1x-1.5x. CSLFL is at an advanced stage in mobilising debt capital from a few lenders. Ind-Ra will continuously monitor the leverage build up and expects CSLFL to maintain adequate capital buffers in line with the book composition.

Liquidity Profile - Adequate: CSLFL's asset liability management (ALM) statement at end-1QFY22 reflects cumulative inflows in excess of cumulative outflows by 227% for the one-year bucket. The company does not factor in any prepayment behaviour while preparing the ALM statement. However, the book runs down faster than that envisaged as per the contractual terms, which provides a positive bias to liquidity. In the event of nil collections and disbursements, the cash and bank balances of INR43.5 million at end-June 2021 will be adequate to cover six months of debt servicing. The cash and bank balances, along with the unused working capital lines of INR321.8 million, will be adequate to cover liabilities maturing in one year. This comfortable ALM position reflects the company's comfortable leverage position.

Modest Scale of Operation and Limited Track Record in SME Lending: The company started retail lending through its SME product in FY17 and is yet to see a full cycle. The SME-related product offerings were affected by COVID-19 and this led to curtailed disbursements and lower collections during 1QFY21 and 1QFY22. The SME loan book of INR0.62 billion at end-2QFY22 (end-1QFY22: INR0.59 billion, FYE21: INR0.62 billion, FYE20: INR0.73 billion) was about 16% of CSLFL's total portfolio. The company's strategy is to increase the granularity of its book by growing its SME business. The company made additions to its senior management for growing its SME business. It has also made investments in technology to improve the operational efficiency in the branch driven SME business. CSLFL's near-term focus is on improving the branch level productivity to grow the SME business. Over the medium term, the company aims to increase the proportion of retail assets to 40% of its loan book.

Wholesale Book exposed to Concentration Risk; SME Book yet to achieve Breakeven: Amid the challenging environment the real estate sector has witnessed since FY18, CLSFL has been able to control the delinquencies in its wholesale portfolio due to its stringent appraisal mechanism, frequent monitoring of assets and escrow-based collections. At end-1QFY22, only one account (0.3% of the wholesale book) with principal outstanding (POS) at INR9.4 million was a non-performing asset (NPA). The company has now recovered 70% from the NPA account. Although well managed, the book is exposed to concentration risk like that faced by any other wholesale portfolio, with the top five exposures consisting about 32% of the total loan book and about 43% of the tangible net worth. Slippages from large accounts can put pressure on the asset quality, leading to higher delinquencies. The portfolio is exposed to geographical concentration risk as the company operates essentially in Delhi-NCR. However, over the long term, the company aims to diversify its real estate book by entering into the sub-urban regions of Chandigarh, Jaipur, Lucknow and Dehradun.

On the other hand, the SME book faces collections issues, leading to higher delinquencies (GNPA: 19.5% at end-Q2FY22, FYE21: 11.2%, FYE20: 3.1%), in line with the other industry players. The steep increase in delinquencies during FY21 and 1HFY22, was on account of a lower loan book and high exposure to school and education institutions (33% of the SME book) where the GNPA was elevated. Due to the COVID-19 outbreak, the schools located in smaller towns, where CLSFL primarily operated in, could not provide online learning options leading to a drop in the fee collections and the consequent steep rise in the delinquency levels.

At an aggregate level, the GNPAs at end-1HFY22 were 3.2% (FYE21: 2.11%, FYE20: 0.69%). The company extended the benefit of emergency credit line guarantee scheme to its SME borrowers by disbursing INR13.6 million (0.4% of overall loan book at end-2QFY22). Under Ind-Ra's moderate stress scenario, the pre-provisioning operating profit buffers will be adequate to absorb the potential elevation in credit cost and the capital buffers are adequate to absorb even extreme stress on the asset quality. The company had made INR46.1 million COVID-19 provision at FYE20 (1.5% of loan book). At end-1HFY22, company holds INR106.6 million of provisions (2.9% of loan book).

Limited Funding Diversity: At end September-2021, the company had an outstanding debt of INR1,094 million through non-convertible debentures (36.9% of the total borrowings) and borrowings from banks and financial institutions (63.1%). CSLFL has been able to borrow at rates commensurate to the rating category from its lenders. At end-August 2021, the spread in lenders/investors was low with borrowings from four lenders. About INR430 million of borrowings can flow in from the existing lenders during 3QFY22 as sanctioning is in the final stages and the company is in the process of raising funds from three new lenders. Ind-Ra will monitor CSLFL's ability to diversify the lending base and mobilise funds at competitive rates.

RATING SENSITIVITIES

Positive: The following developments could result in a positive rating action:

- a material expansion of the franchise in terms of geography and loan book size with granularisation of the portfolio
- tight control on asset quality for the overall book especially for the SME portfolio
- funding diversity
- maintenance of adequate liquidity buffers

Negative: The following developments could result in negative rating action:

- sustained deterioration in the asset quality, leading to a dilution in capital buffers
- leverage above 2.5x on a sustained basis
- a dilution in the liquidity buffers such that on-balance sheet liquidity is under three months of debt repayment commitments

COMPANY PROFILE

CSLFL was incorporated under the Companies Act, 1956 and registered as a non-banking finance company (non-deposit taking) in 2003. The company started its operations in the business of capital market investment and reoriented its business model by venturing into real estate lending in FY11. In FY15, the company discontinued its capital markets business to focus on lending and subsequently, added SME loans to its product suite in FY17. CSLFL is listed on the Bombay Stock Exchange and its promoter shareholding at end-2QFY22 was 57.4%. The company's retail SME loans are secured loans within the range of INR0.5 million-3 million to small businesses across Delhi-NCR, Punjab, Haryana, Rajasthan and Gujarat.

FINANCIAL SUMMARY

Particulars (INR billion)	FY21	FY20
Total tangible assets	3.47	3.31
Total tangible net worth	2.58	2.31
Net profit	0.28	0.22
Return on average assets (%)	8.12	6.72
Tangible equity/tangible assets (%)	74.52	69.84
Source: CSLFL, Ind-Ra's adjustments		

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Financial Institutions Rating Criteria
Non-Bank Finance Companies Criteria

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