CSL Finance Limited

CIN: L74899DL1992PLC051462

December 31, 2022

National Stock Exchange of India Limited	BSE Limited
Exchange Plaza, C-1, Block-G, Bandra Kurla Complex, Bandra (E), Mumbai - 400051	Corporate Relationship Department Phiroze, Jeejeebhoy Towers Dalal Street, Mumbai-400001
NSE Symbol: CSLFINANCE	**BSE Scrip Code: 530067**

Dear Sir/Ma'am,

Sub: Credit Rating

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that India Ratings & Research (Ind-Ra) has taken the following rating actions on CSL Finance Limited (CSLFL):

Instrument Type	Size of Issue (million)	Rating	Rating Action
Long-Term Issuer Rating*		WD	Withdrawn
Long-term bank loan	INR1300	IND BBB+/Stable	Affirmed
Non-convertible debentures (NCDs)	INR400	IND BBB+/Stable	Affirmed
Long-term bank loan	INR1300	IND BBB+/Stable	Assigned

*The Long-term Issuer Rating has been withdrawn on the receipt of request from the issuer

Ind-Ra has affirmed the said rating of BBB+ on enhanced amount of Rs. 300 crore vis-a-vis Rs. 170 Crore in the previous year.

The complete rating rationale has been enclosed herewith and a small presentation given to the Rating body is also enclosed for your reference. As a Company, we always strive to remain transparent and share all the possible information with our investors and will also continue to do so in the near future.

A copy of the Press Release issued by India Ratings and Research (Ind-Ra) in this regard is available on their website at the given below link: https://www.indiaratings.co.in/pressrelease/60487

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,

Yours Faithfully,
For **CSL Finance Limited**

ASHOK KUMAR KATHURIA
Digitally signed by ASHOK KUMAR KATHURIA
Date: 2022.12.31 11:02:37 +05'30'

Ashok Kumar Kathuria
Director
(DIN: 01010305)

Encl: a/a

IndiaRatings
& Research
A Fitch Group Company

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India Ratings Assigns CSL Finance’s Bank Loan ‘IND BBB+’/Stable; Withdraws Long-Term Issuer Rating

Dec 30, 2022 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has taken the following rating actions on CSL Finance Limited (CSLFL):

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating	Rating Action
Long-Term Issuer Rating*	-	-	-	-	WD	Withdrawn
Long-term bank loan	-	-	-	INR1,300	IND BBB+/Stable	Affirmed
NCD#	-	-	-	INR400	IND BBB+/Stable	Affirmed
Long-term bank loan	-	-	-	INR1,300	IND BBB+/Stable	Assigned

*The Long-term Issuer Rating has been withdrawn on the receipt of request from the issuer

#details in annexure

Key Rating Drivers

Well-managed Wholesale Loan Book: CSLFL has a strong presence in the micro-markets of Delhi-National Capital Region (NCR) and experience of financing developers over the past decade, which has helped it to understand the various micro-markets in that region. From April 2021 to September 2022, the company disbursed INR7.85 billion and managed to recover INR6.17 billion. CSLFL offers funding to projects that are either in the mid-income segment or in the affordable segment, which has seen healthy traction in sales. Judicious customer selection and tight underwriting have helped CSLFL keep delinquencies under check, with nil gross non-performing assets in the wholesale book at end-September 2022 (0.1% in 1HFY22). The tight underwriting is also backed by regular monitoring of the portfolio by an inhouse team. CSLFL is the sole lender in most projects and has exclusive charge on the assets, with an asset cover of generally more than 2.0x. The company's strategy of financing projects wherein the residential units are priced in an affordable range has ensured strong sales velocity and resulted in healthy collection efficiencies. The accounts under moratorium also saw principal repayment during FY22-1HFY23 due to the sale of underlying units. Though the loan tenure is two-to-three years in most cases, the loans are closed much earlier due to better-than-estimated sales velocity.

High Micro-market Understanding, Leading to Appropriate Origination and Control: CSLFL's product offerings in real estate lending are backed by its understanding of the micro-markets in the Delhi-NCR section. CSLFL typically lends to small and mid-sized developers (non-grade I developers) with moderate credit profiles. The small developers typically work on a single project at a time and complete it 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 cases wherein the exposure to be taken is more than INR0.2 billion, CSLFL enters into a co-lending arrangement with other lenders wherein they share the exposure on the project. However, the security collateral cover is minimum 2x for each lender.

CSLFL grew its wholesale loan book to about INR4.50 billion at 1HFYE23 (2QFY22:3.22 billion, FYE21: INR2.7 billion, FYE20: INR2.5 billion) by being selective in picking up projects. This wholesale book (including mid ticket small & medium enterprises (SME) loans against property (LAP)) contributed 75% to the total portfolio at 2QFYE23. However, the company has reclassified the mid-ticket SME LAP as retail, and so the wholesale portfolio post this stands at 63%.

Stable Earnings Profile: CSLFL has generated steady returns over the past few years, with a return on assets (ROA) of 7.7% - 8%, led by the real estate lending book, which typically offers higher yields, and the SME lending portfolio. CSLFL has also shown strong control on credit costs (1HFY23: 0.5%, FY22: 0.9%, FYE21: 1.5%) in its wholesale book; in the SME book, however, the credit cost was higher due to the pain in the school financing portfolio. The ROA has also received support from the low leverage. In spite of being in the wholesale business, CSLFL's operating cost is on the higher side (operating cost to average asset: 1HFY23: 4.13 %, FY22: 3.7%, FYE21: 3.2%) due to the expenses incurred on growing the retail micro, small and medium enterprises lending book. CSLFL has been growing its SME book (end-September 2022: 25% of the assets under management, excluding mid-ticket SME LAP; if the same is included, the retail book proportion was 37%) and is in the process of increasing the productivity of the branches. By FYE24, CSLFL plans to have an equal mix of wholesale and retail book in its portfolio. An increased leverage on the SME book could lead to some moderation in the profitability. The future trajectory of CSLFL's profitability depends on credit cost control and the extraction of operating leverage from the SME infrastructure.

Comfortable Capital Position: CSLFL's capital position (total capital adequacy ratio: 1HFY23: 57.65%, FY22: 62%, FY21: 79.1%) is supported by healthy internal accruals and low leverage (1HFY23: 0.78x, FY22: 0.64x, FY21: 0.37x). Given the comfortable capital position, there might not be any equity infusion over the near term. The last equity infusion took place in FY22, when the promoter reduced their shareholding by issuing additional shares on a preferential basis to investors and raised INR0.29 billion. The leverage is likely to rise as CSLFL grows its SME portfolio, which will operate at a leverage of 3x against the wholesale book operating at a leverage of 1.5x-2x. CSLFL is at an advanced stage of 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 2QFYE23 reflected cumulative inflows in excess of cumulative outflows 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 INR0.11 billion and unutilised bank lines of INR0.28 billion at end-September 2022 will be adequate to cover six months of debt servicing. This comfortable ALM position reflects the company's comfortable leverage position. As per policy, CSLFL keeps liquidity (including unutilised cash credit lines) of 5%-6% of the book size. Ind-Ra would monitor the liquidity buffer in line with the book composition,

Modest Scale and Evolving SME business: The company started retail lending through its SME products in FY17 and it is yet to see a full cycle (86% of the book has a tenure of more than six years). The disbursements for the SME book for the 12 months ended September 2022 accounted for 80% of the outstanding loans. In FY22, the SME-related product offerings were affected by COVID-19, leading to lower collection efficiency during the year. However, the collection efficiency improved in 1HFY23. The SME loan book of INR2.2 billion (including mid-sized LAP) at 2QFYE23 (2QFYE22: INR 0.62 billion, 1QFYE22: INR0.59 billion, FYE21: INR0.62 billion, FYE20: INR0.73 billion) constituted about 37% of CSLFL's total portfolio. The agency expects the SME business to achieve steady state over the medium term, similar to higher rated standalone peers. The company has 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. By FYE24, the company aims to increase the proportion of retail assets to 50% of its loan book. Ind-Ra will closely monitor the asset quality performance of the SME book as it seasons.

Improvement in Funding Diversity: At end-October 2022, the company had an outstanding debt of INR2.8 billion through non-convertible debentures (14% of the total borrowings), term loan (77%) and working capital lines (9%). The total number of lenders with whom CSLFL has established relationships stood at 11 at end-October 2022 compared to four lenders at end-August 2021. It has been able to mobilise funds from bigger lenders in the public and private sector banking space. The tenure of the term loan ranges from two to six years. It has been raising funds at rates that are commensurate with its rating category. CSLFL's ability to deepen its borrowing relationships with existing lenders and broaden the base of lenders will be key monitorable.

Wholesale Book exposed to Concentration Risk: The wholesale book has performed well for CSLFL due to better sales velocity in the affordable ticket size units. The escrow collections were robust immediately after the covid period. The book is well managed; however, as in the case of any other wholesale portfolio, it is exposed to concentration risks, with the top five exposures accounting for 16.3% of the total loan book and about 28% 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 the Delhi-NCR region. CSLFL is in the process of expanding into contiguous geographies.

The delinquencies in the SME book have improved significantly (90dpd: 3.6% at end-September 2022, 8.6% at FYE22). The collection efficiency improved to 97% in 2QFY23 from 75% in 2QFY22. However, the SME book is unseasoned and the asset quality track record will be established only with time. At an aggregate level, the gross non-performing assets stood at 0.83% at 1HFYE23 (FY22: 1.7%, FYE21: 2.11%). The provision coverage ratio for the total book stood at 1.35% at 2QFYE23, with stage 3 cover of 42% (FYE22: 45%, FYE21: 43%). Under Ind-Ra's stress scenario, the pre-provisioning operating profit buffers would be adequate to absorb the potential elevation in credit cost, and the capital buffers would be able to absorb even extreme stress on the asset quality. Even if the top two group exposures are assumed to default and the credit cost is split between two years, the capital buffers would be intact since CSLFL is operating at a low leverage.

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 with adequate seasoning

funding diversity

maintenance of adequate liquidity buffers

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

- sustained deterioration in the asset quality such that it leads to a material annual loss
- leverage above 3x on a sustained basis
- the liquidity buffers falling below three months of debt repayment commitments on a sustained basis

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on CSLFL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

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 in FY17, it added SME loans to its product suite. CSLFL is listed on the National Stock Exchange and Bombay Stock Exchange. Its promoter/promoter group shareholding at 2QFYE23 was 51.32%. The company's retail SME loans are secured loans, with loans with ticket size of up to INR3 million constituting 71% of the portfolio.

FINANCIAL SUMMARY

Particulars (INR billion)	**FY22**	**FY21**
Total tangible assets	5.31	3.47
Total tangible net worth	3.20	2.58
Net profit	0.33	0.28
Return on average assets (%)	7.62	8.15
Tangible equity/tangible assets (%)	60.31	74.52
Source: Ind-Ra, CSLFL annual report		

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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating	
	Rating Type	Rated Limits (million)	Rating/Outlook	31 December 2021	15 December 2021
Issuer rating	Long-term	-	WD	IND BBB+/stable	IND BBB+/stable
Long term bank loans	Long-term	INR2600	IND BBB+/stable	IND BBB+/stable	-
NCD	Long term	INR400	IND BBB+/stable	IND BBB+/stable	-

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCDs	INE718F07015	10 August 2020	10.25	21 April 2023	INR300	IND BBB+/Stable
NCDs	INE718F07023	20 October 2020	10	21 April 2023	INR100	IND BBB+/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Level
Bank loans	Low
NCD	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Contact

Primary Analyst
Pankaj Naik
Director
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
+91 22 40001723
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Aishwary Khandelwal
Senior Analyst
+91 22 40001700

Chairperson
Jindal Haria
Director
+91 22 40001750

Media Relation
Ankur Dahiya
Senior Manager – Corporate Communication
+91 22 40356121

APPLICABLE CRITERIA

Evaluating Corporate Governance

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

The Rating Process

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CSL Finance Limited

Credit Rating Review Presentation

DECEMBER 2022

Robust Financial Performance

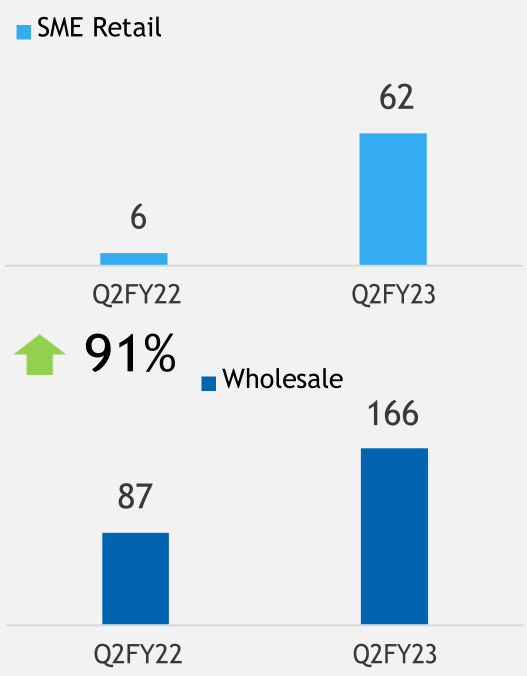
(Value in Cr.)

	REVENUE	NET INTEREST INCOME	PAT	AUM	NET WORTH	BORROWING	RETURN ON EQUITY
Q2 FY23	27.40	21.20	11.20	602	338.37	262.78	12.91%
	60%	49%	58%	59%	25%	140%	24%
Q2 FY22	17.16	14.20	7.10	380	271.48	109.35	10.39%

Growing Loan Book

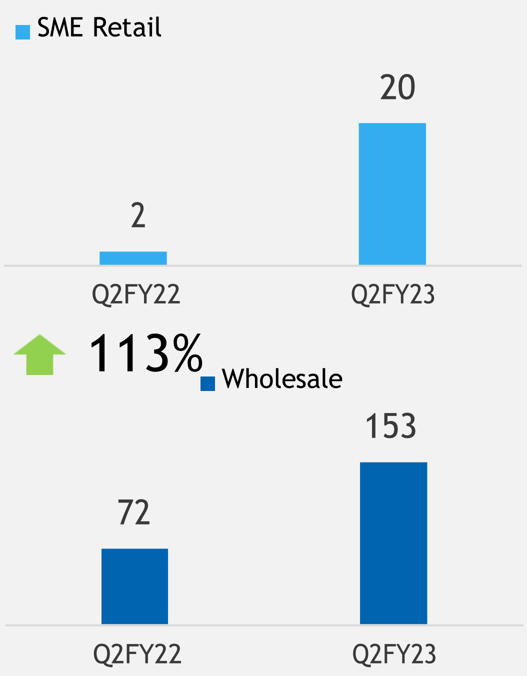
Disbursement

10X



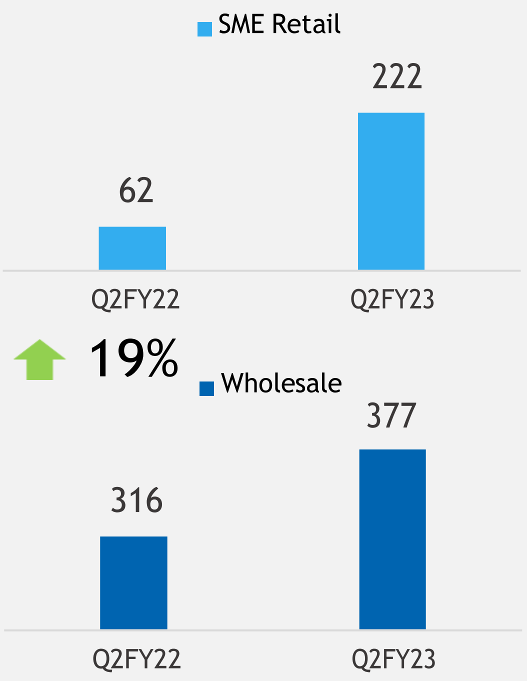
Collection

10X

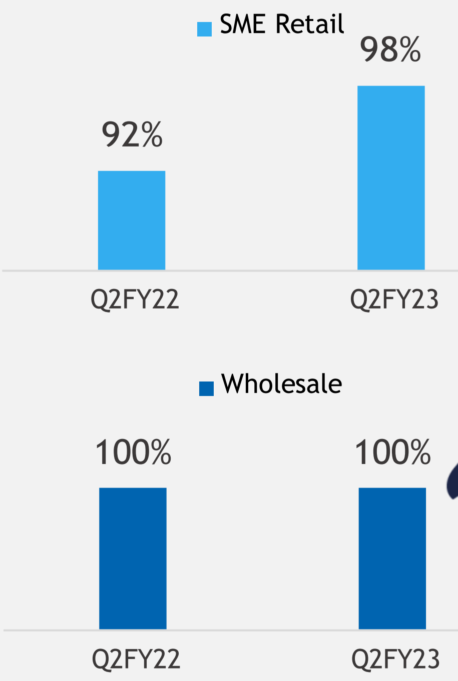


Loan Book

3.6X

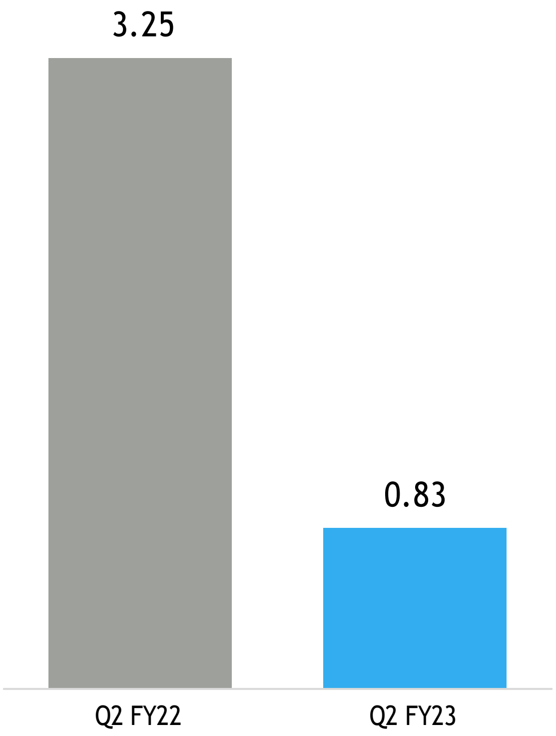


Collection Efficiency

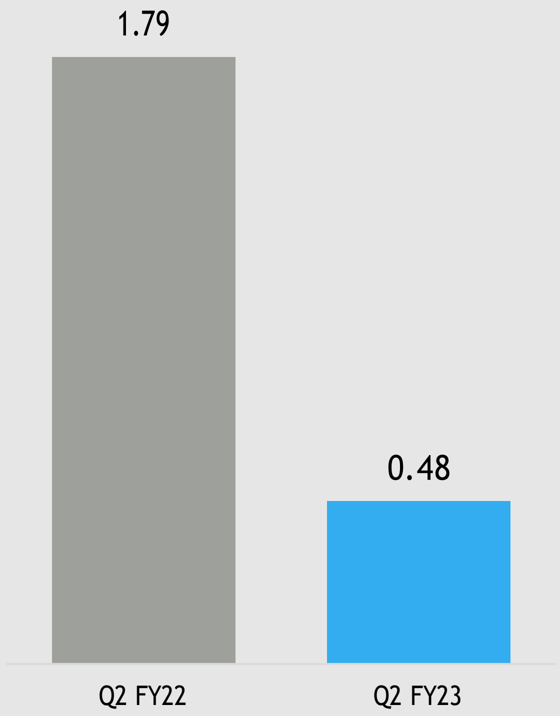


Improving Asset Quality

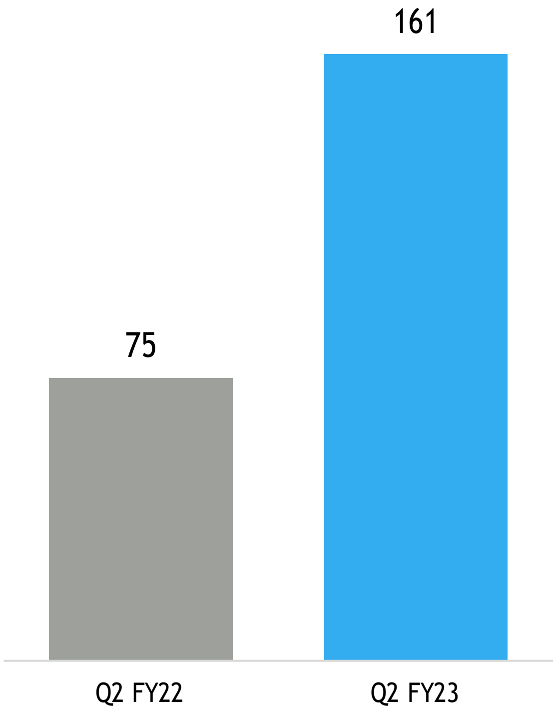
GNPA
(%)



NNPA
(%)



PROVISIONAL COVERAGE RATIO
(%)



Treasury Updates

As on 30th September 2022

0.78X D/E	₹29 Crores	No ALM Mismatch	58% CAR	₹30 Crores
Leverage ratio is at **0.78x** with total outstanding borrowings of INR 262.80 Crores	Adequate **liquidity and undrawn Credit** facilities of INR 29.00 crores	**No ALM mismatch** in the coming 24 months	Net Owned Funds are INR 338 Crores with Capital adequacy Ratio of **58%**	**Equity Fund Raise** of INR 30 Crores from marquee investors : • Mr. Sanjay Gupta (Chairman & Managing Director of APL Apollo Group) • Mr. Lalit Dua (Promoter of Rajasthan Global Securities Private Limited)

Increasing Lender Base

On-boarded 7 new lenders from in last 12 months, taking the total count to 11 lenders as on date

SBI

pnb
punjab national bank
पंजाब नैशनल बैंक

TATA CAPITAL

AU
AU SMALL FINANCE BANK

kotak
Kotak Mahindra Bank

Indian Bank

kotak
Kotak Mahindra Investments Limited

HDFC BANK

Chola

FEDERAL BANK
YOUR PERFECT BANKING PARTNER

ICICI Bank

Best Corporate Governance Practices

Listed on National Stock Exchange (NSE) this year

Appointed renowned audit firm M/s S.P Chopra & Co. (SPC) as Statutory Auditors with a vast experience in BFSI sector.

No compliance failure on any account

On-boarded two key independent directors namely:

- Mr. Chander Subhash Kwatra (Ex-CFO in Punjab & Sind Bank)
- Mr. Parmod Bindal (Ex-Director in Steel Authority of India Limited)

SME Retail: Operational Updates

1. Complete Makeover of SME Branches – refurnishing, improved infrastructure, relocation of branches
2. Appointed key leaders & department heads – operations , legal & credit
3. Categorized existing products in 4 categories – Jyoti, Shakti, Samadhan & Sarthak
4. Migrated to new fully digitalized platform from Onboarding to Collections with interactive dashboards and MIS
5. NPA Resolution
   - Through SARFAESI Act. we have seen good resolution of NPA cases. As on date, we have 38 cases amounting to INR 9.44 Crores out of which we have recovered (Closed/Regularised) 23 cases amounting to INR 6.13 Crores
   - We are quite hopeful of recovering the remaining cases in next 12 months
6. Reasonable recoveries of INR 2.33 Cr In FY22 from the total written off accounts of 6.37 Cr in FY19

19 to 26 Branches
Expanded from 19 to 26 YoY

143 to 247 Team
Strength increased from 143 to 247 YoY

Decline
In SME GNPA & NNPA to 2.23% & 1.30% as at Q2FY23 as compared to 6.31% & 3.49% as at FY22

Wholesale: Operational Updates

01 **SUPERIOR PERFORMANCE**
Wholesale portfolio have performed exceptionally well in last 4-5 years

02 **STRINGENT CREDIT POLICIES**
Implemented stringent credit policies and review system for on-boarding of clients

03 **NO DELINQUENCIES**
No delinquencies till date

04 **STRONG COLLECTIONS**
Collections has been very strong due to escrow mechanism & repayments are running well in advance of scheduled repayments

05 **COLLECTION EFFICIENCY OVER 100%**
Collection Efficiency has been over 100% for last 3-4 years due to high collections.