

Centrum Financial Services Limited
December 18, 2020

Ratings

Instrument	Amount rated (Rs. Crores)	Rating	Rating Action
Commercial Paper Programme	20.00 (Twenty Crores Only)	CARE A1+ (CE) [A one Plus (Credit Enhancement)]	Final Rating Assigned
	60.00 (Fifty Five Crores Only)	Provisional CARE A1+ (CE) [Provisional A one Plus (Credit Enhancement)]	Reaffirmed
	20.00 (Twenty Five Crores Only)	CARE A1+ (CE) [A one Plus (Credit Enhancement)]	Reaffirmed
Total	100.00 (Hundred Crores Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had assigned a rating of 'Provisional CARE A1+ (SO)' [pronounced as Provisional A One Plus (Structured Obligation)] to the Commercial Paper Programme (Rs. 100 Crore) of Centrum Financial Services Limited (CFSL/ Issuer). On Aug 20, 2019 and Jan 8, 2020, the first and second tranche of the CP (amounting to Rs. 25 Crore and Rs. 20 crore respectively) was assigned final rating based on submission of executed documents and legal opinion. Further as per SEBI circular on suffixing SO/CE, the suffix was modified to 'Provisional CARE A1+ (CE)' [pronounced as Provisional A One Plus (Credit Enhancement)] and 'CARE A1+ (CE)' [pronounced as A One Plus (Credit Enhancement)] accordingly.

The rating of the third tranche (Rs. 20 Crore) is now confirmed at 'CARE A1+ (CE)' [pronounced as A One Plus (Credit Enhancement)] for the Commercial Paper issuance of CFSL. The rating assigned is finalized based on the structure provided to CARE by CFSL, the Issuer. CARE has also reviewed the executed documents namely Deed of Assignment (and Addendum thereto), Indenture of Trust and an Amendment thereto, Trust and Retention Agreement and an Accession thereto, Deed of Guarantee cum Undertaking, Issuing and Paying Agency Agreement, Legal Memorandum and a Withholding Tax Applicability Report from an external auditor. CARE has also been provided a copy of the Consent Letter signed by IDBI Trusteeship, accepting the appointment as the Trustee to this CP Programme and as a signatory to the executed documents. Further, CARE has relied on the opinion from an independent legal counsel certifying the compliance of the executed documents with the structure originally provided to CARE.

The rating is based on the credit profile of CFSL (rated 'CARE BBB+; Stable') coupled with additional cover provided to the CP investors in the form of vendor receivables. Further, comfort is drawn from the vendor receivables being due from strong counterparty i.e. Larsen & Toubro Ltd., the transaction structure with defined payment mechanism and the bankruptcy remoteness of the structure.

CFSL (is a part of the Centrum Group which has established presence in the financial services segment through Centrum Wealth Management, Centrum Broking Services and other subsidiaries.

Vendors of Larsen & Toubro Limited (L&T/Anchor) avail financing from CFSL against the receivables due from the Anchor by means of invoice discounting. All the receivables from the invoice discounting program have been assigned to a Trust (Vendor Trust). The Vendors have authorized CFSL to assign these receivables on their behalf to avail funding. The receivables being part of the Vendor Trust are bankruptcy remote from the creditors of both CFSL and Vendors.

The CP is backed by an unconditional and irrevocable guarantee from the Vendor Trust, for the entire tenure of this CP tranche. The Anchor has confirmed that it would make all payments against these invoices directly into the Designated Account; to ensure no commingling of cash flows with CFSL.

The asset cover (pool of receivables) is available for the payment of CP obligation if CFSL fails to arrange the funds as per the payment mechanism. The receivables assigned to each CP tranche must be a minimum of 1.2x times the maturity value of that CP tranche at all times.

Invoices that are raised against goods and certified as 'good for payment' (Certified Invoices) shall comprise the asset cover. Also, the residual maturity of pool receivables must be at least 30 days prior to the maturity date of the CP. This would ensure that the monies lying in the account are sufficient to meet payment obligations of the CP. Vendors that are overdue by more than 5 days have been excluded from the pool that would be assigned to the CP tranche. Similarly, receivables originating from a single vendor are less than 5% and no one invoice accounts for more than 1% of the pool assigned to this CP tranche.

While the primary obligation of repayment of the CP is of CFSL, the receivables act as a layer of security to the transaction. If the Issuer is unable to meet its obligations, the Vendor Trust Guarantee shall be invoked and the collections from the Pool shall be utilized for making payment to the CP investors. Thus the CP investors are benefitted from this additional layer of security in case payment obligation is not met by Issuer.

The Pool is dynamic wherein collections from matured invoices can be used to purchase new vendor receivables that meet the eligibility criteria while maintaining asset cover. The issuer can withdraw money lying in the Designated Account provided it is replaced through an unconditional and irrevocable SBLC rated 'CARE A1+' in favor of the CP Trustee or new invoices are assigned to the CP tranche so that asset cover is maintained.

Rating sensitivities

Negative factors: Factors that could lead to negative rating action / downgrade:

- Substantial moderation in the credit profile of the Anchor
- Shrinkage in availability of eligible assets that could be assigned to the pool
- Liquidity stress at entity level for CFSL

Liquidity: Adequate

The CP investors have the benefit of dual recourse i.e. on the Issuer and on the Vendor Trust in the event of default by the Issuer. There must be a minimum gap of 30 days between cash flow realizations from the invoices assigned to each CP tranche and maturity of the CP tranche. This would ensure sufficient liquidity is available with the Vendor Trust to cover any shortfalls in payment to the CP investors.

Further, The Company's ALM profile shows no negative gaps on a cumulative basis as on June 30, 2020 on higher proportion of Supply chain book, which is short term in nature. As per liquidity statement dated June 30, 2020, CFSL cash and bank balance of Rs.112.38 crore against which company has debt outflows of around Rs.264 crore until December 2020. The company had a cash and bank balance of Rs.168 crores and undrawn sanctioned bank lines of Rs.90 crores as on September 30, 2020. During September 2020, the company has prepaid debt obligations amounting to Rs.23.50 crore 1-2 months ahead of their due date. The SCF book provides flexibility to the ALM

Applicable Criteria

[CARE's methodology for Asset / Mortgage Backed Securitization](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Financial ratios – Financial sector](#)

[Criteria for Non Banking Financial Companies](#)

About the Company

CFSL, a registered Non-Banking Finance Company was incorporated on 1993 and has lending products such as supply chain, commercial finance, real estate, MSME, and financial intermediary. The company started to grow its portfolio since FY17 and as on March 31, 2020 the total outstanding loan portfolio stood at Rs.878 crore.

Brief Financials (Rs. crore)	FY19(A)	FY20(A)
Total income	101.98	149.42
PAT	-8.84	8.23
Tangible Net worth [§]	282.35	295.71
Loans outstanding	1133.5	877.56
Total Assets	1353.26	1068.76
ROTA (%)	-0.93	0.68

A: Audited

§: Compulsory Convertible Debentures amounting to Rs.15.09 crore have been considered as equity in calculations

All analytical ratios in this release are based on CARE's 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. crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	-	20.00	CARE A1+ (CE)

Commercial Paper	-	-	-	60.00	Provisional CARE A1+ (CE)
Commercial Paper	-	-	-	20.00	CARE A1+ (CE)

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.	Fund-based - LT-Term Loan	LT	300.00	CARE BBB+; Stable	1)CARE BBB+; Stable (10-Nov-20) 2)CARE BBB+; Stable (07-Oct-20)	1)CARE A-; Negative (09-Oct-19)	1)CARE A-; Stable (06-Jul-18)	-
2.	Commercial Paper	ST	-	-	-	1)Withdrawn (17-Oct-19) 2)CARE A2+ (09-Oct-19)	1)CARE A2+ (26-Sep-18) 2)CARE A2+ (24-Aug-18)	-
3.	Debentures-Market Linked Debentures	LT	42.40	CARE PP-MLD BBB+; Stable	1)CARE PP-MLD BBB+; Stable (10-Nov-20) 2)CARE PP-MLD BBB+; Stable (07-Oct-20) 3)CARE PP MLD A-; Negative (09-Jul-20)	1)CARE PP MLD A-; Negative (09-Oct-19)	1)CARE PP MLD A-; Stable (26-Sep-18)	-
4.	Debentures-Market Linked Debentures	LT	50.00	CARE PP-MLD BBB+; Stable	1)CARE PP-MLD BBB+; Stable (10-Nov-20) 2)CARE PP-MLD BBB+; Stable (07-Oct-20)	1)CARE PP MLD A-; Negative (09-Oct-19)	1)CARE PP MLD A-; Stable (07-Dec-18)	-
5.	Debentures-Market Linked Debentures	LT	100.00	CARE PP-MLD BBB+; Stable	1)CARE PP-MLD BBB+; Stable (10-Nov-20) 2)CARE PP-MLD BBB+; Stable (07-Oct-20)	1)CARE PP MLD A-; Negative (09-Oct-19)	1)CARE PP MLD A-; Stable (18-Feb-19)	-

6.	Debentures-Market Linked Debentures	LT	200.00	CARE PP-MLD BBB+; Stable	1)CARE PP-MLD BBB+; Stable (10-Nov-20) 2)CARE PP-MLD BBB+; Stable (07-Oct-20)	1)CARE MLD A-; Negative (09-Oct-19) 2)CARE PP MLD A-; Stable (13-May-19)	-	-
7.	Commercial Paper	ST	20.00	CARE A1+ (CE)	1)Provisional CARE A1+ (CE) (20-Nov-20)	1)CARE A1+ (SO) (20-Aug-19) 2)Provisional CARE A1+ (SO) (03-Jul-19)	-	-
8.	Commercial Paper	ST	60.00	Provisional CARE A1+ (CE)	1)Provisional CARE A1+ (CE) (20-Nov-20)	1)Provisional CARE A1+ (CE) (08-Jan-20) 2)Provisional CARE A1+ (SO) (20-Aug-19)	-	-
9.	Debentures-Market Linked Debentures	LT	50.00	CARE PP-MLD BBB+; Stable	1)CARE PP-MLD BBB+; Stable (10-Nov-20) 2)CARE PP-MLD BBB+; Stable (07-Oct-20)	1)CARE PP MLD A-; Negative (16-Dec-19)	-	-
10.	Commercial Paper	ST	20.00	CARE A1+ (CE)	1)CARE A1+ (CE) (20-Nov-20)	1)CARE A1+ (CE) (08-Jan-20)	-	-
11.	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB+; Stable	1)CARE BBB+; Stable (10-Nov-20) 2)CARE BBB+; Stable (07-Oct-20) 3)CARE A-; Negative (18-May-20)	-	-	-
12.	Commercial Paper	ST	-	-	1)Withdrawn (29-Sep-20) 2)CARE A2+ (10-Jun-20)	-	-	-
13.	Debentures-Market Linked Debentures	LT	-	-	1)Withdrawn (09-Jul-20) 2)CARE PP MLD A-; Negative (10-Jun-20)	-	-	-

14.	Debentures-Non Convertible Debentures	LT	100.00	CARE BBB+; Stable	1)CARE BBB+; Stable (10-Nov-20) 2)CARE BBB+; Stable (07-Oct-20) 3)CARE A-; Negative (09-Jul-20)	-	-	-
15.	Debentures-Market Linked Debentures	LT	100.00	CARE PP-MLD BBB+; Stable	1)CARE PP-MLD BBB+; Stable (10-Nov-20) 2)CARE PP-MLD BBB+; Stable (22-Oct-20)	-	-	-
16.	Debentures-Non Convertible Debentures	LT	200.00	CARE BBB+; Stable	1)CARE BBB+; Stable (10-Nov-20) 2)CARE BBB+; Stable (22-Oct-20)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper	Highly Complex

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

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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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