(CIN-L65923DL1985PLC195299)

04.10.2023

Listing Compliance
National Stock Exchange of India Limited (NSE)
Exchange Plaza, Bandra Kurla Complex,
Bandra East, Mumbai 400051
Scrip Code: CAPTRUST

The Secretary - Listing Department
Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai
Scrip Code – 511505

Sub: Intimation under regulation 30 regarding rating

Dear Sirs,

We wish to inform you that Care Ratings Limited has upgraded the rating of the company from CARE BB+ Negative outlook to CARE BB+ Stable Outlook for the various borrowings.

The rating rationale is attached herewith.

Kindly take a note of the same.

Thanking you

Yours Truly,
For Capital Trust Limited

VINOD RAINA Digitally signed by VINOD RAINA
Date: 2023.10.04 15:56:59 +05'30'

Vinod Raina
Chief Financial Officer

Capital Trust Limited

October 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	50.00 (Reduced from 100.00)	CARE BB+; Stable	Reaffirmed; Outlook revised from Negative
Non-convertible debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating for the long-term bank facilities of Capital Trust Limited (CTL) is constrained due to small scale of operations and continued net losses from FY21- FY23, although reported profit after tax (PAT) in Q1FY24. The rating is also constrained by low seasoning and inherent risk involved in the industry including unsecured lending, marginal profile of borrowers, socio-political intervention and regulatory risk.

The rating, however, derives strength from improved asset quality with the company writing-off the stressed legacy portfolio and low gearing as on June 30, 2023, underpinned by sizeable repayments the company made to its lenders, leading to reduction in debt profile. CARE Ratings Limited (CARE Ratings) also takes note of the company's view towards building a sustainable Business Correspondent (BC) partner model for lending institutions and maintaining sustainable on-book portfolio with moderate gearing levels going forward.

Going forward, the ability of the company to attain sustainable growth in its portfolio, maintain sufficient liquidity and improving its profitability would be the key rating sensitivities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could individually or collectively lead to positive rating action/upgrade:

- Sizable scaling up of operations while maintaining asset quality.
- Sizable improvement in the net worth position.

Negative factors – Factors that could individually or collectively lead to negative rating action/downgrade:

- Significant deterioration in asset quality resulting in subdued profitability profile.
- Decline in the liquidity profile of the company.

Analytical approach:

Standalone

Outlook: Stable

CARE Ratings expects limited incremental stress on the assets under management (AUM) with CTL writing off its stressed legacy portfolio. Furthermore, CARE Ratings expects the AUM to consistently grow going forward while maintaining asset quality.

Detailed description of the key rating drivers:

Key weaknesses

Small scale of operation, albeit picking up pace since Q1FY24

The legacy portfolio of CTL was towards lending in joint liability group (JLG) model for large ticket size with cash collection model. These were long-tenured loans comprising four products, namely, Micro Finance Loan (MFL), Micro Enterprise Loan (MEL), Micro Business Loan (MBL) and Secured Enterprise Loan (SEL). The legacy portfolio was severely impacted post demonetisation leading to weakened asset quality. Therefore, the company decided to stop the disbursements under the said portfolio since March 31, 2020. The proportion of legacy portfolio has been coming down since FY20 and with CTL writing-off ₹82.88 crore of the legacy portfolio in FY23, it further came down to ₹30 crore as on March 31, 2023, and then to ₹28 crore as on June 30, 2023.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The digital portfolio of CTL is now the flagship product launched in FY20. It caters to micro, small and medium enterprises (MSME) by providing short tenured business loan (12 – 24 months) with small ticket size (₹30,000 - ₹75,000). With the improved systems, the digital portfolio is picking up pace for growth with ₹162 crore as on March 31, 2022 from ₹2 crore as on March 31, 2019. Although the digital portfolio came down to ₹120 crore as on March 31, 2023, in Q1FY24, the digital portfolio grew by 15% YTD to ₹138 crore, as on June 30, 2023.

With the write-off of sizable legacy portfolio, the overall AUM of CTL came down to ₹150 crore as on March 31, 2023 (-50% y-o-y) and rose to ₹166 crore (+11% YTD), driven by the digital portfolio.

Furthermore, the company is increasing its AUM through off balance sheet thereby the share of off book portfolio in the AUM has risen to 71% as on March 31, 2023 up from 24% as on March 31, 2022. CTL has off balance sheet tie ups with bank, non-banking finance companies (NBFCs) for direct assignment (DA), co- lending, business correspondence (BC).

Going forward, CARE Ratings expects the AUM to grow on gradual pace.

Weak profitability
CTL has been reporting net losses for consecutive three years owing to run down of legacy portfolio and rising credit costs. With the company writing-off significant share of portfolio in FY23, the net losses exacerbated to ₹46 crore from net losses of ₹11 crore in FY22. However, with the company receiving recovery from the written-off accounts in Q1FY24, it reported net profit of ₹0.5 crore in Q1FY24.

With company focussing on building the AUM through off book, there has been significant rise in the fee income from BC (₹26 crore in FY23 from ₹7 crore in FY22), leading to rise in the fee income ratio 10% in FY23 from 3% in FY22. CTL wrote off ₹82.88 crore of the legacy portfolio in FY23. While ₹38.63 crore of it was already provided for, provisions were made for the balance in FY23, leading to significant rise in the credit costs. The credit cost ratio increased significantly to 13% in FY23 from 1% in FY22. This resulted in the company reporting return on total assets (RoTA) of negative 20% in FY23.

However, in Q1Fy24, with it receiving recovery from the written off accounts, credit cost ratio stood negative 25%. With this, the RoTA improved to 2% in Q1FY24.

Going forward, CARE Ratings expects the profitability profile to improve, provided CTL is able to grow its operations while maintaining asset quality.

Limited track record of digital portfolio
Though, CTL has been operating in the MSME industry for around 14 years with legacy portfolio, which is now being run down, the new digital portfolio, started in FY20, of short tenured loan with seasoning of three years.

Limited lender base
Majority borrowings by CTL are from private institutions with 52% and balance from two banks. Also, due to asset quality stress and significant bullet repayments due in Q1FY24, the company was able to raise limited resources from lenders in FY23. However, over the past four months, the company has successfully raised ₹32 crore (69% of borrowings as on June 30, 2023). Going forward, CARE Ratings will continue to monitor CTL's ability to raise funds at competitive rates.

Industry risk
The MSME industry continues to be impacted by the inherent risk involved, viz., socio-political intervention risk and regulatory uncertainty as well as risks emanating from unsecured lending and marginal profile of borrowers and their vulnerability to economic downturns besides operational risks.

Key strengths

Improved asset quality metrics
The asset quality of CTL had weakened post demonetisation. With this, the company decided to run down its legacy portfolio. Due to this, the gross non-performing assets (GNPA) ratio had increased to 5.18% as on March 31, 2022. Majority of NPAs emanated from the legacy portfolio, while the digital portfolio which started in September 2021 and formed 54% of the AUM as on March 31, 2022, contributed to lesser delinquencies vis-à-vis the legacy portfolio.

With CTL writing off the legacy portfolio, the GNPA ratio improved as on March 31, 2023 with 0.02%. On AUM basis also, the GNPA improved to 1% as on March 31, 2023 from 8% as on March 31, 2022. With the write off, there is NIL restructured portfolio as on March 31, 2023, from restructured portfolio of 37% of AUM as on March 31, 2022.

With monitoring and collection strategy changed, the 30+ dpd as well 90+ dpd in CDL has improved with 1.79% and 1.27%, respectively, as on March 31, 2023 and 1.61% and 1.08%, respectively, June 30, 2023, from 3.44% and 2.33%, respectively, as on March 31, 2022.

Going forward, with CTL writing off the legacy portfolio which was the major contributor for the NPAs in the company and the reduced delinquencies in the digital portfolio, CARE Ratings expects the asset quality to remain controlled. However, the company's ability to maintain the asset quality while increasing the scale of operations remain monitorable.

Comfortable capital position, though tangible net worth in absolute terms remain low
With CTL reporting continuous net losses, the tangible net worth (TNW) has been reducing over the years. As the company has written off significant share of AUM, the TNW has further eroded to ₹25 crore as on March 31, 2023 from ₹86 crore as on March 31, 2022. It remained at similar level as on June 30, 2023 with ₹26 crore. With the TNW reducing, the overall gearing level rose to 4x as on March 31, 2023 from 2x as on March 31, 2022. However, as the company paid off its debt amounting to ₹77 crore (₹46 crore sub debt and ₹31 crore NCD) in April and May 2023, leading to reduction in borrowing levels, resulting to improvement in gearing levels to 1x as on June 30, 2023.

Geographically diversified operations
CTL operates in 10 states, with majority proportion of AUM in Bihar with 34%, followed by Uttar Pradesh with 20%, Madhya Pradesh with 11% and balance by seven states, namely, Punjab, Jharkhand, Odisha, Rajasthan, Uttarakhand, Delhi, Chhattisgarh as on March 31, 2023. The concentration in Bihar has been rising to 36% as on June 30, 2023 from 23% as on March 31, 2022. Before demonetisation, Uttar Pradesh had the highest exposure of the AUM which has been coming down since then with 34% as on March 31, 2018 to 20% as on March 31, 2023. However, it has been on a rise since FY22 with 10% from 6% as on March 31, 2021. Furthermore, CTL has revised its policy with no state allowed to have more than 35% concentration.

Liquidity: Adequate
CTL reported positive cumulative mismatches across all time buckets as per the asset liability maturity (ALM) statement as on June 30, 2023. CTL has cash balance ₹14 crore and liquid investments of ₹50 lakh as on August 31, 2023. The company also has undrawn sanctioned limits of ₹2 crore.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non Banking Financial Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

CTL was incorporated in August 1985 as a non-deposit taking NBFC. The company is promoted by Yogen Khosla, holding 37% as on June 30, 2023. The promoter group for the company, comprising Yogen Khosla and Moonlight Equity Private Limited (30% as on June 30, 2023), together held 67% stake in the company as on June 30, 2023. CTL started the digital lending portfolio in Q2FY21 with one product branded as Capital Magic Loan (CML). The CDL portfolio caters to MSME with a short tenured unsecured business loan having 100% digital disbursement and first mode of repayment through National Automated Clearing House (NACH).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY23 (UA)
Total income	88.36	62.92	10.77
PAT	-10.82	-45.64	0.48
Interest coverage (times)	0.56	-1.84	1.32
Total assets	319.89	138.21	77.34
Net NPA (%)	3.19	0.02	0.00

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY23 (UA)
ROTA (%)	Not meaningful	-19.93	1.78

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures	INE707C07023	13-Aug-2020	11.50%	21-Apr-2023	0.00	Withdrawn*
Fund-based - LT-Cash credit		-	-	-	5.00	CARE BB+; Stable
Fund-based - LT-Term loan	-	-	-	May 2023**	5.27	CARE BB+; Stable
Fund-based - LT-Term loan	Proposed	-	-	-	39.73	CARE BB+; Stable

*withdrawn on receipt of no dues certificate
**to be withdrawn on receipt of no dues certificate

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT*	45.00	CARE BB+; Stable	-	1)CARE BB+; Negative (06-Oct-22)	1)CARE BBB-; Negative (07-Oct-21)	1)CARE BBB-; Stable (07-Jan-21) 2)CARE BBB-; Stable (09-Jun-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
2	Fund-based - LT-Cash credit	LT	5.00	CARE BB+; Stable	-	1)CARE BB+; Negative (06-Oct-22)	1)CARE BBB-; Negative (07-Oct-21)	1)CARE BBB-; Stable (07-Jan-21) 2)CARE BBB-; Stable (09-Jun-20)
3	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (07-Jan-21) 2)CARE BBB-; Stable (06-Aug-20) 3)CARE BBB-; Stable (09-Jun-20)
4	Debentures-Non-convertible debentures	LT	-	-	-	1)CARE BB+; Negative (06-Oct-22)	1)CARE BBB-; Negative (07-Oct-21)	1)CARE BBB-; Stable (07-Jan-21) 2)CARE BBB-; Stable (06-Aug-20)

*Long term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Fund-based - LT-Cash credit	Simple
3	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Gaurav Dixit Director **CARE Ratings Limited** Phone: +91-11-4533 3235 E-mail: gaurav.dixit@careedge.in
Relationship Contact Dinesh Sharma Director **CARE Ratings Limited** Phone: +91-11-4533 3200 E-mail: dinesh.sharma@careedge.in	Neha Kadiyan Associate Director **CARE Ratings Limited** Phone: +91-11-4533 3262 E-mail: Neha.Kadiyan@careedge.in Deepshi Panda Lead Analyst **CARE Ratings Limited** E-mail: deepshi.panda@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in