(CIN-L65923DL1985PLC195299)

13.10.2021

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 assigned the rating of the company as CARE BBB- 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
Chief Financial Officer

Capital Trust Limited
Registered Office: 205, Centrum Mall, Sultanpur, M G Road, New Delhi-110030
Phone: 9999074312 Email: info@capitaltrust.in Web: www.capitaltrust.in

Capital Trust Limited

Ratings

Instrument / Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	300.00	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Total Facilities	**300.00 [Rs. Three Hundred Crore Only]**		
Non-Convertible Debenture	30.00	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Total Long Term Instruments	**30.00 [Rs. Thirty Crore Only]**		

Details of instrument/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings for long term bank facilities and Non-Convertible Debentures (NCDs) of Capital Trust Limited (CTL) continues to derive comfort from the long-standing experience of promoters, low gearing, moderate liquidity profile adequate underwriting systems and processes under new mode lending under digital base and moderate geographic diversification. CARE also takes note of company's view towards building a suitable/sustainable Business Correspondent (BC) partner for lending institutions and maintaining sustainable on-book portfolio with moderate gearing levels going forward.

However, the ratings continue to be constrained by protracted decline in consolidated Assets Under Management (AUM), decline in profits with company reporting net losses for FY21 and impending asset quality issues. The decline in AUM was driven by strategic shift from cash-based collection system to digital transactions. The company has shifted its strategic focus to incrementally disbursing shorter tenured, higher yield loans only under digital mode of transactions however currently this portfolio has limited seasoning and performance of the same is yet to be seen over a longer period. The ratings continue to take into consideration the inherent risk involved in the industry including unsecured lending, marginal profile of borrowers, socio-political intervention and regulatory risk.

Going forward, the ability of the company to improve its collections especially recovery from borrowers in overdue buckets and written-off portfolio during the stressful scenario of COVID-19, attain sustainable growth in its portfolio, maintain sufficient liquidity and improving its profitability and asset quality would be the key rating sensitivities.

Rating Sensitivities

Positive Factors- ***Factors that could individually or collectively lead to positive rating action/upgrade:***

- Maintaining healthy collection efficiency on sustainable basis for longer term
- Recoveries from written-off / delinquent accounts
- Profitable Scaling up of business operations

Negative Factors- ***Factors that could individually or collectively lead to negative rating action/downgrade:***

- Deterioration in asset quality
- Decline in liquidity profile of the company

Outlook: Negative

The outlook has been revised to 'Negative' on account of deterioration in the asset quality and decline in profitability with company reporting losses in FY21 and Q1FY22. With the company's significant exposure to vulnerable asset classes, the asset quality is expected to remain under pressure in the medium term and will remain a key monitorable. The outlook may be revised to 'Stable' if the CTL is able to increase its AUM and report profits with improvement in its asset quality parameters.

Detailed description of the key rating drivers

Key Rating Strengths

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Experienced promoters and management: CTL is promoted by Mr. Yogen Khosla. As on June 30, 2021, the promotor group of the company held 66.95% stake which includes Mr. Yogen Khosla (36.91%), Indo Crediop Private Limited (20.95%) and Moonlight Equity Private Limited (9.09%). Lighthouse Emerging India Investors Limited held 2.47% stake, India 2020 II Investors Limited held 14.80% stake and balance was held by others as on June 30, 2021. Mr. Khosla is Chairman and Managing Director (MD) of the company having over 20 years of experience. The operations of the company are managed by the promoters with the help of management team with experience in their respective domain area. The company operations are governed by Board of Directors including one executive director from the promoter family and four independent directors.

Moderate capital structure: Upon the transition to IND-AS in Q1FY20, CTL made some adjustments due to which the net worth of the company was written down and net worth end FY19 was restated at Rs. 122 crore. Subsequently, owing to positive internal accruals, the tangible net-worth (excl. DTAs and intangible assets) of the company improved to Rs.130 crores end March 31, 2020. However, with the company reporting net losses for fiscal 2021, the tangible net-worth (excl. DTAs and intangible assets) came down to Rs. 100 crore. The Capital Adequacy Ratio (CAR) of the company remained comfortable with 46.60% as on March 31, 2021 at the same level as it was in FY20. The overall gearing deteriorated to 2.56 times as on March 31, 2021 from 2.08 times as on March 31, 2020.

As on June 30, 2021, the overall CAR% remained comfortable but declined to 45.2% down from 47.9% as on June 30, 2020. The gearing levels of the company as on June 30, 2021 came down to 2.78 times from 2.45 times a s on June 30, 2020. As per the management, the gearing levels will be maintained within 4 times on AUM basis.

Risk management systems: CTL has an adequate loan portfolio management and accounting system in place. It has established an efficient monitoring structure for overseeing its operations at various levels, including at the branch level, district level and state level. It has put in place risk management systems viz. defined credit appraisal, collection and monitoring systems. The company has in place loan management systems in place to monitor and control the business through systemic MIS reports. The company has a credit verification process which is independent from operations. Supervision is done by operations team and regular checks by the internal audit department.

The company has also changed its business model from joint liability model for their unsecured loan product to individual lending model and on-boarding the digital platform for collections. The new loans offered under revised strategy bear higher yield smaller-ticket size and are of shorter tenure of upto 2 years as against loans offered under legacy portfolio which were lower-yield, higher ticket size, longer tenured loans of between 3-5 years earlier. CTL has shifted to NACH based collections for the new products viz. Capital Magic Loan (CML) and Micro Business Loans (MBL) as against door step cash collections for the Micro Enterprise Loan (MEL) and Secured Enterprise Loans (SEL) (products now discontinued) which is expected to reduce risk of cash handling. The ability of the company to ensure timely collections under the individual lending model would be crucial.

Geographically diversified operations: CTL started its operations from Uttar Pradesh and during the initial years of operation, its concentration in the state was highest being 88% of the AUM as on March 31, 2016. Later the company increased in portfolio in other states post demonetization. As on March 31, 2021, the company has presence in 10 states with consolidated AUM of Rs. 401 crore (-15% YOY) with majority exposure in Bihar (21%) followed by Punjab (20%), Odisha (17%), Madhya Pradesh (14%), Rajasthan (13%) and rest 14% of AUM is covered in remaining states, namely, Uttar Pradesh, Uttarakhand, Delhi, Jharkhand and Chhattisgarh.

Diversified resource profile: CTL had borrowings from over 14 Banks/Financial Institutions/Investors. During FY21, CTL has raised Rs. 141 crores and during FY22 (till July 30, 2021), it raised Rs. 26 crore from banks and financial i nstitutions with aim to support liquidity. CTL has also entered into DA transactions with Moneywise Financial Service Ltd. and PTC transaction with Poonawalla Finance Pvt Ltd. and UGRO Capital. As on March 31, 2021, the company had managed portfolio of Rs. 120 crores which comprised of Direct Assignment (DA) and Business Correspondence.

Key Rating Weaknesses

Weak asset quality: CTL's customers are engaged in activities like farming, dairy live stocks, small manufacturing firms, trade, etc. Though the customer profile is diverse, there is an inherent risk in micro-lending and MSME industry, regulatory uncertainties and risks emanating from unsecured lending and marginal profile of borrowers and their vulnerability to economic downturns besides operational risks including cash-based transactions.

The company reported improvement in GNPA % end FY21 with 1.95% as against 7.53% end FY20. With significant provisioning and write offs the company reported nil NNPA% as on March 31, 2021.

Since FY19, the company has discontinued its disbursals in the demonetization affected states (UP, Uttarakhand and Delhi) and consequently, the portfolio in these states has been reducing and they aggregately hold 8% of AUM as on March 31, 2021 down from 14% of the AUM as on March 31, 2020. As on March 31, 2021, the 30+ dpd and 90+ dpd in the demonetization affected states are25.02% and 17.19%, respectively, which are higher than the non-demonetization affected states.

With the winding down of legacy portfolio, it has reported 90+ dpd of 10.29% and digital portfolio has reported 2.76% 90+ dpd as on March 31, 2021. CARE also takes cognizance of gradual rise in delinquencies for portfolio generated under new system of digital based model, wherein, 90+DPD for this segment of portfolio stood at 0.8% as on Sept 30, 2020 and legacy portfolio stood at 11.25% on Sept 30, 2020. Any further slippage in asset quality or large additional credit cost accruing from the overdue loans including loans in the softer buckets would be a key rating sensitivity. For the month ended June 2021, the collection efficiency stood at 83% up from 71% in the month ended May 2021.

Moderation in disbursement with losses reported during FY21 and Q1FY22: The legacy portfolio of CTL includes Microfinance Loans (MFL), MEL and SEL, of which the company has stopped disbursal since FY19. Consequently, the proportion of legacy portfolio has been coming down since then and stood at 59% end FY21 from 100% end FY18. CTL started lending through digital portfolio which includes CML and MBL in FY19. The proportion of digital portfolio is on increasing trend and stood at 41% end FY21 from 0.28% end FY19. With the rundown of legacy portfolio and nascent stage of digital portfolio, the overall AUM of the company has been declining since FY19 and reached at Rs. 401 crore end FY21 declined by 15% YOY as against 35% YOY de growth in FY20.

With the decline in loan book by 15% YOY, the interest income of the company declined by 20% YOY. The company's other operating income too declined by 41% YOY owing to decline in facilitation charge and service fee, lesser gain through assignments. CTL reported total income of Rs.155 crore in FY21 (-26% YOY). The company reported net loss of Rs. 24 crore end FY21 as against net profit of Rs. 4 crore end FY20, owing to decline in total income, increase in operating expenses and significant increase in provisions.

With the COVID-19 induced disruptions and discontinuation of a few loan products, the company has reported decline in the disbursements on monthly as well as quarterly basis. The company reported disbursements of Rs. 2.23 crore in the month of June 2021, up from nil disbursements in the month of May 2021. The disbursements for the quarter ended June 30, 2021 stood at Rs. 11.08 crore, down by 79% QOQ. Going forward, the ability of CTL to sustainably grow its portfolio and improve its profitability would be the key rating sensitivities.

Industry Risk: The micro lending and MSME industry continue to be impacted by the inherent risk involved viz. socio-political intervention risk and regulatory uncertainty and risks emanating from unsecured lending and marginal profile of borrowers and their vulnerability to economic downturns besides operational risks related to cash based transactions.

Impact of COVID-19

During the first wave of COVID-19, all cash collections had stopped and digital collections were continued. Disbursements were put on hold during March 2020- June 2020. The company also provided moratorium during first wave. During the second wave of COVID-19, the disbursements were impacted, declining to Rs. 9 crore in the month of March 2021 from Rs. 18 crore in the month of February 2021. It further plummeted to nil disbursements in the month of May 2021. In the month of June 2021, the disbursements stood at Rs. 2 crore.

Liquidity: Adequate

The ALM of CTL as on March 31, 2021 remained comfortable with no negative cumulative mismatches given the longer tenure of its borrowings and relatively shorter tenure of its advances and comfortable capital structure. Company's expected inflows in up to one-year bucket (including bank balance and liquid assets) were 1.23 times of expected outflows as per the standalone ALM of CTL as on March 31, 2021. As on August 31, 2021, CTL had free cash and bank balances of Rs. 35 crore.

Analytical Approach: Consolidated including the subsidiaries Capital Trust Microfinance Private Limited (100% holding by CTL) and Capital Trust Housing Finance Private Limited (100% holding by CTL)

Applicable Criteria
Rating Methodology: Consolidation
CARE's Policy on Default Recognition
Financial Ratios – Financial Sector
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology - Non Banking Finance Companies (NBFCs)

About the Company
Capital Trust Limited, incorporated in August 1985, is a non-deposit taking Non-Banking Finance Company (NBFC) engaged in providing enterprise loans to micro and small-scale businesses in rural and semi-urban areas. CTL is listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

Currently, CTL has 2 main products under its new model – CML and MBL together forming Capital Digital portfolio. CML is a multi-utility unsecured loan with tenure of 12-18 months under quick disbursement mode offered by CTL through its mobile application Capital Sales. MBL is an unsecured business loan with tenure of 24 months and higher ticket size to fulfil business related needs of the customer. It has discontinued disbursements in larger ticket size MEL, SEL. MFL are now disbursed though its subsidiary company – Capital Trust Microfinance Private Limited. MEL, SEL and MFL together form legacy portfolio.

End June 2021, the company had 244 branches across 10 states, namely, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Punjab, Rajasthan, Delhi, Uttarakhand, Uttar Pradesh.

Covenants of Rated Instrument: Detailed explanation of covenants of the rated instrument is given in **Annexure-3**

Financial Performance – CTL (Consolidated)

(Rs. Crore)

For the Period Ended / as at March 31,	2019 (12m, A)	2020 (12m, A)	2021 (12m, A)
Working Results			
Interest Income (Including Interest on Investment)	153.67	114.21	91.66
Total Income	193.16	155.09	114.59
Interest Expenses	75.93	58.81	33.12
Operating Expenses	61.89	67.72	75.58
Pre Provisioning Operating Profits	55.34	28.56	5.89
Provisions and Write offs	5.14	14.93	35.27
Profit Before tax	12.97	13.63	-29.38
PAT	9.16	4.27	-23.62
Financial Position			
Tangible Net-Worth	122.06	130.57	100.24
Total Borrowings	480.51	271.39	256.92
Gross Loan Outstanding	621.02	325.05	280.64
Total Assets (Excluding Intangible Assets and Deferred Tax Assets)	626.95	428.41	376.64
Key Ratios			
Profitability			
Operating Expenses/Average Total Assets (%)	8.55	12.76	18.78
Credit Cost/Avg Total Assets (%)	0.81	2.83	8.76
NIM (%)	10.87	10.50	14.54
ROTA (%)	1.29	0.81	-5.87
Return on Net Worth (%)	5.54	3.39	-20.47
Solvency			
Overall Gearing Ratio (times)	3.94	2.08	2.65
CAR (%)	31.97	46.66	46.60
Asset Quality			

For the Period Ended / as at March 31,	2019 (12m, A)	2020 (12m, A)	2021 (12m, A)
Gross NPA (%)	8.89	7.53	1.95
Net NPA (%)	7.58	4.46	0.00
Net NPA to Net worth (%)	25.05	15.75	0.00

A: Audited

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 Instrument / Facilities

Name of the Instrument / Bank Facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	295.00	CARE BBB-; Negative
Fund-based - LT-Cash Credit	-	-	-	-	5.00	CARE BBB-; Negative
Debentures-Non Convertible Debentures	INE707C07023	13-Aug-2020	11.50%	21-Apr-2023	30.00	CARE BBB-; Negative

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	295.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (07-Jan-21) 2)CARE BBB-; Stable (09-Jun-20)	1)CARE BBB; Negative (24-Sep-19)	1)CARE BBB+; Negative (04-Jan-19) 2)CARE BBB+; Negative (23-Nov-18)
2	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (07-Jan-21) 2)CARE BBB-; Stable (09-Jun-20)	1)CARE BBB; Negative (24-Sep-19)	1)CARE BBB+; Negative (04-Jan-19) 2)CARE BBB+; Negative (23-Nov-18)
3	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (07-Jan-21) 2)CARE BBB-; Stable (06-Aug-20)	1)CARE BBB; Negative (24-Sep-19)	1)CARE BBB+; Negative (04-Jan-19)

						3)CARE BBB-; Stable (09-Jun-20)		2)CARE BBB+; Negative (23-Nov-18) 3)CARE BBB+; Stable (25-Jul-18)
4	Debentures-Non Convertible Debentures	LT	30.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (07-Jan-21) 2)CARE BBB-; Stable (06-Aug-20)	-	-

Annexure-3 Complexity level of various instruments rated for this Company

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 4: Details of Rated Facilities

1. Long-term Facilities

1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount	Type of facilities
1	Union Bank of India	14.03	Term loan
2	IDFC First Bank Limited	35.53	
3	UCO Bank	22.23	Term Loan
4	Small Industries Development Bank of India	5.20	Term Loan
5	IDFC First Bank Limited	25.00	Subordinate debt
6	State Bank of India	10.79	Term Loan
7	Bank of India	10.70	Term Loan
8	HDFC Bank	32.07	OD
10	Proposed	139.45	
	Grand Total	**295.00**	

1.B. Fund-based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	State Bank of India	5.00

Total Long-term Facilities: Rs. 300.00 crore

Total Facilities (1.A+1.B): Rs. 300.00 crore

Annexure-5: Detailed explanation of covenants of the rated instrument - Not Available

Annexure-5: List of subsidiaries of CTL getting consolidated

Sr. No.	Name of the Entity	Subsidiary	% Shareholding by CTL as on March 31, 2021
1.	Capital Trust Microfinance Private Limited	Yes	100.00
2.	Capital Trust Housing Finance Private Limited	Yes	100.00

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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(This follows our brief rationale for the entity published on October 07, 2021)

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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