

Press Release

Nightingale Finvest Private Limited

May 08, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs. 20.00 crore bank facilities of Nightingale Finvest Private Limited (NFPL). The outlook is '**Stable**'.

Assam based, NFPL started micro-finance activities in 2004 and registered as NBFC-MFI in 2015. It is Promoted and led by Mr. Mantu Nath Sharma (Founder and Managing Director). NFPL extends credit through JLGs to women borrowers who are engaged in activities such as fishing, carpentry, vegetable selling, food processing, weaving, among others. The company has its presence in four states namely Assam, Meghalaya, Arunachal Pradesh and Mizoram. It operates through a network of 37 branches as on December 2018.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of NFPL to arrive at the rating.

Key Rating Drivers

Strengths

Established presence in microfinance lending

NFPL has an established presence of nearly two decades in the microfinance sector. The Promoter of the company has nearly two decades of experience in finance sector lending. The Board of the Directors include Mrs. Olee Bora as Nominee Director (NEDFI, Deputy General Manager) having an experience of two decades in the finance industry. Mr. Biswa Bandhu Mohanty as Additional Director, having nearly four decades of experience in the finance industry with various organisations such as Steel Authority of India Limited (SAIL), Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD).

NFPL focuses on lending to Joint liability groups (JLGs) which are formed by the members with assistance, guidance and supervision of field officers. The members jointly stand liable for the repayment of the loan disbursed; a guarantee note for the same is taken at the time of group formation. The groups guarantee and peer pressure ensures timely repayment of loans which reduces the risk of default. The company has reported nil gross NPA as on September 30, 2018.

The Assets under management (off book + on book) of the company has increased significantly in the period of 21 months from Rs. 36.67 crore as on March 2017 to Rs. 82.27 crore as on December 2018. The growth is driven by increase in the number of branches from 24 as on March 2017 to 37 branches as on December 2018. NFPL has its off book exposure through agreement with Reliance Commercial Finance Limited, IDBI and Arohan Financial Services Limited.

The company's profitability has remained stagnant as reflected in return on average assets (RoAA) of 1.79 percent for FY2018 from 1.78 percent in the previous year. The NIMs contracted from 10.02 percent in FY17 to 7.78 percent in FY18 as the borrowings of the company has significantly increased over a years' time from Rs. 41.82 crore as on March 2017 to Rs. 74.25 crore as on September 2018. The company has reported PAT of Rs. 1.21 crore as on September 30, 2018 as against Rs. 1.04 crore as on March 31, 2018 and Rs. 0.78 crore as on March 31, 2017.

Acuite believes that NFPL will continue to benefit from its established presence in microfinance lending and demonstrate ability to scale up its operations.

Weaknesses

Leveraged Capital Structure

The major source of debt funding for NFPL has been term loans from NBFCs amounting to Rs. 40.93 crore (56.00 percent of total debt) which are at higher cost and from banks amounting to Rs. 31.82 crore (44 percent of total debt) as on September 2018. The debt to equity ratio (gearing) of the company as on March 31, 2018 was 8.77 times as against 7.49 times as on March 31, 2017.

NFPL's shareholders comprise promoters (50.38%), North Eastern Development Finance Corporation Limited- NEDFI (14.36%) and others (35.26%). The company has raised funds through issue of preference shares to SIDBI amounting to Rs. 1.50 crore as on September 2018. Further, funds have been raised through issue of preference shares to NEDFI amounting to Rs. 2.00 crore in January 2019.

NFPL had capital adequacy of 16.35 percent as on December 31, 2018 and 16.79 percent as on 30 September, 2018 as against 17.89 percent as on 31 March, 2018.

Geographically concentrated operations

NFPL has geographically concentrated operations in Assam, which constitute around 94 percent of the total portfolio as on December 31, 2018. The company's performance is expected to remain exposed to the state specific events such as natural calamities which may adversely impact the credit profile of the borrowers. NFPL has expanded its operations to newer geographies in FY 2018 viz. Meghalaya, Arunachal Pradesh, Mizoram as a measure to derisk its portfolio from geographical concentration risk; however, the track record for the same is yet to be established in these states. The company has plans to further expand its network to states such as Tripura.

Acuité believes that NFPL operations in Assam will remain concentrated over the near to medium term and its credit profile will be susceptible to the geographical concentration in its loan book over the near to medium term.

Exposure to inherent socio-political risk in MFI segment

NFPL primarily extends microfinance loans wherein the borrower's credit profile is weak. Considering the borrower segment, the MFIs are highly regulated in terms of caps on pricing, among others. Hence, the regulatory risk is high for this segment. Besides the regulatory risk, the microfinance sector has witnessed events in the past decade which has resulted in volatility in the income flow of the borrowers, thereby impacting their cash flows and impinging upon their repayment ability. These events have demonstrated the vulnerability of microfinance sector to regulatory and other related credit risks.

Liquidity Position:

NFPL has adequate inflows (including bank balance and liquid assets) over the expected outflows in a years' time as reflected by ALM as on March 31, 2019. The company maintains favourable liquidity position with its long term borrowings repayable over 2-5 years as against the average tenure of its loan portfolio (MFI loans) of 12 months.

Outlook:

Acuité believes that NFPL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to raise funds from diversified resources. The outlook may be revised to 'Positive' in case of significant growth in the loan portfolio, improvement in profitability and adequate capitalisation. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in profitability.

About the Rated Entity - Key Financials

Particulars	Unit	FY18	FY17	FY16
		(Actual)	(Actual)	(Actual)
Total Assets	Rs. Cr.	67.77	48.29	39.69
Total Income (Net of Interest expense)	Rs. Cr.	4.39	3.42	2.97
PAT	Rs. Cr.	1.04	0.78	0.85
Net Worth (excl. preference share capital)	Rs. Cr.	6.84	5.58	4.55
Return on Average Assets (RoAA; based on PAT)	(%)	1.79	1.78	4.27
Return on Average Net worth (RoNW; based on PAT)	(%)	16.73	15.46	37.28
Total Debt/Tangible Net Worth (Gearing)	Times	8.77	7.49	7.55
Gross NPA	(%)	Nil	Nil	Nil
Net NPA	(%)	Nil	Nil	Nil

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Non - Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB+ / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB+ / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ / Stable (Assigned)

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About Acuité Ratings & Research:

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