

Press Release

Nightingale Finvest Private Limited

July 28, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 20.00 crore
Long Term Rating	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)

*Refer annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs. 20.00 crore bank facilities of Nightingale Finvest Private Limited (NFPL). The outlook is revised from '**Stable**' to '**Negative**'.

Reasons for revision of Outlook

The outbreak of the COVID-19 virus and the continued lockdowns have significantly impacted the operations of MFIs like NFPL. NFPL is engaged in extending micro-credit to women borrowers through the Joint Liability Group (JLG) model. The borrowers of MFIs typically comprise the economically challenged sections of society whose income streams are linked to their day to day activities. The continued lockdowns have impacted the ability of most of the borrowers to carry on their income-generating activities, affecting their cashflows. Besides the impact on the cash flows of the borrowers, the collection efficiency is also impacted due to logistical challenges on the part of MFIs in reaching out to the borrowers and engaging with them on a periodic basis. Resultantly, the collections have drastically declined and there is considerable uncertainty as of now, on the resumption of normal operations. It is difficult to ascertain at the current juncture the impact on the overall asset quality as the credit profiles of some of the borrowers could be impaired for a much longer time. Acuité believes that the impact of the lockdown on the asset quality will be clear only after the moratorium, i.e. around the third quarter of FY 2021.

Besides the asset side challenges mentioned above, NFPL also faces pressures on the liability side. NFPL's gearing as on March 31, 2020 (provisional) stood at 7.43 times. NFPL's total borrowings of Rs. 96.55 crore is from various Banks and NBFCs/FIs and optionally convertible preference shares. As on March 31, 2020, the outstanding borrowings from banks stood at Rs. 34.42 crore (~37 percent) and from NBFCs/FIs stood at Rs. 58.72 crore (~63 percent). In view of the ongoing crisis, NFPL had extended the moratorium to all its borrowers which was in line with general practice followed by other MFIs. NFPL was expecting a similar relief from its lenders and had sought moratorium from all its lenders. NFPL received explicit approval for moratorium till May 2020 from 15 out of its 19 lenders. For the second moratorium till August, 2020 the company received explicit approval from only 10 lender while the rest of the lenders either denied extension or are yet to communicate their stance.

NFPL total collections during April, May and June 2020 were Rs. 0.15 crore, Rs. 0.84 crore and Rs. 3.12 crore respectively, i.e. ~2 percent of the scheduled collection for April, ~12 percent of the scheduled collection for May and ~45 percent of the scheduled collection for June. Since, NFPL's collections from borrowers have significantly declined, their ability to make payments as per original terms has been impaired. NFPL scheduled collections for its on book portfolio are around Rs. 6.00 – 6.50 crore on a monthly basis against which its scheduled debt servicing obligations (as per regular schedule) are around Rs. 5.50 – 6.00 crore. Acuité believes that the company has been attempting to manage its liquidity by seeking moratorium from its lenders, so as to synchronize with its moratorium to its borrowers. Acuité believes that its near term liquidity pressures will continue to be elevated as most of the lenders, especially the NBFC's, may find it difficult to extend a complete moratorium till August, 2020. Hence, the liquidity challenges for players like NFPL are expected to accentuate over the near to medium term till they pump in additional long term funding through equity or long term debt. Acuité believes that NFPL's collection efficiency is likely to improve only in a gradual basis.

Against the above backdrop, there will be three key rating monitorables: Firstly, the ability to contain the asset quality pressures and achieve optimal collection efficiency commensurate with the monthly obligations (both debt servicing obligations and operating expenses). Secondly, the management of the liquidity buffers since, the stance of the lenders to extend further moratorium will be critical until collection efficiency sufficiently improves. Thirdly, the ability of the promoters to arrange for long term funding support either through equity or through long term debt.

About NFPL

Assam based Nightingale Finvest Private Limited (NFPL) is an NBFC-MFI engaged in microfinance lending by way of extending credit through the Joint Liability Group (JLG) model. NFPL is promoted by Mr. Mantu Nath Sharma, who has over a decade of experience in financial inclusion of the under-served section of society in Assam. NFPL commenced its micro-financing activities in 2004 as a society named Nightingale Charitable Society (NSC). NSC was established in 1997 with an objective of social development in Assam. In 2011, the society then acquired an existing NBFC Aninda Investments & Finance Private Limited and re-named it to Nightingale Finvest Private Limited to carry out its micro-financing activities. NFPL was classified as an NBFC-MFI in 2015.

The company operates in the 4 states of Assam, Arunachal Pradesh, Mizoram and Meghalaya with its network of 37 branches across 16 districts as on March 31, 2020.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of NFPL to arrive at the rating. Acuité has been guided by recent SEBI circular dated 30th March, 2020 (Circular No: SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/53) while arriving at the rating. Acuité has also relied on the recent RBI circular dated 27th March, 2020 (Circular No: RBI/2019-20/186 in this regard. Acuité observes that the company did not receive moratorium from some of its lenders. The company has skipped payments to these lenders for April and May 2020. Acuité believes that, this slippage is attributable to the ongoing crisis and hence has not construed these slippages as a credit event while arriving at the rating decision. Acuité policy regarding this "Transitory relaxation from compliance with certain provisions under SEBI (Credit Rating Agencies) Regulations, 1999" is as follows: <https://www.acuite.in/transitory-relaxation-from-compliance-with-certain-provisions-under-SEBI.htm>

Key Rating Drivers

Strengths

- Established presence in micro-finance segment**

Assam based Nightingale Finvest Private Limited (NFPL) has been engaged in extending micro-credit since 2012 to women borrowers engaged in income-generating activities under Joint Liability Group (JLG) model. NFPL has a geographical presence in the states of Assam, Arunachal Pradesh, Mizoram and Meghalaya with its network of 37 branches and an Asset Under Management (AUM) of Rs. 84.44 crore as on March 31, 2020. The company initially started its micro-lending activities in 2004 under an NGO Nightingale Charitable Society and later in 2011 acquired an existing NBFC Aninda Investments & Finance Private Limited and was re-named as Nightingale Finvest Private Limited.

NFPL is promoted by Mr. Mantu Nath Sharma, who has over a decade of experience in financial inclusion of the under-served section of society in Assam. Mr. Mantu Nath Sharma (Managing Director) is adequately supported by other members on the Board of Directors comprising Mr. Pratap Chakravarty (Whole time director), Mr. Rukuniddin Ahmed (Whole time director). Mr. Chakravarthy and Mr. Ahmed have been associated with NFPL since the activities were conducted in NSC. Other members include Mrs. Olee Bora (Nominee Director – North Eastern Development Finance Corporation NEDFi) currently Deputy General Manager at NEDFi, Mr. Kanchan Dutta (Independent Director), Mr. Biswa Bandhu Mohanty (Independent Director) ex-CGM NABARD and Mr. Tapan Kumar Mukhopadhyay (Additional Director) ex-CGM Indian Overseas Bank.

Over the years, NFPL has expanded its operations to build an AUM of Rs. 84.44 crore as on March 31, 2020

as compared to Rs. 36.67 crore as on March 31, 2017. The AUM of Rs. 84.44 crore comprised owned portfolio of Rs. 68.75 crore and off-book exposure of Rs. 15.69 crore as on March 31, 2020. The company takes off-book exposure through Business Correspondence ~19 percent of its overall AUM as on March 31, 2020. It is a business correspondence partner for IDBI Bank and Arohan Financial Services Limited.

Acuité believes that NFPL will continue to benefit from its established presence in the micro-finance lending along with the experienced promoters.

Weaknesses

- Leveraged Capital Structure impacting financial flexibility; significant near term obligations adding to liquidity pressures**

NFPL is engaged in microfinance lending providing short term loans up to 12 - 24 months. The company extends micro-credit through the Joint Liability Group (JLG) model. The company's networth stood at Rs. 13.00 crore and total debt stood at Rs. 96.55 crore as on March 31, 2020 (provisional). NFPL's AUM stood at Rs. 84.44 crore as on March 31, 2020 as against Rs. 91.10 crore as on March 31, 2019. The company's gearing stood at 7.43 times as on March 31, 2020 (provisional) as against 9.96 times as on March 31, 2019. The debt comprises of term loans from Banks/NBFCs/Fls and optionally convertible preference shares. The borrowings from Banks accounted for ~37 percent, NBFC/Fl's for ~63 percent of the total borrowings of Rs. 93.14 crore as on March 31, 2020 (provisional). In a relatively steady operating environment, the company has demonstrated fundraising ability from various Banks and NBFCs/Fls. However, the recent COVID-19 outbreak in the last quarter of FY2020 resulted in a nationwide lockdown which has led to the significant deterioration in the collection efficiency and cashflows of NFPL's borrowers. The MFIs like NFPL were required to extend a moratorium to their borrowers and they, in turn, were expecting similar support from their lenders. NFPL has also sought a similar moratorium from its lenders. The liquidity buffers will depend on the ability to scale up its collections at a level commensurate with its debt service obligation and disbursements. Any challenges in getting additional moratorium from its lenders and/or arranging for long term funding to bridge the near term mismatches will also impact the liquidity profile. NFPL is in talks to raise funding with various existing lenders to support its liquidity profile. However, the stance of these lenders like banks who have been adopting a very selective and cautious approach to NBFC sector will make it difficult to assess.

Acuité believes that leveraged companies like NFPL could face challenges in raising additional debt due to a very selective and cautious approach adopted by Banks and Fls.

- Subdued level of business operations; elevated stress in asset quality and risk inherent to microfinance segment**

NFPL's total Asset Under Management (AUM) stood at Rs. 84.44 crore as on March 31, 2020 as compared to Rs. 91.90 crore as on March 31, 2019. The company's on-book loan portfolio remained stagnant at Rs. 68.75 crore as on March 31, 2020 as compared to Rs. 68.08 crore as on March 31, 2019, while its off-book exposure declined to Rs. 15.69 crore as on March 31, 2020 as against Rs. 23.82 crore as on March 31, 2019. The decline in off-book exposure was as a result of the discontinuation of business correspondence partnership with Reliance Commercial Financial Services. NFPL is currently in BC partnership with IDBI Bank and Arohan Financial Services Limited. Going forward, the impact of Covid-19 may also impair the growth in business operations, which has currently disrupted the collections and disbursement processes. Although NFPL has demonstrated Nil Gross Non-Performing Assets (GNPA) for past 4 years, rise in delinquency is expected due to impact of Covid-19, as already visible with 0.34 percent GNPA reported as on March 31, 2020.

Further, The activities of microfinance companies like NFPL are exposed to concentration risks. NFPL has a presence in 4 states with a concentration in Assam (91.85 percent of total AUM) and rest in Arunachal Pradesh (4.20 percent), Mizoram (2.82 percent) and Meghalaya (1.13 percent) of total AUM as on March 31, 2020. This exposes the company to high geographical concentration risk. Thus, the company's performance is expected to remain exposed to the competitive landscape in these regions and the occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework, thereby impacting the credit profile of NFPL.

Acuité believes the company's ability to deploy the funds profitably while maintaining its asset quality will be key rating sensitivity.

Rating Sensitivity

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metrics
- Changes in the regulatory environment

Material Covenants

NFPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others. As per confirmation received from client, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors'.

Liquidity: Stretched

NFPL maintained cash and cash equivalents of Rs. 19.65 crore as on March 31, 2020. The company has not made any disbursements for the month of April 2020. For the month of May and June 2020 the company made disbursements of Rs. 0.01 crore and Rs. 0.86 crore respectively. NFPL sought moratorium from its lender under which only the interest payments are being made. While the company has maintained liquidity to take care of its day to day operation costs and interest payments. NFPL's total collections during April, May and June 2020 were Rs. 0.15 crore, Rs. 0.84 crore and Rs. 3.12 crore respectively, i.e. ~2 percent of the scheduled collection for April, ~12 percent of the scheduled collection for May and ~45 percent of the scheduled collection for June. The collections are currently subdued and any improvement in collections are expected to be gradual.

NFPL's borrowings have maturity upto 36 months. As per NFPL's ALM statement as on March 31, 2020, ~54 percent of its borrowings had maturity within a year. Subsequent to COVID outbreak, the liquidity crisis has been triggered. NFPL had extended the moratorium to most of its borrowers till May 2020 and is considering further moratorium till August 2020 for its borrowers on case to case basis. On the liabilities side it has received similar moratorium till August 31, 2020 from 6 out of 19 lenders. The company's ability to maintain a stable liquidity profile will hinge on its ability to improve its collection efficiency commensurate with its debt servicing obligation and other business requirements.

Acuité believes that NFPL may require additional moratorium from its lenders until its collection efficiency reaches optimal levels. The stance of existing lenders and the ability of NFPL to raise long term funding (equity/debt) commensurate with its near term obligations will be critical to the maintenance of a stable liquidity profile.

Outlook: Negative

Acuité believes that NFPL credit profile is likely to be impacted over the near term on account of the increased possibility of elevated asset quality pressure and the consequent impact on profitability. The outlook may be revised to 'Stable' in case NFPL is able to demonstrate significantly lower than expected deterioration in asset quality while improving its liquidity buffers. Conversely, if the company faces challenges in managing its liquidity buffers due to slower than expected improvement in collection efficiency or if the asset quality challenges are higher than expected and impacting profitability, it could impart a negative bias to the rating.

About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Provisional)	FY19 (Actual)
Total Assets	Rs. Cr.	111.80	103.98
Total Income*	Rs. Cr.	9.96	7.76
PAT	Rs. Cr.	3.68	2.58
Networth	Rs. Cr.	13.00	9.32
Return on Average Assets (RoAA)	(%)	3.41	3.00
Return on Net Worth (RoNW)	(%)	32.94	31.89
Total Debt/Tangible Net Worth (Gearing)	Times	7.43	9.96
Gross NPA's	(%)	0.34	-
Net NPA's	(%)	-	-

* Total income equals to Net interest income plus other income

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-May-2019	Term Loan	Long Term	9.00	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	6.00	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	5.00	ACUITE BB+/ Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Available	Not Applicable	Not Available	9.00	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
Term Loan	Not Available	Not Applicable	Not Available	6.00	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
Term Loan	Not Available	Not Applicable	Not Available	5.00	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)

Contacts

Analytical	Rating Desk
Vinayak Nayak Vice President - Rating Operations Tel: 022-49294071 vinayak.nayak@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 - 49294011 rating.desk@acuite.in
Shreyans Mehta Analyst - Rating Operations Tel: 022-49294062 shreyans.mehta@acuite.in	

About Acuité Ratings & Research:

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