

Press Release

NAVACHETANA MICROFIN SERVICES PRIVATE LIMITED (NMSPL)

17 March, 2018



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 170.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BBB-**' (read as SMERA triple B minus) to the Rs. 80.00 Cr. bank facilities and assigned the long term rating of '**SMERA BBB-**' (read as SMERA triple B minus) to the Rs. 90.00 Cr. bank facilities of Navachetana Microfin Services Private Limited (NMSPL). The outlook is '**Stable**'.

NMSPL is a Karnataka based non deposit taking NBFC – MFI which is engaged in activities related to empowerment of women apart from micro finance lending. The company extends credit based on Joint liability group (JLG) model having 46 branches spread over Karnataka and Maharashtra. It was originally established in 1999 as Shri Doddaveereshwara Khadi and Village Industries Society with an objective of providing livelihood improvement programmes to underprivileged villagers. In 2003, the name was changed to "Navachetana Foundation" (NCF) and since April 2006 it started its microfinance operations. Later in 2009, a dormant NBFC named as "Sree Santeshwara Credit and Investment Company Limited" was taken over by promoters of NCF with an objective of bringing the microfinance operations under a recognized and regulated NBFC-MFI with a revised name "Navachetana Microfin Services Private Limited" (NMSPL).

Key rating drivers

Strengths

Established presence supported by good management experience

Established in 1999, NMSPL (Erstwhile NCF) has an established presence of more than two decades in the microfinance sector. The Founder, Chairman and managing director Mr. Nagendra V. Mali has more than two decades of experience in rural development and microfinance sector. In addition, the Company is also supported by directors Mr. Raj Pal Vohr, Mr. T. Vishwanath Rai, Mrs. Chandrakala N. Mali and Mr. Maruthi F Bhajantri having expertise of more than two decades in providing microfinance services, banking and social work. Over the years, NMSPL has gradually increased its loan book to Rs. 142.37 Cr. as on 28 February, 2018 from Rs.134.7 Cr. as on 31 March, 2017 and Rs. 95.2 Cr. as on 31 March 2016.

Adequate capitalisation and liquidity profile

NMSPL reported capital adequacy of 27 per cent as on October, 2017, reflecting adequate capital position commensurate with its scale of operations. The company also has comfortable liquidity position due to well matched maturity of assets and liabilities. The tenure of loans is about 24 months, whereas the bank funding typically has higher tenure of about 24-48 months. The funding pattern of NMSPL as on 30 October, 2017 included 78.7 per cent of term loans from various banks and financial institutions. Going ahead, SMERA expects the liquidity of the company to remain comfortable given the matched tenure of assets and liabilities.

Weaknesses

Vulnerability in asset quality:

While NMSPL's Gross Non-Performing Assets (GNPA) constitute only 0.58 per cent of the total loan portfolio of Rs. 136.26 Cr. as on 30 October, 2017, SMERA believes it will remain vulnerable to any asset quality shocks inherent in the MFI sector. The company's asset quality had been adversely impacted during the period of demonetisation in FY 2017 and it had to reschedule ~ Rs. 20.15 Cr. of delinquent loans in February 2017. However, SMERA does not expect any significant deterioration in the portfolio quality in the current year. NMSPL has comfortable collection efficiency averaging to 98 per cent for the seven months ended October 2017. The net NPA as on 31 March, 2017 stood nil as the company had made 100 per cent provisioning for FY 2017.

Modest profitability

The return on average assets (ROAA) for NMSPL stands weak at 0.56 per cent as on 31 March 2017 despite an improvement in its Net Interest Margin (NIM) to 8.1 per cent in FY2017 from 6.6 per cent in FY2016. This is primarily due to a relatively high operating expense ratio of 8.8% in FY 2017 arising from higher employee and collection expenses in addition to the provisioning costs. The company reported a modest Profit after Tax (PAT) of Rs.0.92 Cr. on an operating income of Rs. 12.01 Cr. in FY2017 against PAT of Rs. 0.54 Cr. on Rs. 6.78 Cr. in FY2016. Nevertheless, SMERA expects NMSPL's profitability to improve over the medium term driven by its continued focus on efficiency through reduction of collection costs.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of to arrive at the rating.

Outlook - Stable

SMERA believes that NMSPL will maintain a Stable outlook over the medium term driven by its adequate capital position and its track record in the MFI business. The outlook may be revised to 'Positive' in case NMSPL significantly scales up its operations and diversifies its loan portfolio geographically while maintaining an adequate capital position, asset quality and profitability. Conversely, the outlook may be revised to 'Negative' in case of any material change in the asset quality indicators. Any decline in profitability, resulting in stress on capital position or substantial decline in scale of operations may also entail 'Negative' outlook.

About the Rated Entity - Key Financials

	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	200.22	126.50	68.22
Total Income	Rs. Cr.	12.01	6.78	4.15
PAT	Rs. Cr.	0.92	0.54	0.54
Net Worth	Rs. Cr.	24.74	18.24	12.27
Return on Assets (RoA)	(%)	0.56	0.56	1.57
Return on Net Worth(RoNW)	(%)	4.26	3.56	8.76
Total Debt/Tangible Net Worth (Gearing)	Times	6.95	5.60	4.45
Gross NPA	(%)	0.63	0.66	0.92
Net NPA	(%)	-	-	-

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Non-banking financing Entities - <https://www.smerra.in/criteria-nbfc.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

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

Brickwork Ratings release dated 18th December 2017 has reviewed the rating of Navachetana Microfin Services Pvt Ltd based on best available information, as the issuer did not cooperate. BWR took up with the issuer to provide required information over emails and tele calls. Despite the best efforts of BWR to get at least information for a review, the entity has not provided the same. In the absence of adequate information from the company, BWR is unable to assess the company's financial performance and its ability to service its debt and maintain a valid rating.

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
4-Jan-2018	Term loan	Long Term	13.00	SMERA BBB-/Stable (Assigned)
	Term loan	Long Term	5.00	SMERA BBB-/Stable (Assigned)
	Term loan	Long Term	14.00	SMERA BBB-/Stable (Assigned)
	Term loan	Long Term	2.00	SMERA BBB-/Stable (Assigned)
	Term loan	Long Term	15.00	SMERA BBB-/Stable (Assigned)
	Term loan	Long Term	15.00	SMERA BBB-/Stable (Assigned)
	Term loan	Long Term	10.00	SMERA BBB-/Stable (Assigned)
	Term loan	Long Term	1.00	SMERA BBB-/Stable (Assigned)
	Term loan	Long Term	5.00	SMERA BBB-/Stable (Assigned)

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 I	Not Applicable	Not Applicable	Not Applicable	13.00	SMERA BBB-/Stable (Reaffirmed)
Term loan II	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BBB-/Stable (Reaffirmed)
Term loan III	Not Applicable	Not Applicable	Not Applicable	14.00	SMERA BBB-/Stable (Reaffirmed)
Term loan IV	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BBB-/Stable (Reaffirmed)
Term loan V	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA BBB-/Stable (Reaffirmed)
Term loan VI	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA BBB-/Stable (Reaffirmed)
Term loan VII	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BBB-/Stable (Reaffirmed)
Term loan VIII	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA BBB-/Stable (Reaffirmed)
Term loan IX	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BBB-/Stable (Reaffirmed)
Term loan X	Not Applicable	Not Applicable	Not Applicable	6.23	SMERA BBB-/Stable (Assigned)
Term loan XI	Not Applicable	Not Applicable	Not Applicable	4.47	SMERA BBB-/Stable (Assigned)
Term loan XII	Not Applicable	Not Applicable	Not Applicable	0.67	SMERA BBB-/Stable (Assigned)
Term loan XIII	Not Applicable	Not Applicable	Not Applicable	11.00	SMERA BBB-/Stable (Assigned)
Term loan XIV	Not Applicable	Not Applicable	Not Applicable	15.60	SMERA BBB-/Stable (Assigned)
Term loan XV	Not Applicable	Not Applicable	Not Applicable	3.72	SMERA BBB-/Stable (Assigned)
Term loan XVI	Not Applicable	Not Applicable	Not Applicable	4.54	SMERA BBB-/Stable (Assigned)
Term loan XVII	Not Applicable	Not Applicable	Not Applicable	3.53	SMERA BBB-/Stable (Assigned)
Term loan XVIII	Not Applicable	Not Applicable	Not Applicable	22.5	SMERA BBB-/Stable (Assigned)
Term loan XIX	Not Applicable	Not Applicable	Not Applicable	4.05	SMERA BBB-/Stable (Assigned)
Term loan XX	Not Applicable	Not Applicable	Not Applicable	3.69	SMERA BBB-/Stable (Assigned)
Term loan (Proposed)	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BBB-/Stable (Assigned)

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ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

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