

Press Release

Navachetana Microfin Services Private Limited



March 29, 2019

Rating Reaffirmed, Withdrawn and Assigned

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the bank facilities of Rs. 170.00 crore to the bank facilities of NAVACHETANA MICROFIN SERVICES PRIVATE LIMITED (NMPL). The outlook is '**Stable**'.

NMPL 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 recognised and regulated NBFC-MFI with a revised name of 'Navachetana Microfin Services Private Limited' (NMSPL).

Analytical Approach

Acuité has considered the standalone financial and business risk profile of NMPL to arrive at the rating.

Key Rating Drivers

Strengths

Established presence supported by good management experience:

Established in 1999, NMPL (Erstwhile NCF) has an established presence of more than two decades in the microfinance sector. Mr. Nagendra V. Mali (Founder, Chairman and Managing Director) 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, NMPL has gradually increased its loan book to Rs. 163.86 Cr. as on 31 December, 2018 from Rs.149.17 Cr. as on 31 March, 2018 and Rs. 134.71 Cr. as on 31 March, 2017.

Acuité believes that NMPL will continue to benefit from its established position and the promoter's experience in microfinance lending.

Adequate capitalisation and liquidity profile:

NMPL reported capital adequacy of 27.86 per cent as on March, 2018, 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 NMPL as on 31 March, 2018 included 81.62 per cent of term loans from various banks and financial institutions. Going ahead, Acuité expects the liquidity of the company to remain comfortable given the matched tenure of assets and liabilities.

Going ahead, Acuité expects the liquidity to remain comfortable, backed by CMC's sound asset quality reflected in its low Non-Performing Assets (NPA) which is 0.07 percent in FY2018 of the overall AUM as on March, 2018.

Weaknesses

Modest profitability:

The return on average assets (RoAA) for NMPL stood weak at 0.55 per cent as on 31 March, 2018 mainly on account of decline in its Net Interest Margin (NIM) to 7.96 in FY2018 as against 8.1 per cent in FY2017 and the relatively high operating expense ratio of 7.23 percent in FY 2018 against 6.74 percent in FY2017 arising from higher employee and collection expenses in addition to the provisioning costs. The company reported a modest Profit after Tax (PAT) of Rs.1.19 Cr. on operating income of Rs. 13.94 Cr. in FY2018 against PAT of Rs. 0.92 Cr. on Rs. 12.01 Cr. in FY2017. Nevertheless,

Acuité expects NMPL's profitability to improve over the medium term driven by its continued focus on efficiency through reduction of collection costs and expected growth in the overall AUM from increase in loans under Business Correspondent model adopted by the company.

Moderate geographic concentration

NMPL's operations are moderately concentrated with Karnataka accounting for 86 per cent of its total portfolio as on 31 December, 2018 as against 79 percent in FY2018. Generally, the risk profile of a microfinance company with a geographically diversified portfolio is more resilient compared to that of an entity with a geographically concentrated portfolio. In order to reduce portfolio concentration level, the company is planning to increase its operations in Maharashtra which currently constitute around 14 per cent of the portfolio as on 31 December, 2018 as against 21 percent in FY2018.

Acuité believes that the moderate geographical concentration of its portfolio will continue to weigh on its credit profile over the near to medium term.

Liquidity Position:

NMPL has adequately matched cash flow as on December 31, 2018, with cumulative surplus in all maturity buckets. Most of the loans are of upto two year tenure, while the borrowings are upto tenure of five years, leading to positive mismatches over the near to medium term.

Outlook: Stable

Acuité believes that NMPL 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 NMPL 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	FY18	FY17	FY16
Total Assets	Rs. Cr.	149.17	134.71	95.21
Total Income (Net of Interest Expense)	Rs. Cr.	12.43	10.18	5.36
PAT	Rs. Cr.	1.19	0.92	0.54
Net Worth	Rs. Cr.	25.64	24.74	18.24
Return on Average Assets (RoAA)	(%)	0.55	0.56	0.56
Return on Average Net Worth (RoNW)	(%)	4.74	4.26	3.56
Total Debt/Tangible Net Worth (Gearing)	Times	7.95	6.95	5.60
Gross NPAs	(%)	0.39	0.62	0.65
Net NPAs	(%)	-	-	-

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
17-March-2018	Term Loan	Long Term	13.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	14.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	1.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	6.23	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	4.47	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	0.67	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	11.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	15.60	ACUITE BBB-/Stable (Assigned)

	Term Loan	Long Term	3.72	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	4.54	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	3.53	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	22.50	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	4.05	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	3.69	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	13.00	ACUITE BBB-/Stable (Assigned)
04 Jan 2018	Term Loan	Long Term	5.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	14.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	15.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	15.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	1.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	5.00	ACUITE 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	Not Applicable	Not Applicable	Not Applicable	8.21	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.32	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	3.18	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE BBB-/Stable (Reaffirmed)

Term loan	Not Applicable	Not Applicable	Not Applicable	6.43	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.36	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	4.84	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.83	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.67	ACUITE BBB-/Stable (Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	6.66	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	8.34	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	3.03	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.28	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	9.66	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.88	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE BBB-/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	14.15	ACUITE BBB-/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.68	ACUITE BBB-/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	7.14	ACUITE BBB-/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB-/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	4.76	ACUITE BBB-/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB-/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)

Term loan	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE BBB-/Stable (Assigned)
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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