

## Press Release

### Navachetana Microfin Services Private Limited

July 12, 2019



#### Rating Reaffirmed, Withdrawn and Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 200.00 Cr. (Enhanced from Rs. 170.00 Cr.)
<b>Long Term Rating</b>	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rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the bank facilities of Rs. 200.00 crore and withdrawn long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the bank facilities of Rs. 0.50 crore of Navachetana Microfin Services Private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 across 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 experienced management:**

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, 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. 171.95 Cr. as on 31 March, 2019 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 25.96 per cent as on March, 2019, reflecting adequate capital position to 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, 2019 included ~82 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 NMPL's sound asset quality reflected in its low Gross Non-Performing Assets (NPA) which is 0.42 percent in FY2019 of the overall AUM as on March, 2019.

## Weaknesses

### Modest profitability:

The return on average asset (RoAA) of NMPL stood weak at 0.52 per cent as on 31 March, 2019 (Provisional) mainly on account of decline in its Net Interest Margin (NIM) to 6.99 per cent in FY2019 (Provisional) as against 7.93 per cent in FY2018 and the relatively high operating expense ratio of 6.29 percent in FY2019 (Provisional) and 7.17 percent in FY2018 arising from higher employee and collection expenses in addition to the provisioning costs. The company reported a modest Profit after Tax (PAT) of Rs.1.26 Cr. on operating income of Rs. 13.91 Cr. in FY2019 (Provisional) against PAT of Rs. 1.19 Cr. on Rs. 13.91 Cr. in FY2018.

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 March, 2019 (Provisional) as against 79 percent as on 31 March, 2018. 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 March, 2019 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 31 March, 2019 with cumulative surplus in all maturity buckets. The company had unencumbered cash and bank balance of Rs. 16.54 Cr. as on March 31, 2019. Most of the loans are of upto two years tenure, while the borrowings are upto a 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	FY19 (Prov)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	250.39	233.33	200.22
Total Income (Net of Interest Expense)	Rs. Cr.	13.91	13.91	11.95
PAT	Rs. Cr.	1.26	1.19	0.92
Net Worth	Rs. Cr.	28.91	25.64	24.74
Return on Average Assets (RoAA)	(%)	0.52	0.55	0.56
Return on Average Net Worth (RoNW)	(%)	4.62	4.74	4.26
Total Debt/Tangible Net Worth (Gearing)	Times	7.50	7.95	6.95

Gross NPAs	(%)	0.42	0.39	0.62
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/view-rating-criteria-17.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
29 <sup>th</sup> March, 2019	Term Loan	Long Term	8.21	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	1.32	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	3.18	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	0.20	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	6.43	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	7.50	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	0.36	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	3.75	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	4.84	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	1.83	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	0.67	ACUITE BBB-/Stable (Withdrawn)

	Term Loan	Long Term	6.66	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	8.34	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	0.30	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	3.03	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	2.28	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	9.66	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	1.75	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	2.88	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	23.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	14.15	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	1.68	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	7.14	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	6.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	4.76	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	7.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	3.75	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB-/Stable (Reaffirmed)
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)
04 Jan 2018	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)
	Term Loan	Long Term	5.00	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	7.27	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.92	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.79	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE BBB-/Stable (Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	4.41	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	6.15	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	0.15	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.92	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	3.60	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB-/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.18	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	5.62	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	6.47	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE BBB-/Stable (Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.62	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.99	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	8.44	ACUITE BBB-/Stable

					(Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.11	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.62	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	22.34	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	14.16	ACUITE BBB-/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	12.65	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.44	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	7.14	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	4.76	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	4.21	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	6.55	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	9.46	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	3.43	ACUITE BBB-/Stable (Reaffirmed)
Term loan4	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Assigned)
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	27.60	ACUITE BBB-/Stable (Reaffirmed)

## Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Rating Operations Tel: 022-49294071 <a href="mailto:vinayak.nayak@acuite.in">vinayak.nayak@acuite.in</a>	Varsha Bist Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Salome Farren Analyst - Rating Operations Tel: 02249294062 <a href="mailto:salome.farren@acuiteratings.in">salome.farren@acuiteratings.in</a>	

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