

Press Release

CHETANA FINANCIAL SERVICES LIMITED

20 February, 2018



Rating Assigned

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

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+** (read as SMERA double B plus)' on the Rs. 20.00 crore bank facilities of CHETANA FINANCIAL SERVICES LIMITED (CFSL). The outlook is '**Stable**'.

CFSL (the erstwhile Nimba Finance and Leasing Company Limited), incorporated in 1996, is a Karnataka-based non-deposit taking NBFC led by Mr. Manjunath K and Mr. Nagendra V. Mali. The company extends credit (vehicle and personal loans) to individuals, SMEs, through its 24 branches in Karnataka.

Key Rating Drivers

Strengths

- **Established track record of operations, experienced management**

Established in 1996, CFSL has an established presence of more than two decades in the BFSI sector. The company is part of the Navajeevan Foundation, a trust established to promote credit activities among the members. The Founder and Chairman, Mr. Nagendra V. Mali has more than two decades of experience in rural development and microfinance. The company is also supported by Directors, Mr. Manjunath K, Mr. Maruti F Bhajantri and Mrs. Chandrakala N. Mali who possess expertise of more than two decades in microfinance, banking and social work. The major shareholders of CFSL are Navachetana Vividoddesha Souharda Sahakari Niyamit, Haveri (58 per cent), Navajeevan Foundation (32 per cent) and other individuals. CFSL has AUM of Rs. 29.81 crore as on 31 December, 2017 which includes Business correspondence portfolio of Rs. 3.52 crore.

SMERA believes that CFSL will benefit over the near to medium term from the promoters expertise in the lending and micro finance segment.

- **Moderate profitability and asset quality metrics**

CFSL's profitability is moderate marked by Return on Average Assets (RoAA) of 1.17 per cent in FY2017 as compared to 0.36 per cent in FY2016. The Net Interest Margins (NIM) improved to 6.44 per cent in FY2017 from 5.79 per cent in FY2016. The operating income increased to Rs.2.15 crore in FY2017 from Rs. 0.84 crore in FY2016. The average lending rate to SME business and LAP is 23 per cent while for two wheelers it is 27 per cent. The company's asset quality remained comfortable with 98.9 per cent on time portfolio and gross NPA of 0.34 per cent as on December 31, 2017.

SMERA believes that CFSL's ability to scale up the loan book and maintain asset quality will be a key rating sensitivity.

- **Adequate capitalisation**

CFSL has adequate capital adequacy ratio (CRAR) of 36 percent as on 31 December, 2017 with a Tier I ratio of 27 per cent (CRAR of 27 per cent as on 31 March, 2017 with Tier I of 17 per cent). The gearing stood at 5.57x as on December 31, 2017. The funding pattern of CFSL as on 31 March, 2017 of Rs. 30.74 crore comprises of Rs. 23.09 crore through term loans from various banks and financial institutions.

Weaknesses

• Modest loan portfolio and geographic concentration risk

CFSL has Asset under management (AUM) of Rs.29.81 crore as on 31 December, 2017 which includes Rs. 3.52 crore of managed portfolio through Capital First Limited, Shri Ram Transport Finance Co. limited and Electronica Finance Limited. The loan portfolio as on 31 March, 2017 stood at Rs. 25.80 crore. The operations of CFSL are concentrated in Karnataka with 24 branches as on 31 December, 2017 in the state. Besides, the company is also exposed to intense competition in the industry from banks and NBFCs.

Analytical Approach

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

Outlook: Stable

SMERA believes that CFSL will maintain a Stable outlook over the medium term owing to the experienced management and adequate capitalisation. The outlook may be revised to 'Positive' if CFSL significantly scales up its operations and diversifies its loan portfolio geographically while maintaining asset quality and profitability. Conversely, the outlook may be revised to 'Negative' in case of material change in its asset quality indicators. Any decline in profitability, resulting in stress on the capital position or substantial decline in its scale of operations may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

Particulars	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	30.74	18.35	6.13
Total Income	Rs. Cr.	2.15	0.84	0.36
PAT	Rs. Cr.	0.29	0.04	0.03
Net Worth	Rs. Cr.	4.59	3.08	3.04
Return on Average Assets (RoAA)	(%)	1.17	0.36	0.90
Return on Average Net Worth(RoNW)	(%)	7.50	1.44	1.81
Total Debt/Tangible Net Worth (Gearing)	Times	5.57	4.85	0.99
Gross NPA	(%)	0.34	0.07	0.04
Net NPA	(%)	Nil	Nil	Nil

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) - <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>

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. Crore)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BB+ / Stable

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ABOUT SMERA

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