

Press Release

Chetana Financial Services Limited

May 17, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB+** (**read as ACUITE double B plus**) to the Rs. 20.00 crore bank facilities of Chetana Financial Services Limited (CFSL). The outlook is '**Stable**'.

CFSL (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 (two wheeler loans and personal loans) to individuals and SMEs, through its 49 branches in Karnataka. The major shareholders of CFSL are Navachetana Vividdoddesh Souharda Sahakari Niyamit, Haveri (58.21 per cent) and Navajeevan Foundation (31.60 per cent).

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established presence in two wheeler segment:

Established in 1996, CFSL has an established presence of more than two decades in two wheeler lending sector. The company operates in Karnataka across 15 districts as on December 31, 2018. The company is a 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 company maintained its asset quality with 98 per cent on time portfolio and gross NPA of 0.47 per cent as on December 31, 2018. Further, the company maintained collection efficiency of 95.06 percent over past 11 months ending December 31, 2018. Acuité believes that CFSL will benefit from the promoters' expertise in financial services industry and its established presence in the two wheeler segment over the near to medium term.

Weaknesses

Modest scale of operations; impeded by subdued funding support:

CFSL has Asset under management (AUM) of Rs. 61.02 crore as on December 31, 2018 which includes Rs. 30.34 crore of managed portfolio through IDFC First Bank and Hinduja Leyland Finance Limited. The loan portfolio as on March 31, 2018 stood at Rs. 25.80 crore. While the company's overall AUM has doubled, its own book portfolio remained at the same level, the loan portfolio stood at Rs.29.68 crore as on December 31, 2018 as against Rs. 30.11 crore as on March 31, 2018. The subdued credit scenario in the financial sector has limited the company's ability to mobilise requisite funding from banks and financial institution, which has in turn resulted in increase in off book exposure. Further, the demand for credit in the two wheeler segment is linked to demand for automobiles, which has seen a slow growth and is likely to impact the company's scale of operations.

Acuité believes, going forward, the ability of the company to mobilise additional funding through debt /sub debt and its ability to deploy the funds profitably while maintaining asset quality will be crucial to its credit profile.

Geographic concentration risk:

The operations of CFSL are concentrated in Karnataka with 49 branches across 11 districts as on December 31, 2018 in the state, hence, susceptible to portfolio/geographical concentration coupled with socio-political risk. Acuité believes that the geographical concentration of its portfolio will continue to weigh on its credit profile over the near to medium term. Besides, the company is also exposed to intense competition in the industry from banks and NBFCs.

Liquidity Position:

CFSL has adequately matched cash flows as on December 31, 2018 as cumulative surplus is available in all maturity buckets over the near term. Most of the loans are upto two year tenures, while the borrowings are upto two to three years tenure, leading to positive mismatches.

Outlook: Stable

Acuité believes that CFSL will maintain a 'Stable' outlook over the medium term supported by its established presence in the financial services segment along with demonstrated ability to maintain asset quality. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio while maintaining asset quality. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality and profitability metrics.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Total Assets	Rs. Cr.	40.38	30.74	18.35
Total Income (Net of Interest Expense)	Rs. Cr.	3.52	2.15	0.84
PAT	Rs. Cr.	0.49	0.29	0.04
Net Worth	Rs. Cr.	7.18	4.59	3.08
Return on Average Assets (RoAA)	(%)	1.38	1.17	0.36
Return on Average Net Worth (RoNW)	(%)	8.31	7.50	1.44
Total Debt/Tangible Net Worth (Gearing)	Times	4.46	5.57	4.85
Gross NPAs	(%)	0.56	0.26	0.70
Net NPAs	(%)	NIL	NIL	NIL

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

Not Applicable

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

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. Cr.)	Ratings/Outlook
20-Feb-2018	Term Loan	Long Term	3.00	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	5.00	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	3.00	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	3.00	ACUITE BB+/ Stable (Assigned)
	Proposed Bank Facility	Long Term	6.00	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. Cr.)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.65	ACUITE BB+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.33	ACUITE BB+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE BB+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.46	ACUITE BB+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE BB+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.91	ACUITE BB+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.82	ACUITE BB+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.43	ACUITE BB+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.44	ACUITE BB+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.16	ACUITE BB+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.99	ACUITE BB+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.45	ACUITE BB+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.47	ACUITE BB+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB+/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.14	ACUITE BB+/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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