

Press Release

Chetana Financial Services Private Limited

July 07, 2020



Rating Assigned, Reaffirmed & Withdrawn

Total Bank Facilities Rated*	Rs. 30.00 crore
Long Term Rating	ACUITE BB+/ Negative (Reaffirmed, Assigned & Withdrawn; Outlook revised from Stable)

*Refer annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB+** (read as ACUITE double B plus) to the Rs. 22.03 crore bank facilities of Chetana Financial Services Private Limited (CFPL). The outlook is revised from '**Stable**' to '**Negative**'.

Acuité has assigned the long term rating of '**ACUITE BB+** (read as ACUITE double B plus) to the Rs. 7.97 crore bank facilities of Chetana Financial Services Private Limited (CFPL). The outlook is '**Negative**'.

Acuité has withdrawn the long term rating of '**ACUITE BB+** (read as ACUITE double B plus) to the Rs. 6.56 crore bank facilities of Chetana Financial Services Private Limited (CFPL).

Revision of Outlook

The outbreak of the COVID-19 virus and the continued lockdowns have impacted the operations of various business units on a pan India basis. Since the activities of most of the borrowers have been disrupted, it has impacted their cash flows. Any significant impairment in the credit profile of the borrowers is expected to translate into asset quality pressures for players like CFPL. While nationwide lockdowns have been gradually lifted from end of May 2020 onwards, there are still restrictions on movement of men and material in certain geographies. The collection efficiency is also impacted due to logistical challenges in reaching out to borrowers.

CFPL is engaged in Vehicle financing, Financing of SME – Loan against property, Unsecured loans to businesses and others. Vehicle loans account for ~64 percent of Asset under Management of Rs. 64.71 as on February 29, 2020 followed by loans to SME segment including both LAP and Unsecured business loans comprising ~36 percent of AUM. CFPL's borrowers majorly comprise small traders, retailers, businessmen and other local small business operators. The SME segment is one of the more affected segments in the recent lockdown. The company operates in only in the state of Karnataka. Around 77 percent of CFPL's portfolio was under moratorium till May 2020 on account of COVID crisis. CFPL has been receiving requests from its borrowers to extend the moratorium further till August, 2020. The company is considering the request on case to case basis. Acuité believes that the impact of the lockdown on the asset quality will be clear only after the moratorium i.e. around the third quarter of FY 2021.

CFPL's total collections during April, 2020 and May, 2020 were Rs. 0.81 crore and Rs. 1.84 crore respectively, i.e. ~20 percent of the scheduled collection for April and ~40 percent of the scheduled collection for May which includes collections made for on book as well as off book portfolio. Since CFPL's collections from borrowers have significantly declined, their ability to make payments as per original terms has been impaired. CFPL's scheduled collections for its on book portfolio are Rs. 1.5 crore on a monthly basis against which its scheduled debt servicing obligations (as per regular schedule) are around Rs. 1 crore. Acuité believes that the company has been attempting to manage its liquidity by seeking moratorium from its lenders, so as to synchronize with its moratorium to its borrowers. Acuité believes that its near term liquidity pressures will continue to be elevated as most of the lenders, specially the NBFC's, may find it difficult to extend a complete moratorium till August, 2020. Hence, the liquidity challenges for players like CFPL are expected to accentuate over the near term till they pump in additional long term funding through equity or long term debt. Acuité believes that CFPL's collection efficiency is likely to improve only in a gradual basis. CFPL is currently in discussion with its lenders to arrange for long term funds.

Against above backdrop, there will be three key rating monitorables: Firstly, the ability to contain the asset quality pressures and achieve optimal collection efficiency commensurate with the monthly obligations (both debt servicing obligations and operating expenses). Secondly, the management of the liquidity buffers since, the stance of the lenders to extend further moratorium will be critical till collection efficiency sufficiently improves. Thirdly, the ability of the promoters to arrange for long term funding support either through equity or through long term debt.

About CFPL

Karnataka based, Chetana Financial Services Private Limited (CFPL) is a non-deposit taking Non-Banking Financial Company (NBFC). CFPL is engaged in extending Vehicle loans, Mortgage loans (Loan against Property) and Business loans directed towards SME and Consumer Durable loans. CFPL commenced its lending operations in 2014 after being acquired by current promoter Mr. Nagendra Mali in 2012. Mr. Nagendra Mali acquired an existing NBFC named Nimba Finance and Leasing Company Limited and renamed it as Chetana Financial Services Limited. The company was then re-constituted as a Private Limited company in March, 2019. CFPL's major shareholder are Navachetana Vividoddesha Souharda Sahakari Niyamit, Haveri (58.21 percent) and Navajeevan Foundation (31.60 percent).

The company operates in 15 districts of Karnataka with a branch network of 50 branches as on March 31, 2020.

Analytical Approach

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

Acuité has been guided by recent SEBI circular dated 30th March, 2020 (Circular No: SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/53) while arriving at the rating. Acuité has also relied on the recent RBI circular dated 27th March, 2020 (Circular No: RBI/2019-20/186 in this regard. Acuité observes that, the company did not receive moratorium from some of its lenders. The company has skipped payments to these lenders for April and May 2020. Acuité believes that, this slippage is attributable to the ongoing crisis and hence has not construed these slippages as a credit event while arriving at the rating decision. Acuité policy regarding this "Transitory relaxation from compliance with certain provisions under SEBI (Credit Rating Agencies) Regulations, 1999" is as follows: <https://www.acuite.in/transitory-relaxation-from-compliance-with-certain-provisions-under-SEBI.htm>

Key Rating Drivers

Strengths

- Experienced management**

CFPL commenced its operations in 2014 financing 2-wheeler, 3 and 4-wheeler commercial vehicles and extending Mortgage loans (Loan against property and Unsecured business loans directed towards SME segment. In FY2019 the company also commenced providing Consumer durable loans. CFPL caters to the rural and semi-urban areas of Karnataka. CFPL is a part of Navachetana group of institutions headed by Mr. Nagendra Mali. Founder and Chairman, Mr. Nagendra Mali has over two decades of experience in rural development and microfinance. The board of directors comprises Mr. Nagendra Mali, Mrs. Chandrakala N. Mali and Mr Chandrappa S. Manegar. They have over a decade of experience in financial services industry.

Over the years, CFPL has expanded its operations to build an AUM of Rs. 64.71 Cr as on February 29, 2020 which is spread across with a network of 50 branches across 15 districts in Karnataka. Of the overall AUM of Rs. 64.71 crore Vehicle loans comprised around 64 percent followed by Mortgage loans (Loan against property) towards SME segment at around 23 percent and Unsecured Business loans at around 13 percent. The company takes off-book exposure through Business Correspondence and Co-lending which comprised ~64 percent of its overall AUM as on February 29, 2020. It is a business correspondence partner for IDFC First Bank and is in co-lending agreement with Hinduja Leland Finance. The prudent underwriting policies adopted by the management has enabled the company to maintain a sound asset quality with on-time portfolio at 99.06 percent as on February 29, 2020 and gross non performing assets (GNPA) at 0.40 percent. The sound asset quality was further reflected with an average collection efficiency of 98.72 percent for 12 months ended February 29, 2020.

Acuité believes that CFPL will continue to benefit from its established presence in the financial services industry along with the experienced promoters.

Weaknesses

- **Subdued level of growth in business operation and expectations of elevated stress in asset quality and liquidity buffers**

CFPL's total Asset Under Management (AUM) stood at Rs. 64.71 crore as on February 29, 2020 as compared to Rs. 64.85 crore as on March 31, 2019. While the company's off-book loan portfolio increased to Rs. 41.41 crore as on February 29, 2020 from Rs. 37.57 crore as on March 31, 2019, its on-book portfolio saw a decline to Rs. 23.30 crore from Rs. 27.28 crore during the same period. The company's loan book growth can be directly linked to access to funds and resources. Going forward the ability of the company to access timely capital infusion and its ability to mobilize low cost debt, will be a key factor in the scalability of business.

CFPL's key product offerings are spread across vehicle financing - commercial vehicles, two and three wheelers, financing through Loan against property and unsecured business loans towards SME borrower base and others. Around 64 percent of CFPL's AUM of Rs. 64.71 crore as on February 29, 2020 accounts for vehicle financing and around 36 percent comprising unsecured business loan and LAP portfolio towards SME borrowers. Majority of the CFPL's borrowers comprise self-employed individuals comprising small traders, retailers, businessmen and other local small business operators. The activities of most of these small SME units have been impacted because of the on-going lockdown and there are restrictions on movement of men and material. While the credit profile of these borrowers has been impacted, the magnitude of impairment will be known only after the expiry of the current moratorium period. The serviceability of these loans is directly dependent on the level of economic activity in the region and CFPL's loan portfolio is geographically concentrated in Karnataka alone. Any prolonged time taken for resumption of normal activities, may lead to long term stress on their asset quality and elevated credit cost thereby impacting the profitability of the company.

The company had cash and cash equivalents of Rs. 0.38 crore as on March 31, 2020. However, in view of the challenges in maintaining collection efficiency, the company had sought a moratorium from all its lenders. Presently, the company has extended a moratorium to most of its borrowers and is availing a moratorium from most of its lenders. The liquidity buffers will depend on the ability to scale up its collections at a level commensurate with its debt service obligation and disbursements. Any challenges in getting additional moratorium from its lenders and/or arranging for long term funding to bridge the near term mismatches will also impact the liquidity profile.

Acuité believes that containing additional slippages and the ability to raise long term debt to support its business growth will be crucial.

Rating Sensitivity

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metrics
- Changes in regulatory environment

Material Covenants

CFPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others. As per confirmation received from client vide mail dated June 30, 2020, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity: Stretched

CFPL maintained cash and cash equivalents of Rs. 0.38 crore as on March 31, 2020. The company has not made any disbursements for the month of April and May, 2020 and sought moratorium from its lender under which only the interest payments are being made. While the company has maintained liquidity to take care of its day to day operation costs and interest payments. CFPL's total collections during April,

2020 and May, 2020 were Rs. 0.84 crore and Rs. 1.81 crore respectively, i.e. ~20 percent of the scheduled collection for April and ~40 percent of the scheduled collection for May which includes collections made for on book as well as off book portfolio. The collections are currently subdued and any improvement in collections are expected to be gradual. Considering the scale of operations and expected debt servicing commitments the liquidity will continue to be under stress.

CFPL's borrowings have maturity upto 36 months. As per CFPL's ALM statement as on March 31, 2020, ~50 percent of its borrowings had maturity within a year. Subsequent to COVID outbreak, the liquidity crisis has been triggered. CFPL had extended moratorium to ~ 77 percent of its borrower base till May 2020 and might consider further moratorium till August 2020 for its borrowers on case to case basis. On the liabilities side it has received similar moratorium till August 31, 2020 from 4 out of 8 lenders. The company's ability to maintain a stable liquidity profile will hinge on its ability to improve its collection efficiency commensurate with its debt servicing obligation and other business requirements. The company is in talks with various lenders to raise long term debt.

Acuité believes that CFPL may require additional moratorium from its lenders till its collection efficiency reaches optimal levels. The stance of existing lenders and the ability of CFPL to raise long term funding (equity/debt) commensurate with its near term obligations will be critical to the maintenance of stable liquidity profile.

Outlook: Negative

Acuité believes that CFPL's credit profile is likely to be impacted over the near term on account of increased possibility of elevated asset quality pressure and consequent impact on profitability. The outlook may be revised to 'Stable' in case CFPL is able to demonstrate significantly lower than expected deterioration in asset quality while improving its liquidity buffers. Conversely, if the company faces challenges in managing its liquidity buffers due to slower than expected improvement in collection efficiency or if the asset quality challenges are higher than expected and impacting profitability, it could impart a negative bias to the rating.

About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Provisional)	FY19 (Actual)
Total Assets	Rs. Cr.	33.62	38.61
Total Income*	Rs. Cr.	7.61	6.10
PAT	Rs. Cr.	0.71	0.64
Networth	Rs. Cr.	8.53	7.82
Return on Average Assets (RoAA)	(%)	1.97	1.63
Return on Net Worth (RoNW)	(%)	8.71	8.57
Total Debt/Tangible Net Worth (Gearing)	Times	2.75	3.77
Gross NPA's	(%)	0.40	0.48
Net NPA's	(%)	0.40	0.48

* Total income equals to Net interest income plus other income

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-52.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-May-2019	Term Loan	Long Term	0.65	ACUITE BB+/ Stable (Reaffirmed)
	Term Loan	Long Term	1.33	ACUITE BB+/ Stable (Reaffirmed)
	Term Loan	Long Term	0.70	ACUITE BB+/ Stable (Reaffirmed)
	Term Loan	Long Term	3.46	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	0.05	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	1.91	ACUITE BB+/ Stable (Reaffirmed)
	Term Loan	Long Term	1.00	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	1.82	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	0.43	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	0.44	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	1.16	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	0.50	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	0.99	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	1.45	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	0.47	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	2.50	ACUITE BB+/ Stable (Assigned)
	Proposed Bank facility	Long Term	1.14	ACUITE BBB+/ Stable (Reaffirmed)
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. Crore)	Ratings/Outlook
Term Loan	Not Available	Not Applicable	Not Available	0.65	ACUITE BB+ (Withdrawn)
Term Loan	Not Available	Not Applicable	Not Available	1.33	ACUITE BB+ (Withdrawn)
Term Loan	Not Available	Not Applicable	Not Available	0.70	ACUITE BB+ (Withdrawn)
Term Loan	12-07-2017	Not Applicable	12-01-2021	2.05	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
Term Loan	16-10-2017	Not Applicable	16-10-2020	0.82	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
Term Loan	Not Available	Not Applicable	Not Available	1.00	ACUITE BB+ (Withdrawn)
Term Loan	02-03-2017	Not Applicable	02-08-2020	0.15	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
Term Loan	Not Available	Not Applicable	Not Available	0.43	ACUITE BB+ (Withdrawn)
Term Loan	Not Available	Not Applicable	Not Available	0.44	ACUITE BB+ (Withdrawn)
Term Loan	12-03-2018	Not Applicable	12-08-2020	0.25	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
Term Loan	Not Available	Not Applicable	Not Available	0.50	ACUITE BB+ (Withdrawn)
Term Loan	Not Available	Not Applicable	Not Available	0.99	ACUITE BB+ (Withdrawn)
Term Loan	26-03-2018	Not Applicable	26-06-2020	0.23	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
Term Loan	Not Available	Not Applicable	Not Available	0.47	ACUITE BB+ (Withdrawn)
Term Loan	30-03-2019	Not Applicable	30-03-2021	1.57	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
Term Loan	29-07-2019	Not Applicable	29-07-2022	4.40	ACUITE BB+/ Negative (Assigned)
Term Loan	21-06-2019	Not Applicable	21-06-2022	1.62	ACUITE BB+/ Negative (Assigned)
Term Loan	05-04-2019	Not Applicable	05-10-2020	1.33	ACUITE BB+/ Negative (Assigned)
Term Loan	18-04-2019	Not Applicable	18-04-2021	0.62	ACUITE BB+/ Negative (Assigned)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	16.96 (Enhanced from Rs. 1.14 crore)	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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