

Press Release

Chaitanya India Fin Credit Private Limited

April 23, 2019

Rating Upgraded



| | |
|------------------------------------|---|
| Total Bank facilities rated | Rs. 25.00 Cr. |
| Long Term Rating | ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable) |

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 25.00 Cr on the bank facilities of Chaitanya India Fin Credit Private Limited (CIFC). The outlook is '**Stable**'.

The upward revision in the rating reflects the improvement in key operating metrics such as diversified geographical presence, asset quality and earning profile which are expected to be sustained over the near to medium term. CIFC had faced challenges during the demonetisation; wherein a large proportion of the portfolio turned delinquent, the Company has written off a portion of these delinquent loans in FY2018 and has completely provided for the remaining portion in the current year which will support the profitability metrics going forward.

Further, the rating also factors in demonstrated track record of capital infusion by the parent Company along with expected capital infusion. The management is exploring options to raise ~Rs. 100 Cr. of fresh equity capital over the near term. Acuité expects the infusion to happen in the next 2 to 3 quarters.

Acuité expects the equity infusion will augur well for Company's financial flexibility and future growth prospects.

About the Company:

Chaitanya India Fin Credit Private Limited (CIFC) is a Bangalore based NBFC-MFI promoted by Mr. Samit S. Shetty (Managing Director) and Mr. Anand Rao (Joint Managing Director).

CIFC is an NBFC-MFI engaged in extending micro finance loans through JLG model to women primarily for income generating activities since 2009. CIFCL has presence in four states, namely Karnataka, Bihar, Maharashtra and Uttar Pradesh through a network of 170 branches as on December 31, 2018.

CIFC is 99.9 percent owned by Chaitanya Rural Intermediation Development Services Private Limited (CRIDSPL- Holding Company). Mr. Samit S. Shetty and Mr. Anand Rao along with friends and family members own ~66.6 percent in the holding and the remaining 33.40 percent is held by Shore Cap Fund II, a UK based fund.

Analytical approach:

Acuité has adopted a standalone approach on CIFC's business and financial risk profile for arriving at the rating.

Key Rating Drivers

Strengths

• Established presence in microfinance lending:

CIFC commenced its lending business in 2009 upon registration as a Non deposit taking NBFC and was engaged in financing of Micro loans along with housing and vehicle loans. However, as per regulations after getting registered as an NBFC-MFI in 2014, the other verticals were carried out through the Holding Company. Presently, CIFC is primarily focused in extending micro loans.

The established presence in the microfinance lending has enabled the Company to grow its Asset under Management. The Company's overall AUM has grown to Rs. 571.8 Cr. as on March 31, 2019 (Provisional) from Rs. 216.7 Cr. as on March 31, 2016. The growth is largely derived from micro loans which amounted to Rs. 501.8 Cr. (i.e. 99 percent of overall AUM) as on December 31, 2018 as against Rs. 200.4 Cr. (i.e. 92 percent of overall AUM) as on March 31, 2016.

The growth in the AUM has been driven by wider geographical presence from two states (i.e. Karnataka and Maharashtra) as on March 31, 2016 to four states (i.e. Bihar, Karnataka, Maharashtra and Uttar Pradesh) as on December 31, 2018 and increasing its branch network from 83 branches as on March 31, 2016 to 170 branches as on December 31, 2018. The Company has diversified its geographical presence from Karnataka which comprised 98 percent of the portfolio as on March 31, 2016 to 74 percent as on December 31, 2018. The Company has gradually increased its penetration in Bihar and Maharashtra. Going forward, the management plans to have a presence in Uttar Pradesh, Jharkhand, Madhya Pradesh and Chhattisgarh.

CIFC has a 6-member board led by Mr. Samit S. Shetty (Promoter and Managing Director) and Mr. Anand Rao (Promoter and Joint Managing Director), who have extensive experience in microfinance lending. Mr. Samit Shetty is an MBA from IIM Ahmedabad and post qualification he served Olam International Limited, a Singapore based Commodity Trading House along with heading Olam's Brazilian Subsidiary. Mr. Anand Rao holds an MA in International Relations from Syracuse University, USA and a Management degree from IIT, Bombay. He has been associated with International Development at World Resources Institute, Washington DC and has played varied roles in different capacities in the Indian Corporate Sector.

Acuité believes that CIFC's operating metrics will be supported by diversified geographical base along with established presence in the microfinance lending.

• Improved asset quality and earning profile:

CIFC primarily operates in rural and semi urban areas with a borrower base engaged in Agriculture and Live Stock Rearing and Dairy. The Company has scaled up its operations in the past two years primarily in the microfinance segment. Micro loans being unsecured in nature, the likeliness of delinquency increases.

The overall Gross NPA has improved to 2.64 percent as on March 31, 2019 (Provisional) as against 5.40 percent as on March 31, 2018. The Company's improving Gross NPA levels are reflective of the prudent underwriting standards and appraisal systems. The high level of GNPA as on March 31, 2018 is primarily due continued impact of the legacy portfolio i.e. loans originated prior to demonetisation. The Company has completely provided for the legacy portfolio in FY2019 (Provisional), resulting in a Nil Net NPA as on March 31, 2019 (Provisional). The originations post demonetisation has performed well, contributing merely Rs. 0.46 Cr. as on March 31, 2019 (Provisional) to the overall portfolio at risk at 90 days past due of Rs. 13.25 Cr. as on March 31, 2019 (Provisional).

The improving asset quality has also augured well to the earning profile of CIFC. The Company's Return on Average Assets (ROAA) has improved to 1.63 percent in FY2019 (Provisional), as against -2.42 percent in FY2018. The ROAA has improved primarily due to growth in new sanctions and marginal write off of Rs. 0.54 Cr. in FY2019 (Provisional) as against Rs. 11.82 Cr. in FY2018. The Net Interest Margins (NIMs) have also improved to 13.30 percent in FY2019 (Provisional) as against 11.88 percent in FY2018. The improved NIMs are a result of improved interest spreads.

Acuité believes that CIFC's ability to practice prudent underwriting and appraisal standards while achieving its growth objectives will continue to augur well to the overall asset quality and earning profile.

Weaknesses

- **Leveraged capital structure; albeit expected improvement on the back of Capital Infusion**

CIFC is engaged in microfinance lending with loan tenure ranging from 12 to 24 months. The Company is in expansion stage wherein the management plans to grow its operations while entering into newer geographies. The Company's growth prospects will entail strong funding support. Presently, the Company's Funding profile includes a mix of equity, bank/FIs term loans and NCDs. The Company's gearing as on March 31, 2019 (Provisional) was 6.44 times as against 5.81 times as on March 31, 2018. The leveraged capital structure is likely to limit CIFC's ability to raise further funding from FIs/Banks at competitive rates.

The Company's Capital Adequacy levels have improved to 23.31 percent as on March 31, 2019 (Provisional) as against 17.13 percent as on December 31, 2018, mainly supported by capital infusion of Rs. 7.45 Cr. in March 2019 (Provisional). Historically, the Holding Company has infused equity capital of Rs. 40.46 Cr. since 2016. Further, the management plans to infuse fresh equity capital upto Rs. 100 Cr. in the near term which is likely to improve the overall capital structure and growth prospects.

Acuite believes that CIFC's ability to raise adequate equity capital in a timely manner to support the growth prospects will be key rating sensitivity.

- **Exposure to inherent socio-political risk in MFI segment:**

CIFC primarily extends microfinance loans wherein the borrowers' credit profile is weak. The microfinance sector operates in economically backward areas wherein regulatory intervention is of importance. This exposes the segment to regulatory risks. Further, these loans are extended in clusters. In the event of any natural calamity or adverse manmade event in the region can impact the cash flows of the borrowers which in turn will have an adverse impact on the overall operating profile and profitability of players like CIFC. Certain events in the past have demonstrated the vulnerability of microfinance sector to regulatory and legislative risk.

Acuite believes that any adverse impact on the cash flows of the borrowers of players like CIFC is likely to impinge upon the overall operating profile of such players.

Liquidity Position:

CIFC has strong liquidity profile with no negative mismatch in any of the time buckets. The Company's liquidity profile is supported by its ability to securitise its loan assets. The company has taken an off book exposure of upto Rs. 170 Cr. in FY2019 (Provisional).

Outlook: Stable

Acuite believes that CIFC will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with improving asset quality and earning profile. The outlook may be revised to 'Positive' in case of significant growth in loan portfolio while maintaining asset quality, profitability, and capitalisation levels. The outlook may be revised to 'Negative' in case of any delay in expected equity infusion or in case of any headwinds faced in improving operating levels and maintain asset quality.

About the Rated Entity - Key Financials

| Parameters | Unit | FY19 (Provisional) | FY18 (Audited) | FY18 (Audited) |
|---|---------|-----------------------|-------------------|-------------------|
| Total Assets | Rs. Cr. | 527.47 | 363.06 | 299.93 |
| Total Income* | Rs. Cr. | 61.17 | 38.94 | 31.02 |
| PAT | Rs. Cr. | 7.27 | (8.01) | 1.23 |
| Net Worth | Rs. Cr. | 63.85 | 49.12 | 47.13 |
| Return on Average Assets (RoAA) | (%) | 1.63 | (2.42) | 0.48 |
| Return on Average Net Worth (RoNW) | (%) | 12.87 | (16.64) | 3.36 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 6.44 | 5.81 | 5.13 |
| Gross NPA | (%) | 2.64 | 5.40 | 2.15 |
| Net NPA | (%) | 0.00 | 0.53 | 0.98 |

* Total income equals to Net interest income plus other income

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

None

Any other information

None

Applicable Criteria

- Non-Banking Financing Entities - <https://acuite.in/view-rating-criteria-10.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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 |
|-------------------|---------------------------------|-----------|---------------------|------------------------------------|
| March 12, 2018 | Fund based (Proposed) | Long Term | 25.00 | ACUITE BBB-/Stable (Reaffirmed) |
| December 29, 2016 | Term Loan I | Long Term | 16.5 | ACUITE BBB-/Stable (Upgraded) |
| | Term Loan II | Long Term | 3.00 | ACUITE BBB-/Stable (Upgraded) |
| | Term Loan (Proposed) | Long Term | 0.50 | ACUITE BBB-/Stable (Upgraded) |
| June 18, 2015 | Term Loan I | Long Term | 16.5 | ACUITE BB+/Stable (Assigned) |
| | Term Loan II | Long Term | 3.00 | ACUITE BB+/Stable (Assigned) |
| | Term Loan (Proposed) | Long Term | 0.50 | 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 |
|------------------------|------------------|-------------|---------------|-----------------------------|--|
| Fund Based (Proposed) | NA | NA | NA | 25.00 | ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable) |

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About Acuite Ratings & Research: Acuite Ratings & Research Limited (erstwhile SMERA Ratings 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 6000 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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