

Press Release

Chaitanya India Fin Credit Private Limited

August 14, 2020



Rating Upgraded & withdrawn

Total Facilities Rated	Rs.25.00 Cr.
Total Bank Facilities Rated	Rs.25.00 Cr.
Long Term Rating	ACUITE A- (upgraded from ACUITE BBB & withdrawn)

*Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE A-**' (**read as ACUITE A minus**) from '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.25.00 Cr. bank facilities of Chaitanya India Fin Credit Private Limited (CIFCPL) and has subsequently withdrawn the rating. This rating withdrawal is in accordance with the Acuité's policy on withdrawal of rating. The rating is being withdrawn at the company's request and based on confirmations received as per Acuité's policy.

Reasons for Upward Revision

The upward revision in the rating reflects the significant improvement in capital structure and the financial flexibility of CIFCPL, consequent to the fund infusion by the new promoter, Mr. Sachin Bansal. Mr. Bansal (ex-promoter of Flipkart) acquired a majority stake in CRIDS (renamed as Navi Finserv Private Limited (NFPL)) which holds 100 percent stake in CIFCPL. CIFCPL along with NFPL are hereinafter referred to as Navi Group.

The new promoter has infused more than ~Rs.3000 Cr. in NFPL through his company Navi Technologies Private Limited (NTPL). NTPL has invested in NFPL through zero-coupon non-convertible debentures of ~Rs.2470 Cr. (as on March 31, 2020) which are primarily invested in a treasury portfolio comprising highly rated bonds and securities. Both the treasury assets, at NTPL and at NFPL, are managed by a common treasury team. The treasury portfolio is currently parked in NFPL and could be liquidated at short notice depending upon the promoter's investment plans in BFSI space. However, Acuité believes, even in the event of significant unwinding, the treasury assets are likely to stay at minimum level of around Rs.1000 Cr. over the near term. The significant treasury income will support NFPL's profitability and consequently augment its capital base.

On the asset side, the outbreak of the pandemic and the continued lockdowns have significantly impacted the operations of most of the NBFCs and MFIs. The collection efficiency for most of the MFI players like CIFCPL has also been impacted due to logistical challenges in reaching out to borrowers. CIFCPL has also been required to extend the moratorium to its borrowers in line with the general industry practice being followed. The collection efficiency is expected to normalise only in a gradual manner, once the lockdowns are relaxed. Acuité expects that there could be some elevated asset quality pressures over the near term, which could add to the credit cost of CIFCPL.

Acuité believes that notwithstanding the likely asset quality pressures, players like CIFCPL with healthy capital and liquidity buffers will be well-positioned (vis. a. vis. other MFIs) to benefit from the lending opportunities once the operating environment becomes relatively stable.

About CIFCPL

Chaitanya India Fin Credit Private Limited (CIFCPL), is a Bangalore based NBFC-MFI engaged in extending micro-finance loans through Joint Liability Group (JLG) model to women borrowers in rural areas since 2009. CIFCPL initially commenced its operations in 2004 as an NGO and gradually evolved as a microfinance organisation. The company was founded by Mr. Samit Shetty and Mr. Anand Rao. CIFCPL is currently a wholly-owned subsidiary of Navi Finserv Private Limited (formerly known as Chaitanya Rural Intermediation Development Services Private Limited (CRIDS)).

CIFCPL has a presence in 5 states, namely Karnataka, Bihar, Maharashtra, Uttar Pradesh and Jharkhand. The company operates through a network of 235 branches as on March 31, 2020. The company had an AUM of ~Rs.881 Cr. as on March 31, 2020, comprising ~96 percent of on-book exposure. The off-book exposure is in the form of securitisation/pass-through certificates (PTCs) and direct assignment transactions.

About NFPL:

NFPL, incorporated in 2012, is a non-deposit taking non-banking finance company (ND-NBFC) engaged in the business of providing vehicle loans, housing loans and fintech based lending. The company has a portfolio of ~Rs.108 Cr. and treasury assets of ~Rs.3500 Cr. in the form of highly-rated bonds and securities, as on March 31, 2020. The day to day operations of NFPL is currently managed by Mr. Samit Shetty (CEO of NFPL).

About NTPL:

NTPL is the flagship company of Navi Group. Mr. Bansal holds ~98 percent stake in NTPL which in turn holds 100 percent stake in NFPL. NTPL has a networth of ~Rs.3963 Cr. as on March 31, 2020. Besides other investments, NTPL has a development team for a tech platform which is being utilised by NFPL for its fintech initiatives.

Analytical Approach:

Acuité had adopted the standalone approach earlier while arriving at CIFCPL's rating. However, due to the significant changes in top management as mentioned above, Acuité has now adopted a consolidated approach, combining the business and financial risk profile of Chaitanya India Fin Credit Private Limited (CIFCPL) and its parent company, Navi Finserv Private Limited (NFPL). Acuité has considered the consolidated financials of CIFCPL and NFPL, herein referred to as Navi Group.

The consolidation is in view of significant financial and operational linkages between CIFCPL and NFPL, common management and common treasury team. NFPL has supported CIFCPL through significant equity infusion and fund infusion in the form of Compulsory Convertible Debentures (CCDs) in FY 2020. NFPL is further expected to provide financial support to CIFCPL if and when required through intercompany agreements.

List of key rating drivers and their detailed description:

Strengths

- Established presence of CIFCPL across five states coupled with support from resourceful promoters**

CIFCPL commenced its lending business in 2009 upon registration as a Non-deposit taking NBFC and was engaged in the financing of Microloans 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 parent company, NFPL. Presently, CIFCPL is primarily focused in extending micro loans to women borrowers under Joint Liability Group (JLG) model in rural areas.

The Company's overall AUM has grown to ~Rs.881 Cr. as on March 31, 2020 from ~Rs.358 Cr. as on March 31, 2018. The growth in the AUM has been driven by the wider geographical presence from three states (i.e. Karnataka, Maharashtra and Bihar) as on March 31, 2018 to five states (i.e. Bihar, Karnataka, Maharashtra, Uttar Pradesh and Jharkhand) as on March 31, 2020 and increasing its branch network from 145 branches as on March 31, 2018 to 235 branches as on March 31, 2020. Karnataka contributes ~63 percent to the AUM as on March 31, 2020 vis. a vis. ~80 percent as on March 31, 2018.

NFPL was initially engaged in extending vehicle loans and housing loans across Karnataka and Maharashtra. The company has recently forayed into fintech based lending in the current fiscal year. Going forward, NFPL plans to focus on expanding its fintech based portfolio and is expected to receive continuous technological support from its flagship company, NTPL. The company has a total loan book of ~Rs.108 Cr. as on March 31, 2020.

CIFCPL's board of directors and management have gone through significant changes, consequent to change in promoters. CIFCPL now has a 7-member board led by Mr. Sachin Bansal

(Promoter and Chief Executive Officer & Managing Director) and includes other members namely, Mr. Ankit Agarwal (Additional director) and Mr. Anand Rao (Joint Managing Director) among others. Mr. Bansal is the former Chairman and co-founder of Flipkart, India's leading e-commerce market place, which was acquired by Walmart in 2018. He graduated from IIT-Delhi with a degree in Computer Science in 2005. He was named in the World 40 under 40 list by Fortune Magazine in 2012, as Entrepreneur of the year by Economic Times in 2013 and among TIME Magazine's 100 most influential people in the world in 2016. Mr. Agarwal is an MBA from IIM Ahmedabad and holds a degree in computer science from IIT Delhi. He has over ten years of experience and held various senior positions in the treasury department at Deutsche Bank and Bank of America. Mr. Anand Rao holds an MA in International Relations from Syracuse University, USA and a Management degree from IIT, Bombay. Prior to CFCPL, He was associated with International Development at World Resources Institute, Washington DC and has played varied roles in different capacities in the Indian Corporate Sector.

The day to day operations of CFCPL is overseen by Mr. Sachin Bansal (Promoter and Chief Executive Officer & Managing Director) and Mr. Anand Rao (Joint Managing Director). The day to day operations of NFPL is currently managed by Mr. Samit Shetty (CEO of NFPL).

Acuité believes that Navi Group will continue to benefit from the extensive branch network, coupled with experienced and resourceful promoters with proven business acumen.

- **Healthy capital structure; near term profitability expected to be supported by treasury operations**

CFCPL's networth improved to ~Rs.317 Cr (including CCDs of ~Rs.114 Cr.) as on March 31, 2020 vis. a vis. ~Rs.62 Cr. as on March 31, 2019. The company's gearing improved to ~1.8 times as on March 31, 2020 as against ~7.9 times as on March 31, 2019. At Navi Group level, the consolidated networth stood at ~Rs.1269 Cr. with a gearing (based on external debt only) of around 0.6 times as on March 31, 2020. CFCPL's overall capital adequacy ratio(CAR) improved to ~37.9 percent as on March 31, 2020 from ~23.4 percent as on March 31, 2019. Of the overall CAR as on March 31, 2020, Tier 1 CAR comprised ~35.5 percent. NFPL's overall CAR stood at ~24.9 percent as on March 31, 2020 comprising majorly of Tier I CAR.

Acuité believes that while the majority of NBFCs and MFI players are facing funding challenges, players like CFCPL and NFPL are strongly positioned to benefit from the lending opportunities once the economic situation normalises, due to their robust capital structure. The treasury assets of NFPL, currently around ~Rs.3500 Cr. as on March 31, 2020 are expected to significantly augment the profitability of Navi Group. The robust capital structure will support the Navi Group in accessing debt at fine pricing from prospective lenders/investors. Hence, the margins from the core MFI operations will also improve once the older legacy high-cost borrowings are gradually replaced with low-cost debt.

Acuité believes that Navi Group will continue to benefit from its healthy capital structure and profitability over the near to medium term.

Weaknesses

- **Susceptibility of operating performance to current challenges in the operating environment**

The MFI lending segment entails providing loans to the lower economic strata of the society. The pandemic and the consequent lockdowns have resulted in significant logistical challenges, affecting the movement of men and business. This has impacted the credit profile of most of the borrowers and the impact has been more severe on the lower economic strata of the society who are already vulnerable. The logistical challenges in reaching out to the borrowers either for collections or disbursements have disrupted the operations of most of the MFIs. While players like CFCPL have managed to show an improvement in collection efficiency of up to ~81 percent for the month of June 2020, the intermittent position and relaxations of lockdown may result in volatility in collection efficiency. CFCPL has been required to extend the moratorium to borrowers in line with the practice followed by other players and as allowed by the regulators. While the MFI sector has demonstrated strong resilience to economic events such as natural calamities and events like demonetization, the players had to endure high level of credit costs. CFCPL had to incur significant write-offs in FY 2020 and FY2019 on account of major delinquencies in its legacy portfolio (prior to demonetization).

The current situation is likely to result in an impairment of some portion of the loan book. The extent of impairment is difficult to ascertain at the current juncture. However, Acuité believes that the impact will be more pronounced in urban areas rather than rural geographies, which will bounce back quickly.

CIFCPL's gross non-performing assets (GNPAs) stood at ~Rs.8.4 Cr. at ~1.0 percent of the AUM as on March 31, 2020. NFPL's gross non-performing assets (GNPAs) stood at ~Rs.4.9 Cr. as on March 31, 2020. These delinquencies in NFPL form a part of its legacy portfolio of vehicle and housing loans.

Acuité believes, that Navi Group's ability to maintain growth in AUM against the backdrop of a subdued economic scenario while managing its asset quality, will determine the trajectory of its future credit profile.

Rating Sensitivities

- Movement in collection efficiency
- Movement in Liquidity buffers
- Movement in asset quality
- Profitability and capital adequacy buffers
- Changes in the regulatory environment

Material Covenants:

CIFCPL 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 the client via mail dated July 22, 2020, The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.

Liquidity Position: Strong

As per CIFCPL's ALM statement as on March 31, 2020, there are no negative cumulative mismatches in any buckets up to one year. CIFCPL's borrowings of ~Rs.560 Cr. as on March 31, 2020 comprise bank borrowings of ~47 percent, NBFC/FIs borrowings of ~22 percent and balance comprising NCDs and subordinated debt. The average tenure of CIFCPL's borrowings range between 1 to 3 years. As per the liquidity statement shared by CIFCPL, the company has ~Rs.153 Cr. of unencumbered cash and bank balance available as on June 30, 2020.

Navi Group's consolidated debt stood at ~Rs.3280 Cr. as on March 31, 2020, of which ~75 percent comprised zero interest NCDs from NTPL. The group's gearing (excluding external debt) stood at ~0.6 times as on March 31, 2020. At a group level, the liquidity position remains healthy with treasury assets of around ~Rs.3500 Cr. (as on March 31, 2020) invested in highly rated bonds and securities. As per discussion with CIFCPL, Acuité understands that at any point in time, the current promoters of Navi Group have guidance of maintaining at least Rs.1000 Cr. of unencumbered liquidity over the near to medium term.

About the Rated Entity - Key Financials: CIFCPL Standalone

Parameters	Unit	FY20 (Actual)	FY19(Actual)
Total Assets	Rs. Cr.	905.44	573.97
Total Income*	Rs. Cr.	103.65	57.57
PAT	Rs. Cr.	5.07	4.21
Net Worth	Rs. Cr.	316.90	61.48
Return on Average Assets (RoAA)	(%)	0.69	0.90
Return on Average Net Worth(RoNW)	(%)	2.68	7.63
Total Debt/Tangible Net Worth (Gearing)	Times	1.77	7.93
Gross NPA	(%)	0.96	2.32
Net NPA	(%)	0.00	0.35

* Total income equals to Net interest income plus other income

About the Rated Entity - Key Financials: Navi Group (CIFCPL+NFPL)

Parameters	Unit	FY20 (Actual)	FY19(Actual)
Total Assets	Rs. Cr.	4583.46	695.94
Total Income*	Rs. Cr.	145.82	68.28
PAT	Rs. Cr.	14.78	5.01
Net Worth	Rs. Cr.	1268.95	139.15
Return on Average Assets (RoAA)	(%)	0.56	0.85
Return on Average Net Worth(RoNW)	(%)	2.10	3.78
Adjusted Debt^/Tangible Net Worth (Gearing)	Times	0.63	3.79

* Total income equals to Net interest income plus other income

[^]based on external debt only

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

None

Any other information

Not Applicable

Applicable Criteria

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition -<https://www.acuite.in/view-rating-criteria-52.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
April 23, 2019	Fund based (Proposed)	Long Term	25.00	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
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)

***Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
-	Proposed Bank facility	NA	NA	NA	25.00	ACUITE A- (Upgraded from ACUITE BBB & withdrawn)

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About Acuité Ratings & Research:

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