

Press Release

Adi Chitragupta Finance Limited

July 18, 2019

Rating Assigned



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

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the bank facilities of Rs. 20.00 crore bank facilities of ADI CHITRAGUPTA FINANCE LIMITED (ACFL). The outlook is '**Stable**'.

ACFL is a NBFC-MFI (Non-Banking Finance Company Micro Finance Institution), incorporated in 2015, based in the state of Bihar, with its headquarters at Patna. The operations began in FY2018 with a focus on providing microfinance services to urban and rural poor and works on lines of the Grameen banking model. The company has 27 branches spread across 19 districts of Bihar and 2 districts in Jharkhand. In its two years of operations, the company has built a borrower base of 23,677 borrowers and 1840 joint liability groups as on March 31, 2019.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of ACFL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management:

ACFL has been founded by Mr. R. K. Sinha, and Mr. Gyan Mohan. Mr. Gyan Mohan, Director and CEO, is an ex-banker with exposure in Banking and finance sector including investment and international banking. Mr. Mohan has worked with SBI Capital Market as SVP & GH (Mergers & Acquisitions & Advisory) and has advised on many privatization, mergers and advisory assignments. His vast expertise in the banking sector has enabled the company put in healthy practices in credit underwriting, monitoring and risk assessment. Mr. Ravindar Kumar Sinha, Director, is an entrepreneur. He founded Security & Intelligence Services (India) Limited (SIS), a manpower security business spread across Asia Pacific. He is also the President of Vatsalyagram, which is a home for the elderly, destitute women and orphans. The board is also supported by other members, Mr. A P Verma, who has over 35 years of banking experience and is a former Managing Director and CEO at SBI Capital Markets Ltd. and Mr. D K Saxena, a Chartered Accountant with over 40 years of experience in the field of Audit and Taxation.

The extensive experience of the board has helped ACFL put in place robust systems and procedures. The company has in place an automated loan processing system which operates on CBS & CRM provided by BR.Net from Craft Silicon on SaaS. ACFL has been awarded 2nd rank by MFIN's third party evaluation which considers a company's focus on customer service, borrower protection and robustness of system and process.

Acuite believes that ACFL will continue to benefit from its established systems and processes and the extensive experience of its promoters in financial services.

Healthy financial risk profile; albeit a modest net worth base:

ACFL's has a modest network base of Rs. 9.84 crore as on March 31, 2019, the company is adequately supported by promoter funding of Rs. 26.00 crore in the form of unsecured loans and Non-convertible debentures. The company's Capital Adequacy Ratio (CAR) stood comfortable at 23.06 per cent as on 31 March, 2019. ACFL primarily focuses on lending to Joint Liability Group's (JLG) of women and below poverty line in Bihar and Jharkhand for income generating activities. The stringent credit assessment and monitoring processes in place have enabled the company to maintain healthy asset quality,

reflected in NIL GNPA and comfortable collection efficiency. It has demonstrated healthy collection efficiency with a track record of over ~99 percent collection on an average for the twelve months ended March 31, 2019. The company reported NIL Non-Performing Assets (NPA's) for March 31, 2019. ACFL has a comfortable liquidity position due to well matched maturity of assets and liabilities, the tenure for loans issued were on an average one to two year, whereas the borrowings were mainly long term with an average of two to three years maturity.

Going ahead, Acuite expects ACFL to benefit from its continuous support from promoter group, comfortable capitalisation and sound asset quality.

Weaknesses

Limited track record of operations; low seasoning of loan portfolio:

ACFL commenced its operations in August 2017. It initially started with Bihar as its key area of operation, spread across 6 branches over 6 districts of Bihar and as on March 31, 2019 the company has 27 branches spread across 19 districts of Bihar and 2 districts of Jharkhand. Its loan book stood at Rs. 43.02 Cr as on March 31, 2019 as against Rs. 14.13 Cr. as on March 31, 2018, mainly on account of disbursements of Rs. 63.65 Cr. during FY2019.

Since the company is in the initial stages of its growth cycle major part of its loan portfolio is yet to be adequately seasoned. The company's ability to scale up its operations across diverse geographies and maintain healthy asset quality consistently will be critical key credit monitorable.

Geographical concentration risk:

ACFL has presence in two states, namely, Bihar (98 percent of the overall portfolio) and Jharkhand (2 percent). It has 27 branches located over 19 districts in Bihar and 2 districts of Jharkhand. This exposes the company to high geographical concentration risk. The risk is partly mitigated by the distribution across 19 districts of Bihar with no district contributing 9 percent of its total loan portfolio. Thus, the company's performance is expected to remain exposed to competitive landscape in these areas, occurrence of events such as natural calamities, may adversely impact the credit profile of the borrowers.

Acuite believes that the geographical concentration in its portfolio will continue to weigh on its credit profile over the near to medium term.

Liquidity Position: Adequate

ACFL has adequately matched cash flow as on March 31, 2019 as cumulative surplus is available in all maturity buckets. The loan assets were short term, with an average maturity of 1.5 to 2 years, while the borrowings were long term with an average maturity of 2 to 5 years leading to positive mismatches in all maturity buckets. Further, the company's liquidity position is supported by unutilised bank facilities of Rs.10.00 crore to meet business needs or in case of any mismatches.

Outlook: Stable

Acuite believes that ACFL will maintain a 'Stable' outlook over the medium term supported by its experienced promoters and funding support from the promoter group along with demonstrated ability to maintain asset quality and liquidity levels. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio while maintaining asset quality and capital structure. 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. Also, the outlook may be revised to 'Negative' in case of any deterioration in the capital structure.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	46.85	18.06	5.85
Total Income (Net of Interest Expense)	Rs. Cr.	4.22	0.84	0.33
PAT	Rs. Cr.	0.13	(1.20)	0.19
Net Worth	Rs. Cr.	9.84	9.71	5.26
Return on Average Assets (RoAA)	(%)	0.39	(10.07)	6.03

Return on Average Net Worth (RoNW)	(%)	1.31	(16.10)	6.68
Total Debt/Tangible Net Worth (Gearing)	Times	3.66	0.82	0.10
Gross NPAs	(%)	NIL	NIL	NIL
Net NPAs	(%)	NIL	NIL	NIL

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-17.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)

Not Applicable

*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	20.00	ACUITE BB+/Stable (Assigned)

Contacts

Analytical	Rating Desk
Vinayak Nayak Vice President – Rating Operations Tel: 022-49294071 vinayak.nayak@acuite.in Salome Farren Analyst - Rating Operations Tel: 022-49294072 salome.farren@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294021 rating.desk@acuite.in

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 6,000 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.

Disclaimer: An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect

to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.