

Press Release

Adi Chitragupta Finance Limited

January 06, 2022

Rating Assigned and Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	80.00	ACUITE BBB- Stable Assigned	
Bank Loan Ratings	20.00	ACUITE BBB- Stable Reaffirmed	
Total	100.00	-	-

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 20.00 crore bank facilities of Adi Chitragupta Finance Limited (ACFL). The outlook is '**Stable**'.

Acuité has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 80.00 crore bank facilities of Adi Chitragupta Finance Limited (ACFL). The outlook is '**Stable**'.

The rating factors in the strength derived from the experienced management of the company, healthy asset quality and comfortable capitalisation levels. The rating takes in to account healthy asset quality marked by its on time dpd profile at 99.28 percent as on October 31, 2021. ACFL has been able to maintain capitalisation levels with CRAR being at 28.88 percent as on September 30, 2021. The rating further draws comfort from liquidity position maintained by the company supported by healthy principal collections of Rs. 9.83 crore for the month of October 31, 2021. However, the rating is constrained by modest profitability demonstrated by the company in FY2021 on account of higher credit costs and lower disbursements during the same period due to Covid-19 led pandemic, modest scale of operations, geographical concentration and risks inherent to microfinance sector.

Going forward, ACFL should be able to leverage on its established branch network, its established presence in its area of operations and further augment its scale of operations while maintaining profitability parameters.

About the company

Bihar based Adi Chitragupta Finance Limited (ACFL) is a non-deposit taking Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI). Incorporated in 2015, the company was founded by Mr. R.K Sinha and Mr. Gyan Mohan and commenced its operation in 2017. Mr. R.K Sinha is the founder of Security & Intelligence Services (India) Limited known as SIS Group and Mr. Gyan Mohan is an ex-banker with exposure in Banking and finance, including investment and international banking. ACFL extends micro-credit primarily to women borrowers through the Joint Liability Group (JLG) model. The company operates in the states of Bihar and Jharkhand through a network of 42 branches across 24 districts as on October 31, 2021.

Analytical Approach

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

Key Rating Drivers

Strength

- **Experienced management and established presence in area of operations**

ACFL commenced its micro-finance operations in 2017, extending micro-credit to women borrowers engaged in income-generating activities under Joint Liability Group (JLG) model. The company caters to the rural and semi-urban areas of Bihar and Jharkhand. ACFL focuses on providing financial assistance by way of providing micro-credit to the poor and underprivileged women in the society who are engaged in some income-generating activities. The company commenced its operations in Bihar and has expanded its presence in Jharkhand with a network of 42 branches across 24 districts with a loan portfolio of Rs. 110.79 crore as on October 31, 2021.

AFCL was founded by Mr. R.K Sinha and Mr. Gyan Mohan. Mr. R.K Sinha (Director) is an entrepreneur and founder of Security & Intelligence Services (India) Limited (SIS). SIS Group is one of the leaders in the manpower security business in the Asia-Pacific. Mr. Gyan Mohan (Director and CEO) is an ex-banker and has around three decades of experience in the banking and finance sector, including investment and international banking. He has worked with SBI Capital Market as SVP & GH (Mergers & Acquisitions & Advisory) and has advised on many privatizations, mergers and advisory assignments. Mr. Mohan is governing board member of Microfinance Institutions Network (MFIN) and is the chairman of Task Force on Small & Medium MFIs and also an active member of Task Force on Credit Bureau at MFIN. The promoters are also supported by other board members like Mr. A. P. Verma (ex-Managing Director and CEO at SBI Capital Markets Limited), who has over three decades of experience and has held varied senior positions at State Bank of India. Mr. Neelmani, a former IPS officer of batch 1975. Mr. D.K. Saxena who has over four decades of experience in the field of Audit, Taxation, Textiles, Power and Banking/NBFC sectors and has served as a Director and Chairman of the Audit Committee of Syndicate Bank. 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 Software as a Service (SaaS) platform. Acuité believes that ACFL will continue to benefit from its established systems and processes and the extensive experience of its promoters in financial services.

- **Healthy asset quality; Adequate capitalisation levels**

The asset quality is healthy marked by its on time portfolio at 99.28 percent as on October 31, 2021. This improvement is supported by healthy collections characterized by the company, where collection efficiency for current month due stood at an average of 97.29 percent for 12 months ended November 30, 2021. ACFL's capital adequacy ratio is comfortable at 28.88 percent (Tier 1: 23.88 percent) as on September 30, 2021 as compared to 28.21 percent (Tier 1: 23.41 percent) in FY2021 and 34.35 percent (Tier 1 : 28.54 percent) in FY2020. Acuité believes that going forward the ability of the company to maintain sound asset quality and adequate capitalisation levels will be key rating sensitivity.

- **Comfortable Liquidity; Resources raising ability**

ACFL has unencumbered cash balance of Rs. 19.40 crore as on October 31, 2021. In addition to this, the company has unutilized limit of Rs.0.17 crore as on October 31, 2021. Liquidity is also supported by steady collections of Rs. 9.83 crore during the same month. Liquidity is further cushioned by availability of funding lines of Rs. 65 crore, which has not been utilized yet. The borrowing profile of ACFL shows borrowings from major Public Sector Banks (Rs. 43.43 crore) and NBFC/FI's (Rs. 10.66 crore) as on October 31, 2021. The company's Networth stood at Rs. 25.32 crore as on September 30, 2021 compared to Rs. 24.00 crore as on March 31, 2021 and Rs. 23.54 crore as on March 31, 2020. The promoters of the company have been regularly subscribing to ACFL's NCDs, with current outstanding at Rs. 48.45 crore as on September 30, 2021. It's gearing levels stood at 3.86 times in H1 FY2022. During FY2022, the company has projected Rs. 50 crore sanctions are in pipeline from banks.

Acuite believes that the ability of the company to mobilize additional funding through debt /equity will help in maintaining gearing levels.

Weakness

- **Risks inherent to microfinance segment; Geographical concentration**

The activities of microfinance companies like ACFL are exposed to concentration risks. ACFL has a presence in 2 states with a concentration in Bihar (~98.58 percent) and Jharkhand (~1.42 percent) of total portfolio as on October 31, 2021. In Bihar, ACFL's top 10 districts contributed Rs. 82.58 crore (~74.54 percent) to the total AUM as on October 31, 2021. While the geographical diversity in the state of Bihar has improved, the business risk profile will be strengthened in case of further geographical diversification of the portfolio. While the company mostly focuses on rural areas, the company's performance is expected to remain exposed to the occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework. Although ACFL has demonstrated healthy asset quality in the past with low Gross Non-Performing Assets (GNPA) at 0.05 percent as on March 31, 2021 and 0.03 percent as on March 31, 2020, there was marginal rise in GNPA to 0.41 percent as on October 31, 2021. However, Net NPA were nil on account of provisions made by the company.

Acuite believes that constraining additional slippages while scaling up geographically will be crucial.

- **Modest scale of operations and Moderate Profitability**

The company's loan portfolio marginally rose to Rs. 110.79 crore as on October 31, 2021 as compared to Rs. 102.20 crore as on March 31, 2021 and Rs. 80.27 crore as on March 31, 2020. The AUM growth was muted in H1 FY2022 since rural Bihar was impacted during second wave of Covid-19 which led to lower disbursements during the same period. Consequently, ACFL's profitability was moderated in FY2021. There were no disbursements from the month of April 2020 till August 2020 on account Covid-19 pandemic. Profitability was also impacted due to higher credit costs. The company saw a decline in its Net Interest Income to Rs. 8.26 crore in FY 2021 from Rs. 9.08 crore in FY 2020. The same stood at Rs. 5.43 crore in H1-FY2022. This led to reduction in PAT to Rs. 1.06 crore in FY2021 as against Rs. 2.65 crore in FY2020. Half yearly PAT for FY2022 stood at Rs. 1.28 crore. With decline in NIM, overall profitability declined, where ROAA reduced to 1.09 percent in FY2021 as compared to 3.92 percent FY2020.

However, ACFL is in the process of scaling up its operations by next year. Acuite believes that the growth in AUM on account of increasing disbursements will be a key factor in the scalability of a business while maintaining the profitability.

Rating Sensitivity

- Impact of natural calamities on ongoing operations
- Movement in asset quality
- Movement in profitability metrics
- Changes in the regulatory environment
- Profitable scale up in operations

Material Covenants

None

Liquidity Position: Adequate

ACFL liquidity profile remained comfortable as on September 30, 2021 with no negative cumulative mismatches in any of the buckets as per the reported liquidity statement. ACFL

has unencumbered cash and bank balances of Rs. 19.40 crore as on October 31, 2021. In addition, the company has unutilized limit of Rs.0.17 crore as on October 31, 2021. Liquidity is also supported by steady collections of Rs. 9.83 crore during the same month. The company's monthly collections on a normal steady basis are ~9-11 Cr against which it has a quarterly debt service obligation of ~Rs. 3.24 Cr and operating costs of ~Rs 0.9 crore. The company expects to receive ~Rs. 100 crore from banks and Rs. 10 crore as equity infusion from its promoters during H2FY2022.

Outlook: Stable

Acuité believes that ACFL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to maintain asset quality. The outlook may be revised to 'Positive' in case of higher-than-expected growth in the loan portfolio while maintaining asset quality and profitability. 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, thereby impacting profitability metrics.

Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	106.09	88.63
Total Income*	Rs. Cr.	9.25	10.37
PAT	Rs. Cr.	1.06	2.65
Networth	Rs. Cr.	24.00	23.54
Return on Average Assets (RoAA)	(%)	1.09	3.92
Return on Net Worth (RoNW)	(%)	4.47	15.89
Total Debt/Tangible Net Worth (Gearing)	Times	3.27	2.63
Gross NPA's	(%)	0.05	0.03
Net NPA's	(%)	0	0

*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

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Dec 2021	Term Loan	Long Term	20.00	ACUITE BBB- Stable (Reaffirmed)
29 Sep 2020	Term Loan	Long Term	20.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
18 Jul 2019	Term Loan	Long Term	20.00	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Yes Bank Ltd	Not Applicable	Term Loan	18-01-2019	12.20	30-12-2021	0.21	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	21-01-2021	9.15	31-01-2024	11.52	ACUITE BBB- Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	08-01-2021	11.05	01-02-2023	3.27	ACUITE BBB- Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	8.75	Not available	5.00	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	22-10-2021	9.00	Not available	20.00	ACUITE BBB- Stable Assigned
Indian Bank	Not Applicable	Term Loan	20-09-2021	9.35	01-10-2024	20.00	ACUITE BBB- Stable Assigned
Canara Bank	Not Applicable	Term Loan	24-09-2021	9.35	29-09-2024	10.00	ACUITE BBB- Stable Assigned
Bank of Baroda	Not Applicable	Term Loan	27-09-2021	9.35	20-12-2023	10.00	ACUITE BBB- Stable Assigned
Punjab National Bank	Not Applicable	Term Loan	17-11-2021	9.30	Not available	20.00	ACUITE BBB- Stable Assigned

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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 8,850 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 Kanjurmarg, Mumbai.

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