

Press Release

Chetana Financial Services Private Limited

October 04, 2021

Rating Reaffirmed



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

*Refer annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BB+' (read as ACUITE double B plus)** on the Rs. 30.00 crore bank facilities of Chetana Financial Services Private Limited (CFSPL). The outlook is revised from **'Negative'** to **'Stable'**.

Revision of Outlook

The revision in outlook is driven by CFSPL's lower than expected deterioration in asset quality indicators and comfortable collections. As on June 30, 2021 CFSPL's on-time portfolio stood at 97.03 percent [96.24 percent as on March 31, 2021] and GNPA at 1.40 percent [2.07 percent as on March 31, 2021]. Likewise, average collection efficiency (against scheduled demand) for six months ended August 31, 2021 stood at 88.68 percent. The rating factors in healthy capitalization levels marked by Capital Adequacy Ratio (CAR) of 57.92 percent as on March 31, 2021. The capital structure of the company derives support from equity infusions from the promoters.

The rating is however, constrained by modest scale of operations, geographic concentration and limited resource raising ability. The company has geographic presence only in the state of Karnataka. The rating is also constrained with limited resource and investor base of CFSPL. Further, the inherent risks of lending in this segment have been exacerbated by localised lockdowns and economic disruptions in the wake of second wave of Covid-19. Going forward, the ability of the company to scale up its operations and diversifying its resource mix while maintaining profitability will be key credit monitorable.

About CFSPL

Karnataka based, Chetana Financial Services Private Limited (CFSPL) is a non-deposit taking Non-Banking Financial Company (NBFC). CFSPL is engaged in extending Vehicle loans, Mortgage loans (Loan against Property) and Business loans directed towards SME and Consumer Durable loans. CFSPL 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. CFSPL's major shareholder are Navachetana Vividoddesh Souharda Sahakari Niyamit, Haveri (88.06 percent) and Navajeevan Foundation (4.20 percent).

The company operates in 15 districts of Karnataka with a branch network of 47 branches as on March 31, 2021.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and track record of operations**

CF SPL 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. CF SPL caters to the rural and semi-urban areas of Karnataka. CF SPL 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, CF SPL has expanded its operations to build an AUM of Rs. 52.15 Cr as on June 30, 2021 which is spread across with a network of 47 branches across 15 districts in Karnataka. Of the overall AUM of Rs. 52.15 Cr., Vehicle loans comprised around 62 percent followed by Mortgage loans (Loan against property) towards SME segment at around 14 percent and Unsecured Business loans at around 24 percent. The company takes off-book exposure through Business Correspondence and Co-lending which comprised ~55 percent of its overall AUM as on June 30, 2021. 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 healthy asset quality with on-time portfolio at 97.03 percent as on June 30, 2021 and gross non performing assets (GNPA) at 1.40 percent. The healthy asset quality was further reflected with an average collection efficiency (against scheduled demand) of 88.68 percent for 6 months ended August 31, 2021.

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

Weaknesses

- **Modest scale of operations; geographically concentrated portfolio**

CF SPL's total Asset Under Management (AUM) stood at Rs. 52.15 Cr. as on June 30, 2021 as compared to Rs. 53.28 Cr. as on March 31, 2021 and Rs. 64.71 Cr. as on March 31, 2020. While the company's on-book portfolio remained stable at Rs. 23.53 Cr. as on June 30, 2021 from Rs. 23.16 Cr. as on March 31, 2021, its off-book portfolio saw a decline to Rs. 28.62 Cr. from Rs. 30.12 Cr. during the same period. Off-book portfolio stood at Rs. 40.41 Cr. as on March 31, 2020. 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 while broad basing its resource and investor base will be a key factor in the scalability of business.

CF SPL'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 62 percent of CF SPL's AUM of Rs. 52.15 Cr. as on June 30, 2021 accounts for vehicle financing and around 36 percent comprising unsecured business loan and LAP portfolio towards SME borrowers. Majority of the CF SPL'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. CF SPL's loan portfolio is geographically concentrated in Karnataka alone. Since, the portfolio is exposed to high geographical concentration risk, CF SPL's performance is expected to remain exposed to competitive landscape in these regions and occurrence of events such as natural calamities adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework.

Acuite believes that CF SPL's ability to scale up its operations and diversifying its resource mix while maintaining profitability will be key credit monitorable.

Rating Sensitivity

- Continued promoter support/ equity infusion
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metrics
- Changes in regulatory environment

Material Covenants

CF SPL 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 the company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.

Liquidity: Adequate

CF SPL maintained cash and cash equivalents of Rs. 0.78 crore as on March 31, 2021. CF SPL's overall liquidity profile remains adequate. The company's assets and liabilities are well matched with no cumulative deficit in near to medium term time buckets.

Outlook: Stable

Acuite believes that the CF SPL will maintain a 'Stable' outlook over the medium term supported by its established presence in area of operation. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability, asset quality and capitalization indicators. Conversely, the outlook may be revised to 'Negative' in case of challenges in attaining optimal collection efficiency or significantly higher than expected pressure on asset quality or profitability margins.

About the Rated Entity - Key Financials

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	33.54	33.59
Total Income*	Rs. Cr.	6.38	7.61
PAT	Rs. Cr.	0.40	0.72
Networth	Rs. Cr.	10.31	8.54
Return on Average Assets (RoAA)	(%)	1.19	1.99
Return on Net Worth (RoNW)	(%)	4.25	8.77
Total Debt/Tangible Net Worth (Gearing)	Times	2.08	2.75
Gross NPA's	(%)	2.07	0.31
Net NPA's	(%)	1.68	-

* 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
07-Jul-2020	Term Loan	Long Term	0.65	ACUITE BB+ (Withdrawn)
	Term Loan	Long Term	1.33	ACUITE BB+ (Withdrawn)
	Term Loan	Long Term	0.70	ACUITE BB+ (Withdrawn)
	Term Loan	Long Term	2.05	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
	Term Loan	Long Term	0.82	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
	Term Loan	Long Term	1.00	ACUITE BB+ (Withdrawn)
	Term Loan	Long Term	0.15	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
	Term Loan	Long Term	0.43	ACUITE BB+ (Withdrawn)
	Term Loan	Long Term	0.44	ACUITE BB+ (Withdrawn)
	Term Loan	Long Term	0.25	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
	Term Loan	Long Term	0.50	ACUITE BB+ (Withdrawn)
	Term Loan	Long Term	0.99	ACUITE BB+ (Withdrawn)
	Term Loan	Long Term	0.23	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
	Term Loan	Long Term	0.47	ACUITE BB+ (Withdrawn)
	Term Loan	Long Term	1.57	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
	Term Loan	Long Term	4.40	ACUITE BB+/ Negative (Assigned)
	Term Loan	Long Term	1.62	ACUITE BB+/ Negative (Assigned)
	Term Loan	Long Term	1.33	ACUITE BB+/ Negative (Assigned)
	Term Loan	Long Term	0.62	ACUITE BB+/ Negative (Assigned)
	Proposed Bank facility	Long Term	16.96 (Enhanced from Rs. 1.14 crore)	ACUITE BB+/ Negative (Reaffirmed; Outlook revised from Stable)
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**

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
IDFC First Bank	Term Loan	07-12-2017	14.00	06-11-2021	0.38	ACUITE BB+/ Stable (Reaffirmed; Outlook Revised from Negative)
IDFC First Bank	Term Loan	29-07-2019	14.00	29-12-2022	2.42	ACUITE BB+/ Stable (Reaffirmed; Outlook Revised from Negative)
Dhanlaxmi Bank	Term Loan	26-02-2021	13.00	26-11-2023	1.80	ACUITE BB+/ Stable (Reaffirmed; Outlook Revised from Negative)

Shriram Transport Finance	Term Loan	23-08-2021	14.50	05-09-2024	2.00	ACUITE BB+/ Stable (Reaffirmed; Outlook Revised from Negative)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	23.40	ACUITE BB+/ Stable (Reaffirmed; Outlook Revised from Negative)

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About Acuite Ratings & Research:

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