

Press Release

Chetana Financial Services Private Limited (Erstwhile Chetana Financial Services Limited)

January 02, 2023



Rating Downgraded

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---------------------------------------|---------------------|---------------------------------|-------------------|
| Bank Loan Ratings | 30.00 | ACUITE BB Stable Downgraded | - |
| Total Outstanding Quantum (Rs. Cr) | 30.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has downgraded the long-term rating to **ACUITE BB (read as ACUITE Double B)** from **ACUITE BB+ (read as ACUITE DOUBLE B plus)** on the Rs. 30.00 Cr bank facilities of Chetana Financial Services Private Limited (CFSPL). The outlook is 'Stable'.

Reason for downgrade:

The rating downgrade takes into consideration the subdued levels of disbursements in FY2022, which has resulted into marginal growth of AUM. The overall disbursement levels stood at Rs 12.62 Cr. during September 2022 (Rs 17.20 Cr. during FY2022 and Rs 29.89 Cr. during FY2021). The company reported an AUM of Rs 38.12 Cr. as on September-2022 (Rs 39.39 Cr. as on March-2022 and Rs 53.25 Cr. as on March -2021). The rating is further offset by stretched BC Receivables which stood at Rs 3.19 Cr. as on September-2022 (Rs 2.92 Cr. as on March-2022 and Rs 0.15 Cr as on March-2021). The rating is also constrained as the company has geographic presence only in the state of Karnataka, limited resource raising ability and inherent risks of lending in the MFI segment.

The rating continues to derive strength from CFSPL's comfortable capitalization supported by equity infusion from promoters, healthy asset quality metrics and comfortable collections. The company reported a Capital Adequacy Ratio of 33.77 Percent as on September 30, 2022. (34.68 percent as on March 31, 2022 and 57.93 percent as on March 31, 2021). The promoters collectively infused Rs 0.35 Cr. during FY 2022-23. The company's asset quality was marked by on-time portfolio of 97.29 percent with GNPA's at 1.34 percent as on September 30, 2022, supported by average overall collection efficiency of 96.54 percent for seven months ended November 30, 2022.

Acuite believes, Going forward, the ability of the company to maintain comfortable capitalization levels with regular equity infusion, healthy asset quality metrics and further increase in disbursements and AUM while improving profitability will be a key rating monitorable.

About the company

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 and Business loans directed towards MSME (Secured/ Unsecured). 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 (84.51 percent) and Navajeevan Foundation (4.03 percent) as on September 30, 2022. The company operates in 15 districts of Karnataka with a branch network of 48 branches as on September 30, 2022.

Analytical Approach

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

Key Rating Drivers

Strength

Experienced management and track record of operations

CFSPL commenced its operations in 2014 after being acquired by current promoter Mr. Nagendra Mali in 2012. The company provides Vehicle loans and Business Loans towards MSME (Unsecured/ Secured loans). CFSPL caters to the rural and semi-urban areas of Karnataka. CFSPL is a part of Nava Chetana 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 and Mrs. Chandrakala N. Mali. They have over a decade of experience in financial services industry. Over the years, CFSPL has expanded its operations to build an AUM of Rs. 38.12 Cr as on September 30, 2022, which is spread across with a network of 48 branches across 15 districts in Karnataka. Of the overall AUM of Rs. 38.12 Cr. of which MSME Loans (Unsecured) comprised around 42.26 percent followed by Vehicle loans at 37.54 percent and MSME Loans (Secured) at 20.20 percent as on September 30, 2022.

The company takes off-book exposure through Business Correspondence which comprised ~39.77 percent of its overall AUM as on September 30, 2022. It is a business correspondence partner for Ambit Finvest Private Limited and ASHV Finance Ltd. The prudent underwriting policies adopted by the management has enabled the company to maintain a healthy asset quality with on-time portfolio at 97.29 percent as on September 30, 2022 and Gross non-performing assets (GNPA) at 1.34 percent as on September 30, 2022. The healthy asset quality was further reflected with an average collection efficiency (against scheduled demand) of 96.45 percent for 7 months ended November 30, 2022.

Acuité believes that CFSPL will continue to benefit from its established presence and experienced promoters in the financial services industry.

Weakness

Declining AUM and modest profitability:

CFSPL's total Asset Under Management (AUM) declined to Rs. 38.12 Cr. as on September 30, 2022, as compared to Rs. 39.39 Cr. as on March 31, 2022, and Rs. 53.25 Cr. as on March 31, 2021. The company's on-book portfolio remained stagnant at Rs. 22.96 Cr. as on September 30, 2022 and Rs. 22.38 Cr. as on March 31, 2022. The company's off book portfolio saw a decline to Rs. 15.16 Cr. as on September 30, 2022 from Rs. 17.01 Cr. as on March 31, 2022. The company reported an Off-book portfolio of Rs. 30.08 Cr. as on March 31, 2021. The decline in company's loan book can be directly linked to limited access to funds and resources. The Overall profitability and NIM has reduced due to stagnant growth in on book portfolio and decline in off book portfolio. The company reported a NIM of 16.15 percent as on September 30, 2022 (Provisionals) (16.43 percent as on March 31, 2022 and 18.01 percent as on March 31, 2021). The company has reported an PAT of Rs 0.24 Cr. as on September 30, 2022 (Provisionals) (Rs 0.48 Cr. as on March 31, 2022 and Rs 0.40 Cr as on March 31, 2021). The company's profitability margin declined as reflected in its Return on Average Assets (RoAA) of 1.38 percent as on March 31, 2022 from 1.19 percent as on March 31, 2021.

Acuité believes that the growth in AUM on account of increasing disbursements will be crucial.

Modest scale of operations; Geographical concentration risk:

The Company has been in the lending space since 2014. The company registered a decline in the loan portfolio to Rs. 39.39 Cr. as on March 31, 2022 from Rs. 53.25 crore as on March 31, 2021 mainly on account of low disbursements. While CFSPL is in the process of scaling up its operations by next year, going forward the ability of the company to access timely capital infusion and its resource raising ability will be a key factor in the scalability of a business. The company has highly concentrated portfolio with Karnataka alone contributing ~100 percent of the overall AUM as on September 30, 2022. Resultantly, the company's performance is expected to remain exposed to competitive landscape in these areas and occurrence of events such as natural calamities may adversely impact the credit profile of the borrowers. Acuité believes, going forward, the ability of the company to mobilize additional funding through debt /equity and its ability to deploy the funds profitably while maintaining its asset quality will be key rating sensitivity.

Susceptibility to risks inherent to microfinance segment:

CFSPL primarily extends unsecured loans to economically challenged borrowers who have limited ability to absorb income shocks. Since financial assistance to economic challenged borrowers is a sensitive issue, from government stand point the regulatory dispensation in respect of the policies becomes relevant. Any changes in the regulatory environment impeding the ability of entities like CFSPL to enforce collections, etc will have an impact on its operational performance. Besides the regulatory risks, the inherent nature of the business renders the portfolios vulnerable to event risks such as natural calamities in the area of operations.

Acuité believes that containing additional slippages while maintaining the growth in the loan portfolio will be crucial.

Rating Sensitivity

- Impact of natural calamities on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in profitability metrics
- Ability to raise funds
- Movement in AUM and Disbursements

Material Covenants

None

Liquidity Position**Adequate**

The company's assets and liabilities are well matched with no cumulative deficit in near to medium term time buckets. CFSPL maintained cash and cash equivalents of Rs. 0.49 crore as on March 31, 2022, CFSPL's overall liquidity profile remains adequate. Further, its collection efficiency (scheduled collections vs. scheduled demand) stood at an average of 96.54 percent for 7 months ended November 30, 2022.

Outlook: Stable

Acuité believes that the CFSPL 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.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

| Particulars | Unit | FY22 (Actual) | FY21 (Actual) |
|--------------|--------|------------------|------------------|
| Total Assets | Rs Cr. | 35.79 | 33.54 |

| | | | |
|---|--------|-------|-------|
| Total Income* | Rs Cr. | 5.09 | 6.38 |
| PAT | Rs Cr. | 0.48 | 0.40 |
| Networth | Rs Cr. | 10.62 | 10.31 |
| Return on Average Assets (RoAA) | % | 1.38 | 1.19 |
| Return on Net Worth (RoNW) | % | 4.57 | 4.25 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 2.03 | 2.08 |
| Gross NPA's | % | 1.57 | 2.46 |
| Net NPA's | % | 1.24 | 2.22 |

*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

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|-----------|-----------------|------------------------------------|
| 04 Oct 2021 | Proposed Bank Facility | Long Term | 23.40 | ACUITE BB+ Stable (Reaffirmed) |
| | Term Loan | Long Term | 2.42 | ACUITE BB+ Stable (Reaffirmed) |
| | Term Loan | Long Term | 1.80 | ACUITE BB+ Stable (Reaffirmed) |
| | Term Loan | Long Term | 0.38 | ACUITE BB+ Stable (Reaffirmed) |
| | Term Loan | Long Term | 2.00 | ACUITE BB+ Stable (Reaffirmed) |
| | Term Loan | Long Term | 1.62 | ACUITE BB+ Negative (Assigned) |
| | Term Loan | Long Term | 1.33 | ACUITE BB+ (Withdrawn) |
| | Term Loan | Long Term | 1.57 | ACUITE BB+ Negative (Reaffirmed) |

| | | | | |
|-------------|------------------------|-----------|-------|------------------------------------|
| 07 Jul 2020 | Term Loan | Long Term | 0.15 | ACUITE BB+ Negative (Reaffirmed) |
| | Term Loan | Long Term | 0.50 | ACUITE BB+ (Withdrawn) |
| | Term Loan | Long Term | 2.05 | ACUITE BB+ Negative (Reaffirmed) |
| | Term Loan | Long Term | 1.00 | ACUITE BB+ (Withdrawn) |
| | Term Loan | Long Term | 0.23 | ACUITE BB+ Negative (Reaffirmed) |
| | Term Loan | Long Term | 1.33 | ACUITE BB+ Negative (Assigned) |
| | Term Loan | Long Term | 4.40 | ACUITE BB+ Negative (Assigned) |
| | Term Loan | Long Term | 0.65 | ACUITE BB+ (Withdrawn) |
| | Term Loan | Long Term | 0.70 | ACUITE BB+ (Withdrawn) |
| | Term Loan | Long Term | 0.47 | ACUITE BB+ (Withdrawn) |
| | Proposed Bank Facility | Long Term | 16.96 | ACUITE BB+ Negative (Reaffirmed) |
| | Term Loan | Long Term | 0.82 | ACUITE BB+ Negative (Reaffirmed) |
| | Term Loan | Long Term | 0.99 | ACUITE BB+ (Withdrawn) |
| | Term Loan | Long Term | 0.43 | ACUITE BB+ (Withdrawn) |
| | Term Loan | Long Term | 0.62 | ACUITE BB+ Negative (Assigned) |
| | Term Loan | Long Term | 0.44 | ACUITE BB+ (Withdrawn) |
| | Term Loan | Long Term | 0.25 | ACUITE BB+ Negative (Reaffirmed) |
| | Term Loan | Long Term | 0.05 | ACUITE BB+ Stable (Assigned) |
| | | Long | | ACUITE BB+ Stable (Assigned) |
| 17 May 2019 | Term Loan | Term | 0.50 | ACUITE BB+ Stable (Assigned) |
| | Term Loan | Long Term | 1.82 | ACUITE BB+ Stable (Assigned) |
| | Term Loan | Long Term | 0.43 | ACUITE BB+ Stable (Assigned) |
| | Proposed Bank Facility | Long Term | 1.14 | ACUITE BB+ Stable (Reaffirmed) |
| | Term Loan | Long Term | 1.33 | ACUITE BB+ Stable (Reaffirmed) |
| | Term Loan | Long Term | 0.99 | ACUITE BB+ Stable (Assigned) |
| | Term Loan | Long Term | 1.16 | ACUITE BB+ Stable (Assigned) |
| | Term Loan | Long Term | 0.44 | ACUITE BB+ Stable (Assigned) |
| | Term Loan | Long Term | 1.91 | ACUITE BB+ Stable (Reaffirmed) |
| | Term Loan | Long Term | 3.46 | ACUITE BB+ Stable (Assigned) |

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|-----------|-----------|------|----------------------------------|
| Term Loan | Long Term | 0.47 | ACUITE BB+ Stable (Assigned) |
| Term Loan | Long Term | 0.65 | ACUITE BB+ Stable (Reaffirmed) |
| Term Loan | Long Term | 0.70 | ACUITE BB+ Stable (Reaffirmed) |
| Term Loan | Long Term | 2.50 | ACUITE BB+ Stable (Assigned) |
| Term Loan | Long Term | 1.00 | ACUITE BB+ Stable (Assigned) |
| Term Loan | Long Term | 1.45 | ACUITE BB+ Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|--|----------------|----------------------------------|---------------------|----------------|---------------------|------------------|-------------------|---------------------------------|
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 19.19 | ACUITE BB Stable Downgraded |
| IDFC First Bank Limited | Not Applicable | Term Loan | Sep 21 2018 12:00AM | Not available | Sep 30 2025 12:00AM | Simple | 5.07 | ACUITE BB Stable Downgraded |
| Rar Fincare Limited | Not Applicable | Term Loan | Sep 28 2022 12:00AM | 0.00 | Sep 27 2024 12:00AM | Simple | 0.46 | ACUITE BB Stable Downgraded |
| State Bank of India | Not Applicable | Term Loan | Oct 28 2022 12:00AM | Not available | Oct 13 2025 12:00AM | Simple | 3.00 | ACUITE BB Stable Downgraded |
| IDFC First Bank Limited | Not Applicable | Term Loan | Jul 29 2019 12:00AM | 0.00 | Dec 29 2022 12:00AM | Simple | 0.15 | ACUITE BB Stable Downgraded |
| Dhanlaxmi Bank Ltd | Not Applicable | Term Loan | Feb 26 2021 12:00AM | 13.00 | Nov 26 2023 12:00AM | Simple | 0.80 | ACUITE BB Stable Downgraded |
| Shriram Transport Finance Company Ltd. | Not Applicable | Term Loan | Aug 23 2021 12:00AM | 14.50 | Sep 5 2024 12:00AM | Simple | 1.33 | ACUITE BB Stable Downgraded |

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About Acuité Ratings & Research

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