

## Press Release

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



March 23, 2023

#### Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	29.85	ACUITE BB   Reaffirmed & Withdrawn	-
Bank Loan Ratings	0.15	Not Applicable   Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	30.00	-	-

#### Rating Rationale

Acuite has reaffirmed and withdrawn its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs. 29.85 Cr. of Bank facilities of Chetana Financial Services Private Limited (CFSPL). This rating is being withdrawn on account of the request received from the client along with No Objection Certificate received from the bank and in accordance with Acuite's policy on withdrawal of ratings.

Acuite has withdrawn its rating on the Rs. 0.15 Cr. of Bank facilities of Chetana Financial Services Private Limited (CFSPL). This rating is being withdrawn on account of the request received from the client and No Due Certificate received from the banker in accordance with Acuite's policy on withdrawal of ratings.

#### Rationale for the reaffirmation

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. These strengths are partially offset due to the subdued levels of disbursements in FY2022, which has resulted into marginal growth of AUM. The overall disbursement levels stood at Rs 11.28 Cr. during H1FY23 (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.

#### About the company

Acuite Ratings & Research Limited

[www.acuite.in](http://www.acuite.in)

About CFSPL Karnataka based, Chetana Financial Services Private Limited (CFSPL) is a nondeposit 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.

#### **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 1.28 percent as on September 30, 2022 (Provisional) from 1.38 percent as on March 31, 2022.

##### **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.

#### **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.

#### **Rating Sensitivity**

Not Applicable

#### **Material Covenants**

CFSPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

#### **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:**

Not Applicable

#### **Other Factors affecting Rating**

Not Applicable

#### **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):**

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**

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](http://www.acuite.in)

**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Jan 2023	Term Loan	Long Term	5.07	ACUITE BB   Stable (Downgraded from ACUITE BB+   Stable)
	Term Loan	Long Term	0.46	ACUITE BB   Stable (Downgraded from ACUITE BB+   Stable)
	Proposed Bank Facility	Long Term	19.19	ACUITE BB   Stable (Downgraded from ACUITE BB+   Stable)
	Term Loan	Long Term	3.00	ACUITE BB   Stable (Downgraded from ACUITE BB+   Stable)
	Term Loan	Long Term	0.15	ACUITE BB   Stable (Downgraded from ACUITE BB+   Stable)
	Term Loan	Long Term	1.33	ACUITE BB   Stable (Downgraded from ACUITE BB+   Stable)
	Term Loan	Long Term	0.80	ACUITE BB   Stable (Downgraded from ACUITE BB+   Stable)
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)
		Long		
	Term Loan	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)

## 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   Reaffirmed & Withdrawn
IDFC First Bank Limited	Not Applicable	Term Loan	21 Sep 2018	Not available	30 Sep 2025	Simple	5.07	ACUITE BB   Reaffirmed & Withdrawn
Rar Fincare Limited	Not Applicable	Term Loan	28 Sep 2022	0.00	27 Sep 2024	Simple	0.46	ACUITE BB   Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Term Loan	28 Oct 2022	Not available	13 Oct 2025	Simple	3.00	ACUITE BB   Reaffirmed & Withdrawn
IDFC First Bank Limited	Not Applicable	Term Loan	29 Jul 2019	0.00	29 Dec 2022	Simple	0.15	Not Applicable   Withdrawn
Dhanlaxmi Bank Ltd	Not Applicable	Term Loan	26 Feb 2021	13.00	26 Nov 2023	Simple	0.80	ACUITE BB   Reaffirmed & Withdrawn
Shriram Transport Finance Company Ltd.	Not Applicable	Term Loan	23 Aug 2021	14.50	05 Sep 2024	Simple	1.33	ACUITE BB   Reaffirmed & Withdrawn



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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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