



## Press Release

### Navachetana Microfinance Services Private Limited (NMSPL)

**September 23, 2024**

#### **Ratings**

<b>Facility</b>	<b>Amount (Rs. crore)</b>	<b>Current Ratings</b>	<b>Previous Ratings</b>	<b>Rating Action</b>	<b><a href="#">Complexity Indicator</a></b>
Long Term Bank Facilities – Term Loans	386.44 (Increased from INR49.94)	IVR BBB/Stable (IVR Triple B with Stable Outlook)	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Proposed - Long Term Bank Facilities	219.65	IVR BBB/Stable (IVR Triple B with Stable Outlook)	-	Assigned	Simple
<b>Total</b>	<b>606.09</b> <b>(Six hundred and six core and nine lakhs only)</b>				

**Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.**

#### **Detailed Rationale**

Infomerics rating has reaffirmed its ratings assigned to the bank loan facilities of Navachetana Microfinance Services Private Limited (NMSPL) as it continues to derive comfort from experienced promoters of the Navachetana group with adequate systems and processes to manage its operations coupled with comfortable capitalisation, stable asset quality and consistent growth in AUM albeit moderation in FY24. However, these rating strengths are constrained by monoline nature of operations of the group with relatively risky target segment, exposure to regulatory & socio-political risks, regional concentration of operation.

The 'Stable' outlook indicates expected sustained improvement in AUM and stable profitability over FY25-FY27. IVR believes Navachetana group will continue benefit from its operational track record in the business, healthy asset quality, and comfortable capital adequacy.



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### **Key Rating Sensitivities**

#### **Upward Factors**

- Substantial and sustained growth in its AUM while maintaining healthy asset quality, capitalization and liquidity levels.

#### **Downward Factors**

- Substantial deterioration in its AUM, overall financial profile of the company, capitalization levels and liquidity.
- Any adverse movement in collection efficiency impacting the asset quality of the company and thereby the profitability of the company.

### **Key Rating Drivers with detailed description**

#### **Key Rating Strengths-**

#### **Experienced Promoter and management:**

NMSPL & CFSPL both are promoted by Mr. Nagendra Mali who has been engaged in micro finance and rural development activities in Karnataka through Navachetana Foundation since 2006 hence has vast experience.

#### **Adequate Systems and Processes:**

The group has installed good tracking and MIS systems, which are adequate to support future growth expansion. Further, the group has installed monitoring systems to ensure credit bureau checks and loan utilization checks being conducted in all cases which has resulted in sound asset quality. Going forward, the group's ability to maintain prudent lending policies while growing at the envisaged pace will be a key rating monitorable.

#### **Comfortable Capital Adequacy:**

Due to continuous capital infusion by the promoters, the group has maintained a healthy capital adequacy ratio (CAR) in both the companies over the years. The promoters have infused Rs 6.62 crore in NMSPL during FY24 (refers to period from April 1st, 2023, to Mar



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31, 2024). As on March 31, 2024, NMSPL's and CF SPL CAR stood healthy at 21.69% (21.52% - FY23) and 23.99% (32.93% - FY23) respectively. As on 31 March 2024 group's combined net worth stood at Rs 105.86 crores (Rs. 83.15 crore – FY23). However, the group's gearing has increased from 4.02x in FY23 to 4.58x in FY24 due to increase in external borrowings in FY24. Infomerics expects the capitalisation levels to be comfortable in the near to medium term on the back of expected capital infusion by the promoters.

### **Stable Asset Quality:**

The group has maintained healthy collection efficiency in both the companies. NMSPLs has managed to keep its average collection efficiency ~94% in the last 12 months ended June 2024. NMSPLs though remain exposed to risks associated with the MFI business, was able to maintain a stable asset quality backed by its strong loan monitoring and adequate credit appraisal process. NMSPL's GNPA remained stable at 0.91% as on March 31, 2024 (31<sup>st</sup> March 2023: 0.96%) and given that the company provided 100% provisioning, NNPA remained NIL. CF SPLs GNPA remained stable at 0.72% as on 31 March 2024 (31<sup>st</sup> March 2023: 1.76%) and NNPA with 0.52% as on 31 March 2024 (31<sup>st</sup> March 2023: 0.44%).

### **Consistent growth in AUM albeit moderation in FY24 due to restructuring**

The group's AUM during FY24 moderated to Rs 745.70 crore from Rs 1,109.38 crore in FY23 on the back of restructuring of AUM to comply with regulatory requirements as per Section 45-IA of the RBI Act, 1934, which mandates that a company's financial assets must constitute more than 50 percent of its total assets and income from financial assets should make up more than 50 percent of its gross income to be registered as an NBFC by the RBI. To comply with the same, NMSPL had to transfer its ESAF Small Finance Bank's BC portfolio to a group entity, As on 31 Dec 2023, the managed book which got transferred from NMSPL to group entity stood at Rs. 856.53 crore, the same has further grown to Rs. 1,127.55 crore as on 31 March 2024. However, if we include ESAFs Small Finance Bank's BC portfolio of Rs 1127.55 crore, overall group's AUM would have been ~Rs 1873.85 crores.

### **Key Rating Weaknesses**



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### **Monoline nature of operations; relatively risky target segment and regulatory risks & socio-political risks:**

NMSPL's product diversification remains low being concentrated only in the microfinance segment. The microfinance industry is prone to socio-political, regulatory and operational risks, which could negatively impact the company's operations and thus its financial position. Further, unsecured lending to the marginal borrower profile and the political & operational risks associated with microfinance lending may result in high volatility in the asset quality indicators. On the other hand, a part of loan portfolio of CFSPL comprise unsecured loans. Besides the business loan portfolio also possess high default risk. The group's ability to maintain the asset quality indicators through economic cycles remains a key rating monitorable.

### **Regional Concentration of Operations:**

The group's operations are regionally concentrated with Karnataka contributing to 77% and 100% of its AUM as on March 31, 2024, in NMSPL and CFSPL respectively. Generally, the risk profile of a NBFC with a geographically diversified portfolio is more resilient compared to that of an entity with a geographically concentrated portfolio. However, the group has forayed into new states Tamil Nadu and Madhya Pradesh.

### **Analytical Approach: Consolidated**

Infomerics has combined the financials of Navachetana Microfin Services Private Limited (NMSPL) and Chetana Financial Services Private Limited (CFSPL) and hereafter referred as Chetna group as both the entities have common management with same beneficial owner and is engaged in the lending business.

### **Applicable Criteria:**

[Rating Methodology for Financial Institutions/Non-Banking Finance companies](#)

[Policy on Default Recognition and Post – Default Curing Period](#)

[Criteria of assigning Rating Outlook](#)

[Complexity level of rated instruments/Facilities](#)

[Financial Ratios & Interpretation \(Financial Sector\)](#)

[Criteria on consolidation of companies](#)



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### Liquidity: Adequate

The liquidity profile of the group remains strong with no cumulative mismatches in its asset-liability management profile as on March 31, 2024. Further the group has a liquidity cushion of Rs. 44.47 crore in the form of cash and cash equivalents (Rs. 21.12 crore), and undrawn banking lines (Rs. 20.85 crore) as on 31 March 2024. IVR does not foresee any liquidity risk in the near term, given groups adequate liquidity position and its ability to raise funds.

### About NBFC

NMSPL is a Karnataka based non-deposit taking NBFC-MFI. NMSPL is engaged in extending micro credit primarily to women borrowers through (JLG) model since 2009. At present, The group operates through 102 branches operating in Karnataka, Tamil Nadu and Maharashtra and Madhya Pradesh.

### Financials (Standalone) : NMSPL

(Rs. Crore)

For the year ended/As on*	31-03-2023	31-03-2024
	(Audited)	(Audited)
Total Income	90.89	146.45
PAT	5.15	13.79
Assets Under Management	1063.00	663.46
Tangible Net worth	71.65	93.75
Total debt	304.50	434.32
<u>Ratios</u>		
NIM (%)	5.15	6.45
Overall Gearing (Times)	4.25	4.63
Total CRAR (%)	21.52%	21.69%
Gross NPA (%)	0.96%	0.91%
Net NPA (%)	0.00%	0.00%
Interest coverage (Times)	1.15	1.38

*\*Classification as per Infomerics' standards*



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Financials (Combined): NMSPL & CFSPL

(Rs. Crore)

For the year ended/As on*	31-03-2023	31-03-2024
	(Audited)	(Audited)
Total Income	99.58	155.57
PAT	5.67	14.45
Assets Under Management	1109.38	745.70
Tangible Net worth	83.15	105.86
Total debt	334.42	484.63
<b>Ratios</b>		
NIM (%)	5.97	6.50
Overall Gearing (Times)	4.02	4.58
Total CRAR (%)	40.34	35.92
Interest coverage (Times)	1.15	1.36

*\*Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (July 28, 2023)	Date(s) & Rating(s) assigned in 2022-23 (May 25, 2022)	Date(s) & Rating(s) assigned in 2021-22
1.	Long Term Bank Facilities – Term Loans	Long Term	386.44	IVR BBB/ Stable Outlook	IVR BBB/ Stable Outlook	IVR BBB/ Stable Outlook	--
2.	Proposed – Long Term Bank Facilities	Long Term	219.65	IVR BBB/ Stable Outlook	-	-	-





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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit [www.infomerics.com](http://www.infomerics.com).

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating



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assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility/Instrument	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook	Listing status
Long Term Bank Facilities – Term Loans	-	-	29.03.2027	386.44	IVR BBB/Stable	Not Applicable
Proposed Long Term Bank Facilities	-	-	-	219.65	IVR BBB/Stable	Not Applicable
<b>Total</b>				<b>606.09</b>		

### Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-Navachetana-Microfinance-sep24.pdf>

### Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not applicable

### Annexure 4: List of companies considered for consolidated analysis:

Name of the Company	Consolidation Approach
Chetana Financial Services Pvt Ltd	Full
Navachetana Microfin Services Pvt Ltd	Full

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).