



Press Release

Chetana Financial Services Private Limited (CFSPL)

July 28, 2023

Ratings

Instruments	Amount (Rs. crore)	Current Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term Bank Facilities – Term Loans	15.85 (Reduced from INR20.00)	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Total	15.85			

Details of instruments are in Annexure 1

Detailed Rationale

The reaffirmation of ratings to the bank loan facilities of Navachetana Microfin Services Private Limited (NMSPL) consider the common management with same beneficial owner of CFSPL and its group entity Chetana Financial Services Private Limited (CFSPL). Infomerics has taken a consolidated view of these entities referred together as Chetna group. The rating considers experienced promoters of the Chetna group with adequate systems and processes to manage its operations coupled with comfortable capitalisation and stable asset quality of both these entities. 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 in the state of Karnataka and thin Profitability.

Key Rating Sensitivities

Upward Factors

- Substantial and sustained growth in its AUM, improvement in overall financial profile of the company, asset quality, capitalisation and liquidity.

Downward Factors

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

Key Rating Drivers with detailed description



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Key Rating Strengths-

Experienced Promoters:

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 company has installed monitoring systems to ensure credit bureau checks and loan utilization checks being conducted in all cases. This enabled NMFSL to report good asset quality. Internal audits are conducted regularly, and the scope and coverage are in line with industry practices. Going forward, the company'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 22.84 Crores in FY23. As on March 31, 2023, NMSPL's CAR was healthy at 21.52%. The Net worth stood at Rs 71.33 Crores with a gearing of 5.92x as on March 31, 2023. In FY23, the promoters have infused Rs 0.35 Crores in CFSPL, CAR was healthy at 32.93% as March 31, 2023, The Net worth stood at Rs 11.50 Crore with a gearing of 2.03x.

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. 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. The GNPA stood at 0.96% as on March 31, 2023, which marginally declined from 1.01% as on 31 March 2022. CFSPLs GNPA and NNPA increased from 1.56% and 0.22% respectively in FY22 to 1.76% and 0.44% respectively in FY23.

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.

Thin Profitability:

Even though the group is present in the NBFC space since 2009, The profitability of the Chetna group remained rangebound and low at below unity over the past three fiscals mainly due to its high borrowing cost leading to low net spread and high cost to income ratio. Further, NIM moderated gradually over the aforesaid period. Going forward, the ability of the group to decrease its cost to income ratio and reduce its interest expenses and improve its profitability will be a key rating monitorable.

Regional Concentration of Operations:

The Group's operations are highly concentrated with Karnataka contributing to 92% and 100% of its AUM as on March 31, 2023, in NMSPL and CFSPL respectively. Given the regional concentration, the group's scale of operations remains moderate with combined AUM of Rs 1109.38 Crore as on March 31, 2023. NMSPLs AUM stood at Rs 1063 Crore and CFSPLs AUM stood at Rs.46.48 Crore as on March 31, 2023. 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.

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:



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[Rating Methodology for Financial Institutions/NBFCs](#)
[Criteria for rating outlook](#)

Liquidity: Adequate

The group is adequately capitalized marked by adequate CAR (%) in both of the entities. Further, the group has combined liquidity of Rs 174.16 Crore as on 31 March, 2023 which comfortably covers debt repayments for next five months. The ALM profile also has no negative cumulative mismatches across various buckets upto 5 years. With improving collection efficiency and lender base, the group will be able to maintain adequate liquidity.

About the Company

Navachetana Microfin Services Private Limited (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. The company is promoted by Mr. Nagendra Mali (Chairman & Managing Director). Mr. Mali has been engaged in microfinancing activities since 2006 under Navachetana Foundation which was originally established as Shri Doddaveereshwara Khadi and Village Industries Society in 1999. In 2009, the existing promoters acquired an NBFC, Sree Santeshwara Credit and Investment Company Limited and renamed it as Navachetana Microfinance Services Private Limited and transitioned the microfinance business of Navachetana Foundation. At present, The group operates through 140 branches operating in Karnataka, Tamil Nadu and Maharashtra.

Financials (Combined): NMSPL & CFSPL

(Rs. Crore)

For the year ended/ As On*	31-3-2022 (Audited)	31-3-2023 (Audited)
Total Operating Income	53.23	99.58
PAT	2.23	5.67
Tangible Net-worth	56.24	83.15
Total Loan Assets	370.51	1109.38
Total Debt	291.49	334.42
Gearing (Times)	5.18	4.02

**Classification as per Infomerics' standards*



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Financials (Standalone): CFSPL

For the year ended/ As On*	31-3-2022 (Audited)	31-3-2023 (Audited)
Total Operating Income	8.65	8.69
PAT	0.48	0.53
Tangible Net-worth	10.62	11.50
Total Loan Assets	22.38	46.38
Total Debt	21.60	29.92
Gearing (Times)	2.03	2.60
CRAR (%)	34.68	32.93
GNPA (%)	1.56	1.76
NNPA (%)	0.98	1.41

Status of non-cooperation with previous CRA: None

Any other information:

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (May 25, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Long Term Bank Facilities – Term Loans	Long Term	15.85(Reduc ed from Rs. 20.00 Crores)	IVR BBB/ Stable Outlook	IVR BBB/ Stable Outlook		--

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, 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 visit 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 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.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Reaffirmed/ Outlook
Long Term Bank Facilities – Term Loans	-	-	Up to April, 2026	15.85	IVR BBB/ Stable Outlook

Annexure 2: List of companies considered for consolidated analysis:

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

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-chetana-jul23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.