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Navachetana Microfin Services Private Limited

May 25, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term Bank Facilities	49.89	IVR BBB/Stable (IVR Triple B with Stable outlook)	Assigned	Simple
Total	49.89 (INR Forty-Nine Crores and Eighty-Nine Lakhs)			

Details of Facilities are in Annexure 1

Detailed Rationale

The assignment 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

- Improvement in scale of operations and asset under management with increase in geographical reach
- Diversification in resource profile with decline in average cost of borrowings with improvement in the capital structure
- Ability of the group to raise equity and debt capital in a timely manner to maintain prudent capitalization profile
- Improvement in profitability by maintaining the credit costs and operating overheads on a sustainable basis, as the operations expand

Downward Factors



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- Moderation in scale of operations with sharp decline in asset under management
- Moderation in the capital structure with deterioration in capital adequacy ratio (CAR) to below 16%
- Weakening of the profitability profile on account of higher operating overheads and higher credit costs, leading to a decline in ROTA to less than 0.70%
- Deterioration in the asset quality with moderation in the collection efficiency

List of Key Rating Drivers with Detailed Description

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 group's ability to maintain prudent lending policies while growing at the envisaged pace will be a key rating monitorable.

- **Comfortable capital adequacy**

Driven by 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.2.50 Crore in FY21 and Rs.5.00 Crore in February 2022 in NMSPL. As on December 31, 2021, NMSPL's CAR was healthy at 25.80% (29.31% as on March 31, 2021). The Net worth stood at Rs 45.15 Crore with a gearing of 4.55x as on December 31, 2021. In FY21, the promoters have infused Rs 2.00 Crores in CFSPL, because of which the CAR has



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improved from 21.20% in FY20 to 27.56% in FY21 and further to 32.24% in 9MFY22. As on December 31, 2021, The Net worth stood at Rs.10.37 Crore with a gearing of 1.99x.

- **Stable asset quality**

The group has maintained healthy collection efficiency in both the companies. NMSPL has managed to keep its collection efficiency ~97% in the last 12 months despite spread of pandemic and thereby lockdown coupled with turmoil in the domestic MFI sector. 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 1.60% as on March 31, 2021, which marginally increased to 2.19% as on December 31, 2021 due to degrowth in the loan portfolio in NMSPL. CFSPLs GNPA and NNPA increased from 0.76% and 0.61% respectively in FY20 to 2.17% and 1.68% respectively in FY21 given the impact of COVID 19 on the collections coupled with degrowth in loan portfolio. However, the same has improved in 9MFY22 with GNPA and NNPA improved to 1.38% and 1.16% respectively. The group's ability to improve and maintain stable asset quality in both the companies will remain important from a credit perspective.

Key Rating Weaknesses

- **Monoline nature of operations; relatively risky target segment and regulatory risks & socio-political risks inherent in the industry**

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.



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- **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 95% and 100% of its AUM as on December 31, 2021, in NMSPL and CFSPL respectively. Given the regional concentration, the group's scale of operations remains moderate with combined AUM of Rs 350.73 Crore as on 31 December 2021. NMSPLs AUM stood at Rs 306.69 Crore and CFSPLs AUM stood at Rs.44.04 Crore as on December 31, 2021. 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 :

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

Liquidity –Adequate

The group is adequately capitalized marked by adequate CAR (%) in both entities. Further, the group has combined liquidity of Rs.50.24 Crore as on December 31,2021 which comfortably covers debt repayments for next five months. The ALM profile also has no



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negative cumulative mismatches across various buckets upto next 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

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, NMSPL operates through 46 branches in the 15 districts operating in Karnataka & 3 districts in Maharashtra.

Financials (Combined): NMSPL & CFSPL

	(Rs. Crore)	
For the year ended/As on*	31-03-2020	31-03-2021
	Combined	Combined
Total Income	52.29	50.30
PAT	2.69	2.00
Tangible Net worth	45.24	51.00
Total loan assets	170.21	186.19
Total debt	200.66	196.10
Gearing (Times)	4.44	3.80

*Classification as per Infomerics standards

Financials (Standalone): NMSPL

	(Rs. Crore)	
For the year ended/As on*	31-03-2020	31-03-2021
	Audited	Audited



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Total Income	40.36	40.30
PAT	1.98	1.60
Tangible Networth	36.70	40.70
Total loan assets	142.40	158.49
Total debt	177.21	181.20
Gearing (Times)	4.83	4.40
CRAR (%)	31.97	29.31
GNPA (%)	0.47	0.91
NNPA (%)	Nil	Nil

***Classification as per Infomerics standards**

Status of non-cooperation with previous CRA: Not Applicable

Any other information:

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Bank Loan Facilities – Term Loans	Long Term	49.89	IVR BBB/Stable	-	-	-

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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).



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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.

For more information visit www.infomerics.com

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Annexure 1: Details of Facilities – not Applicable

Annexure 2: List of companies considered for consolidated analysis:

Name of the company	Consolidation Approach
Chetana Financial Services Private Limited	Full Consolidation
Navachetana Microfin Services Private Limited	Full consolidation

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Navachetana-May22.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.