Ratings

CRISIL
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Rating Rationale

April 06, 2020 | Mumbai

Chaitanya India Fin Credit Private Limited

Rated amount enhanced

Rating Action

Total Bank Loan Facilities Rated	**Rs.500 Crore (Enhanced from Rs.250 Crore)**
Long Term Rating	**CRISIL A-/Stable (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL A-/Stable' rating on the proposed bank loan facilities of Chaitanya India Fin Credit Private Limited (CIFCPL).

The rating is driven by the strong capital position of Chaitanya group post the acquisition of majority stake in CIFCPL by Mr. Sachin Bansal in October 2019 - through CIFCPL's holding entity - Chaitanya Rural Intermediation Development Services Private Limited (CRIDS). Mr. Sachin Bansal, who presently holds about 96% stake in Chaitanya group ' that is CIFCPL and CRIDS together, will be maintaining this investment through his venture, Navi Technologies Private Limited (Navi) in which he holds ~100% stake. Mr Bansal has infused Rs 900 crore of equity capital in Chaitanya group till date; of this Rs 300 crore has been infused in March 2020. This equity infusion has strengthened Chaitanya group's overall capital position considerably with consolidated networth estimated at over Rs 1000 crore as on March 31, 2020. Furthermore, the additional funding commitment given by Navi would aid Chaitanya group's growth plans over the medium term. The rating also factors in the group's strong liquidity position; the group is expected to have investments and marketable securities of about Rs 2800 crore as of March 31, 2020. Incrementally, the association with Navi is expected to result in high degree of operational synergies with improved risk management systems, centralised treasury and compliance and strengthened leadership team.

The rating also factors in the long track record of CIFCPL and experience of the promoters in the microfinance business, stable asset quality in microfinance segment post-demonetisation and improving resource profile. These strengths are offset by moderate, though improving, profitability - constrained by high operating expenses, heightened susceptibility to local socio ' political issues due to regional concentration in operations and limited vintage in the overall non-microfinance segment..

Having been operational for over 13 years now, Chaitanya group had a consolidated AUM of Rs 894 crore as on January 31, 2020 - of which - over 90% comprises microfinance loans. During 10 months through January 2020, the company registered sustained its robust growth of 51.2% (annualised) driven by equity infusion of Rs 600 crore by Mr. Sachin Bansal in the third quarter of fiscal 2020, similar to the growth registered for full fiscal 2019. As a result of this infusion, consolidated capital position of Chaitanya has strengthened substantially ' reflected in networth increasing to over Rs 1000 crore and adjusted gearing improving to around 2 times by March 31, 2020. Correspondingly, profitability - which had remained subdued thus far - has also been better for the first nine months of fiscal 2020 and should improve hereafter.

The increased stakeholder confidence in Chaitanya group after becoming part of Navi, is also evidenced by the gradual improvement in the former's resource profile. Alongside the expansion in the lender base, the group's incremental cost of borrowing has also been declining from >14.5% to range within 12.0 - 12.5% since October 2019.

Chaitanya group's asset quality, which had deteriorated in the aftermath of demonetisation, has also restored to normalcy. Delinquencies (indicated as 30+ dpd) for the microfinance portfolio housed in CIFCPL which represents over 90% of Chaitanya group's consolidated portfolio - is now at 1.4% as of December 31, 2019 after peaking at 13.4% in April 2017. However, within the non-microfinance portfolio (Two wheeler loans, small business loans, housing loans and digital loans) which forms a small share of the total AUM - asset quality has been weak at 6.2% of 90+ dpd as of December 31, 2019 - largely reflecting the weakness in housing portfolio. Nevertheless, overall 90+ dpd as of December 31, 2019 stood at about 1.4%.

The 21-day nationwide lockdown declared by the Government of India to contain the spread of the Novel Coronavirus (Covid-19) will have near-term impact on disbursements and collections of companies. While most of the measures are applicable till April 14, 2020, their revocation will be contingent on further directives from the central government and the extent of spread of Covid-19. Any delay in return to normalcy will put pressure on collections and asset quality metrics. Additionally, any change in the behavior of borrowers on payment discipline can affect delinquency levels. On the liabilities side, although moratorium on bank facilities for 3 months, as permitted by the Reserve Bank of India (RBI), may provide some respite to companies (if granted by lenders and availed by borrowers), there could be challenges for those with high share of capital market borrowings as repayments will have to be made while collections, on the other hand, will remain low. CRISIL will continue to monitor the situation closely for all its rated companies.

Given majority of Chaitanya group's portfolio is in the microfinance segment, potential challenges may arise with respect to collections as majority of the customers are cash salaried and self-employed, whose income streams have been affected by the lockdown. However, as of March 25, 2020 - the group's liquidity position was adequate with Rs 347.6 crore of liquidity available in the form of cash, liquid investments and unutilised funding lines. Against this, the bank had Rs 94.5 crore of debt obligations to be met over the 3 months ending June 2020, of which Rs 86.6 crore were bank loans. The treasury control and monitoring by Navi along with the funding support received in the recent past and future commitment, are expected to ensure maintenance of adequate liquidity cushion for Chaitanya group in the medium term

For the 10 months period ended January 31, 2020, Chaitanya group reported a profit after tax (PAT) of Rs 34.9 crore and as against Rs 7.6 crore of PAT for full fiscal 2019. The increase in profit was driven by the investment income generated during the period. The return on managed assets (RoMA) which rose to 2.8% (annualised) from 1.2% for the respective periods, would be at 1.2% level if calculated for the lending book after adjusting for this income from investments. Post equity infusion by Navi, profitability has started to improve anchored by lower leverage. .

CRISIL had assigned its 'CRISIL A-/Stable' rating to Rs 250 crore proposed bank loan facilities of CIFCPL on March 26, 2020.

Analytical Approach
For arriving at the ratings, the team has combined the business and financial risk profiles of CIFCPL with its holding entity, CRIDS - given the high degree of operational and funding synergies between the two. Together, the two are referred to as Chaitanya group. Incrementally, commitment of funding, managerial and operational support from Navi Technologies of Mr. Sachin Bansal has also been factored into the rating.

Key Rating Drivers & Detailed Description
Strengths
*** Strengthened capital position after recent round of equity raising**
As part of his association with Chaitanya group, Mr. Sachin Bansal has infused Rs 900 crore into CRIDS which has significantly strengthened Chaitanya group's capital position. Of this, Rs 600 crore was infused in October 2019 after which, the consolidated networth increased to Rs 710 crore as of December 31, 2019 against, merely Rs 82 crore as of March 31, 2019. Of the quantum infused into CRIDS (standalone) thus far, about 36% i.e., Rs. 260 Crores has been down-streamed to CIFCPL in tranches of Rs 146 crore equity and Rs 114 crore compulsorily convertible debentures. This has resulted in a stronger capital position for CIFCPL, evidenced by an improvement in adjusted gearing (including off book) to 3.0 times as of December 31, 2019 from 7.1 times on March 31, 2019. At a consolidated level as well, the benefit of strengthened capital position is visible in the reduction of adjusted gearing which is estimated at less than 2 times as on March 31, 2020 from 7.6 times a year ago.

Commensurate to this cumulative capital infusion, Mr. Bansal has acquired 96.81% stake in CRIDS of which - 1.23% was held through Navi as of March 13, 2020. As these investments would be passed on to Mr. Bansal's Navi Technologies - it will evolve as the ultimate holding entity in the group. Navi's networth of Rs 962 crore as on December 31, 2019 would increase to ~Rs 4000 crore by end of March, 2020 ' driven by additional capital infusion by Mr. Bansal, which would be seeped down to CRIDS as a combination of debt and equity in the near term. In consideration of Navi's demonstrated track record of extending capital support and written commitment to extend additional funding support in the form of interest free debt into CRIDS, CRISIL expects Chaitanya group's consolidated capital position to remain strong in relation to its scale and nature of business. CRISIL expects the gearing to not exceed 3 times over the medium term.

*** Long track record and experience of promoters in the microfinance space**
Having started as an NGO in 2007, CIFCPL has an operational track record of almost 13 years. Over this time, the company was operating as a mid-sized MFI with majority of growth in AUM having been generated over the last 2-3 fiscals after external investors were on-boarded. CIFCPL has grown to Rs 778 crore on December 31, 2019, having attained most of this growth after fiscal 2015 - when a private equity investor infused about Rs 34 crore to acquire 33.4% stake in CIFCPL. More recently, after receiving capital from Mr. Bansal, the AUM of CIFCPL has grown at a robust 48% (annualised) during nine months through December 2019. Consolidated AUM has grown at 57.5% (annualised) over ten months ended January 31, 2020 against 51.0% growth recorded for full fiscal 2019. However, alongside this growth, operational metrics like average ticket size, AUM exposure per borrower, number of customers per loan officer, etc. have remained stable.

Over the years, the company has started to diversify by increasing its regional presence from 2 states to 5 states now. As of March 2020, 61% of the AUM was housed in Karnataka followed by Maharashtra and Bihar which accounted for 24% and 11% of the AUM, respectively. Balance was equally distributed across Uttar Pradesh and Jharkhand.

*** Stable asset quality within the microfinance portfolio; ability to maintain sound portfolio quality in the non-microfinance segments remains critical**
After peaking at 9.3% in May 2017, 90+ dpd for the microfinance portfolio at CIFCPL restored to 2.3% as of March 31, 2019 and subsequently to 1.0% as of December 31, 2019. The prior deterioration in asset quality was a consequence of ground level socio-political issues which had erupted after demonetisation, and concentration of CIFCPL's loan portfolio in two of the more impacted states - Karnataka and Maharashtra, made it worse. Post November 2016, the delinquencies started to rise with every month - resulting in a peak 0+ dpd of 15.8% as of February 2017. Owing to such asset quality issues after demonetisation, the company cumulatively wrote off Rs 12 crore. This situation however, has reversed with 0+ dpd improving to 2.0% as of December 31, 2019.

CIFCPL has aggressive growth plans as it aspires to attain an AUM of Rs 3400 crore over the next 3 years by expanding to newer geographies and increasing ticket size. With advent of Navi Technologies, the risk management systems at CIFCPL and CRIDS are expected to evolve resulting in an expected increase operational efficiency. While microfinance would remain a manpower intensive vertical, the company would explore its integration of ground level activities to the group's centralized MIS by leveraging digital interphase. On the other hand, CRIDS which has been operating as a separate NBFC, will have independent verticals for underwriting, collections and monitoring. It is expected to continue extending housing, digital, two wheeler and MSME loans, and achieve a book size of ~Rs 400 crore by March 2022. In light of growth plans for both portfolios, the company's ability to sustain asset quality at an overall level in the medium term - remains a key rating sensitivity factor. Additionally, the impact of challenges which have risen in the aftermath of Covid-19 outbreak - on the group's asset quality - will also be monitored closely.

*** Improving resource profile**
Association with Navi has stimulated the ramp up in Chaitanya group's resource profile. The lender base of the group has expanded with more banks coming on-board and cost of borrowing has also reduced by about 200 bps on fresh borrowings post equity infusion in October 2019. Of the present lender base of 31 - which comprises Banks, NBFCs and DFIs, the share of banks in the total borrowing mix has increased to 31% from 27%, over the last 1 year. The improvement in resource profile can also be evidenced in the declining blended cost of funds (I.e., existing & fresh borrowings), from >14% have come down to sub 12% levels in the fourth quarter of fiscal 2020.

Navi has extended Rs 772 crore of interest free loan to CRIDS in January 2020 and intends to increase this limit to Rs 2800 crore in the same form of funding, by June 2020. This money, though callable in nature, will be parked in CRIDS as surplus. Consequently, CRIDS has opened a line of Rs. 100 crore of inter corporate loan. Additionally, the management has undertaken to make available liquidity to the extent of at least 15% of external debt on tap for CRIDS - at all points in time.

CIFCPL had reduced its lending rates from 25.3% to 24.9% at the onset of fiscal 2020. In anticipation of the equity, the company further dropped its interest rates to 23.9% in October 2019 which, after the infusion of equity, were further reduced to 23% in March 2020. A further cut in lending rates is expected for CIFCPL's microfinance portfolio in fiscal 2021 owing to a corresponding reduction in cost of borrowing and, in adherence to margin cap requirements for MFIs.

As the resource profile diversifies further with an increasing share of bank funding in the total debt base, the cost of borrowing is expected to decline further.

Weaknesses
*** Profitability constrained by high operating expenses, expected to improve hereafter with reduced leverage**
Consolidated profitability of Chaitanya group has remained subdued ' reflected in RoMA of below 1.5%, on account of persistently high operating expenses and leverage. On a standalone basis, CRIDS has been operating at a RoMA of <2.0% for fiscals through March 31, 2019 whereas CIFCPL has had an even lower RoMA of sub 1.5% until the same date. High operating expenses and elevated leverage, have been the primary constraints to profitability for CIFCPL. At a consolidated level, where operating expense ratio was as high as 8.8% for fiscal 2019, CIFCPL had an operating expense of 10.5%. Correspondingly, adjusted gearing at a consolidated level stood at 7.6 times on March 31, 2019 - whereas for CIFCPL - it was 7.1 times on the same date. These metrics have constrained the company's earnings in the past however, after the recent round of equity infusion - there is visible improvement in profitability.

During ten months through January 2020, operating expenses and adjusted gearing for Chaitanya (consolidated) have improved considerably to 6.2% and 2.1 times, respectively. On a standalone basis - during nine months through December 2019, while CIFCPL's operating expense remained high at 10.7%, its adjusted gearing (including off book)has substantially reduced to 3.0 times. Chaitanya reported a consolidated RoMA of 2.8% (annualised, including income from investments) for period ended January 31, 2020, higher than 1.2% reported for full fiscal 2019. This rise in profit over first nine months of fiscal 2020, has been driven by funding support extended by Navi to CRIDS' as a combination of Rs 600 crore equity and Rs 772 crore of interest free debt.

*** Susceptibility to local socio-political issues due to regional concentration in operations**
Despite gradual diversification in regional presence over the years, 85% of the company's AUM is still concentrated in two states - Karnataka and Maharashtra. This increases the susceptibility of asset quality to regional socio-political issues which are an inherent risk to the microfinance industry. Apart from milestone events like 2010 AP crisis, 2016 demonetization, there have been various other intermittent issues like local elections, communal issues, natural calamities, borrower protests and alike, which have resulted in momentary spurt in delinquencies at various instances however, such situations correct eventually.

Additionally, the target segment of CIFCPL comprises borrowers with weak credit profiles and high seasonality in income. The income flow of this segment of customers is volatile and dependent on the local economy. Pressure on their cash flow due to unforeseen circumstances may affect the repayment capability of these borrowers.

*** Limited vintage in the non-microfinance portfolio**
For non-microfinance portfolio, which is housed in CRIDS, the track record is limited to 3 years and thus, vintage remains low. The overall AUM stood at Rs 83.6 crore as on December 31, 2019. This comprises primarily of two-wheeler loans (72.2%) with balance being housing loans and digital personal loans (~24%). The 90+ dpd of 7.1% and 6.2% on March 31 and December 31, 2019, respectively ' is largely driven by weak performance in the housing and digital loan portfolio. However, the share of these two segments in the total non-microfinance portfolio (on book) of Rs 77.4 crore as of December 31, 2019, was small at 24%.

In the housing loan book, which was previously extended by CIFCPL - under the JLG model and has now been discontinued, 90+ dpd was high at 26.5% on December 31, 2019. Correspondingly, within the digital loans portfolio, 90+ dpd stood at an increased 10.5% on the same date. However, as per the FLDG clause, CRIDS has the right to recover the lost assets in the digital loans segment, from the fixed deposits available to CRIDS against these loans. For two wheeler loans, which formed a majority 72.2% of the non-microfinance portfolio as of December 31, 2019 ' 90+ dpd was better than the industry average -at 1.7%. For small business loans and livestock loans which occupy a rather small share in the total AUM, asset quality has remained comfortable thus far. Considering the aggressive growth plans for lending business, the ability of Chaitanya to sustain overall asset quality and profitability ' especially along expansion into newer asset classes - will remain a key rating sensitivity factor.

In terms of systems and processes which are expected to improve hereafter supported by the opportunity to leverage Navi's technical expertise, the ability to integrate technology with ground level risk monitoring systems - particularly for the non-microfinance portfolio ' will be a key monitorable.

Liquidity Strong

Chaitanya's AUM comprises microfinance loans to the extent of 90%, which provides it with an inherently positive asset-liability maturity (ALM) profile, driven by the shorter tenor of its advances that of its liabilities, thereby resulting in comfortable liquidity. The liquidity profile is also backed by expectation, and articulation of strong support from Navi, on an on-going basis and in case of exigencies. As per the ALM statement dated January 31, 2020, assets maturing over the next six months (Rs 428.8 crore) over liabilities maturing over the same period (Rs 196 crore), on a cumulative basis, were adequate at 2.2 times.

The 21-day nationwide lockdown declared by the Government of India to contain the spread of the Novel Coronavirus (Covid-19) will have near-term impact on disbursements and collections of companies. While most of the measures are applicable till April 14, 2020, their revocation will be contingent on further directives from the central government and the extent of spread of Covid-19. On the liabilities side, although moratorium on bank facilities for 3 months, as permitted by the Reserve Bank of India (RBI), may provide some respite to companies (if granted by lenders and availed by borrowers), there could be challenges for those with high share of capital market borrowings as repayments will have to be made while collections, on the other hand, will remain low. CRISIL will continue to monitor the situation closely for all its rated companies.

Given majority of Chaitanya group's portfolio is in the microfinance segment, potential challenges may arise with respect to collections as majority of the customers are cash salaried and self-employed, whose income streams have been affected by the lockdown. However, as of March 25, 2020 - the group's liquidity position was adequate with Rs 347.6 crore of liquidity available in the form of cash, liquid investments and unutilised funding lines. Against this, the bank had Rs 94.5 crore of debt obligations to be met over the 3 months ending June 2020, of which Rs 86.6 crore were bank loans. The treasury control and monitoring by Navi along with the funding support received in the recent past and future commitment, are expected to ensure maintenance of adequate liquidity cushion for Chaitanya group in the medium term

Outlook: Stable

CRISIL believes Chaitanya group's capital position will remain strong in relation to the scale and nature of its operations, largely supported by Mr. Sachin Bansal's demonstrated track record and future commitment of extending support through Navi. Owing to Navi's parentage, the group's resource profile is also expected to improve further.

Rating Sensitivity factors

Upward Factors

* Profitable scale up in operations, alongside sustenance in overall (consolidated) asset quality at GNPA level of 3% or below
* Sustained improvement in consolidated profitability ' with RoMA being maintained at above 3.0% on a steady state basis.

Downward factor

* While capital position, considering the actual deployment in Chaitanya group thus far, is adequate in relation to the business plans for the medium term any change in quantum or timing of future funding support committed by Navi to Chaitanya group ' potentially leading to capital position being weaker than that estimated; consolidated and standalone gearing rising significantly to beyond the stated stance of 2 times and 3 times, respectively.
* Any deterioration in overall or standalone asset quality and profitability, constraining the internal accruals to networth.

About the Company

Chaitanya has its origins in Chaitanya Rural Women and Children Welfare Society, an NGO started in 2004. The NBFC operations started in September 2009 by founders Mr. Anand Rao and Mr. Samit Shetty with micro lending activities to low income families in rural Karnataka. Currently, Chaitanya group comprises - CIFCPL, which carries out microfinance operations and is wholly held by CRIDS - which houses the non-microfinance portfolio like - two wheeler loans, digital loans, housing loans (initially a part of CIFCPL's portfolio) and others. Later in October 2019, Mr. Sachin Bansal acquired 94% stake in the group which further increased to 96% in March 2020. Eventually, this stake will be maintained by Mr. Bansal through his company - Navi Technologies.

Key Financial Indicators - Consolidated

As on/ for the period ended		Jan-20	Mar-19	Mar-18
Total managed assets	Rs crore	2235	765	475
Total income	Rs crore	187	123	86
Profit after tax	Rs crore	35	8	-6
Adjusted Gearing (including off book)	Times	2.1	7.6	5.0
Return on managed assets (annualised)	%	2.8	1.2	-1.2

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Rating Assigned with Outlook
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	500	CRISIL A-/Stable

Annexure - Rating History for last 3 Years

	Current			2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	500.00	CRISIL A-/Stable	26-03-20	CRISIL A-/Stable		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Proposed Long Term Bank Loan Facility	500	CRISIL A-/Stable	Proposed Long Term Bank Loan Facility	250	CRISIL A-/Stable
Total	500	--	Total	250	--

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Finance Companies
CRISILs Criteria for Consolidation

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