

## Rating Rationale

August 21, 2020 | Mumbai

### Chaitanya India Fin Credit Private Limited

'CRISIL A-/Stable' assigned to NCD

#### Rating Action

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

Non Convertible Debentures Aggregating to Rs.65 Crore	CRISIL A-/Stable (Assigned)
Non Convertible Debentures Aggregating to Rs.100 Crore	CRISIL A-/Stable (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has assigned its '**CRISIL A-/Stable**' rating to the proposed issuance of non-convertible debentures aggregating to Rs.65 crore of Chaitanya India Fin Credit Private Limited (CIFCPL) and has reaffirmed the rating on existing debt instruments at '**CRISIL A-/Stable**'.

The rating is driven by the strong capital position of Chaitanya group (CIFCPL and its holding entity - Navi Finserv Private Limited (erstwhile Chaitanya Rural Intermediation Development Services Private Limited) - NFSPL) post the acquisition of majority stake in CIFCPL by Mr. Sachin Bansal in October 2019 - through NFSPL. Mr. Sachin Bansal, presently holds about 98% stake in Navi Technologies Private Limited (Navi) which, in turn, holds 100% stake in Chaitanya group - as the ultimate holding entity.

With the public lockdown being in its sixth phase, the restrictions are being lifted only in a phased manner and the degree of relaxations vary across regions depending upon the severity of covid-19 pandemic. This may result in prolonged disruption of income-generating activities carried out by microfinance borrowers.

Under the Covid-19 Regulatory Package that was announced by the Reserve Bank of India (RBI) in March 2020 whereby lenders were permitted to grant moratorium on bank loans for 3 months through May 2020 under moratorium 1.0. Under this, all microfinance institutions (MFIs) had offered moratorium to their customers in line with MFIN directive. Eventually, as per RBI announcement dated May 22, 2020 'lenders were allowed to extend another 3 months of moratorium on bank loans. However, as MFIs were allowed to commence operations with bare minimum staff from April 20, 2020 which was further relaxed in May 2020, there has been traction in monthly collections thereafter.

On the liability side, CRISIL understands that Chaitanya group has not availed any moratorium for its borrowings. This is due to their strong liquidity position; the group is estimated to have investments and marketable securities of about Rs 3543 crore as of March 31, 2020. CRISIL believes that Chaitanya's liquidity is comfortable to manage this period wherein asset-side collections will be negligible while liability-side outflows continue as per schedule and this aspect has also been factored into the rating.

Chaitanya group, like other MFIs, has navigated big events in the past, such as demonetisation, natural calamities and local-level socio-political challenges. However, the company did incur ultimate credit losses during the course of these events which resulted in moderation of the company's earnings profile for the immediate following period. With such degree of vulnerability to socio-political events, sufficiency of capital buffer to withstand asset-side shocks is critical for MFIs.

In this context, Chaitanya group's capital position is strong - bolstered after Mr Bansal infused Rs 900 crore of equity capital in Chaitanya group during fiscal 2020; 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 about Rs.952 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.

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.

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.

### **Analytical Approach**

For arriving at the ratings, the team has combined the business and financial risk profiles of CIFCPL with its holding entity, NFSPL - 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.

*Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.*

### **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 NFSPL in tranches of Rs 600 crore and Rs 300 crore, which has significantly strengthened Chaitanya group's capital position. As a result of this infusion, the NFSPL's networth increased to Rs 952 crore as of March 31, 2020 against, merely Rs 80 crore as of March 31, 2019. Of the quantum infused into NFSPL (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 1.9 times as of March 31, 2020 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 to an estimated < 2 times (including intra-group borrowing of Rs 2473 crore) as on March 31, 2020 from 6.6 times a year ago.

Mr. Bansal holds about 98% in Navi; which in turn holds 100% stake in Chaitanya Group. Navi's networth stood at about Rs.3,962 crore as of March, 2020 ' driven by additional capital infusion by Mr. Bansal, part of which has been infused into NFSPL in the form of interest free debt. In consideration of Navi's demonstrated track record of extending capital support, 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 14 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 881 crore on March 31, 2020, 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 54% over fiscal 2020. 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 June 2020, 61.8% of the AUM was housed in Karnataka followed by Maharashtra and Bihar which accounted for 23.3% and 11.5% of the AUM, respectively. Balance was almost 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 1.1% as of June 30, 2020. 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. For fiscal 2020, CIFCPL's credit costs as a proportion of its average managed assets increased from <1% to 2.4% - on account of advanced provisioning of Rs 11.2 crore being made in lieu of potential losses pertaining to the pandemic.

CIFCPL had aggressive growth plans of attaining 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 NFSPL 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, NFSPL 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 2021. In light of revised 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 Chaitanya's lender base of 31 as on March 31, 2020 - which comprises Banks, NBFCs and DFIs, the share of banks in the total borrowing mix had increased to 31% from 27%, over the preceding 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. Over Q1 of fiscal 2021, the company has raised incremental sanctions to the extent of Rs.150 crore from banks and DFIs which would support its overall resource profile and liquidity position.

Navi had extended Rs 772 crore of interest free loan to NFSPL in January 2020 and has increased it further to Rs 2,323 crore in May 2020. This money, though callable in nature, will be parked in NFSPL as surplus. Consequently, NFSPL 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 NFSPL - 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 further equity in March 2020, were further reduced to 23%.

As the resource profile diversifies further with an increasing share of bank funding in the total debt base, the cost of borrowing may 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, NFSPL has been operating at a RoMA of <2.0% whereas CIFCPL has had a RoMA of sub 1.5% over the years. High operating expenses and elevated leverage, have been the primary constraints to profitability for CIFCPL. For fiscal 2019, at a consolidated level, where operating expense ratio was high at 8.8% for fiscal 2019, CIFCPL had an operating expense of 10.5%. Correspondingly, adjusted gearing at a consolidated level stood at 6.6 times on March 31, 2019 - whereas for CIFCPL - it was 7.9 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 - for fiscal 2020, while CIFCPL's operating expense remained high at 9.0%, its adjusted gearing (including off book) has substantially reduced to 1.9 times. Chaitanya group 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 fiscal 2020, has been driven by funding support extended by Navi to NFSPL' as a combination of equity and 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 NFSPL, the track record is limited to 4 years and thus, vintage remains low. The overall AUM stood at Rs 79.8 crore (apart from Rs 35.9 crore extended as loans to corporates) as on March 31, 2020. This comprises primarily of two-wheeler loans (72.4%) with balance being housing loans and digital personal loans (23.7%). The 90+ dpd of 7.1% on March 31 2019 has reduced to 5.4%, a year later however, further scope of improvement remains. It is largely driven by weak performance in the housing portfolio - the share of which in the total non-microfinance book was at 15.4%.

For this housing loan portfolio, which was previously extended by CIFCPL - under the JLG model and was discontinued in fiscal 2020, 90+ dpd was high at 27.4% on March 31, 2020. For two wheeler loans, which formed a majority 72.4% of the non-microfinance portfolio as of March 31, 2020 ' 90+ dpd was better than the industry average -at 1.3%. 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 which would eventually start to pan out only towards the end of fiscal 2021 now given the pandemic situation, 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**

The nationwide lockdown declared by the Government of India to contain the spread of the Novel Coronavirus (Covid-19) has had an impact on disbursements and collections of companies which are likely to prevail over the near term. The collections across branches were put on hold with no field work being executed until April 20, 2020 and gradual pick-up in

activity thereafter.

On the liability side, the RBI had announced regulatory measures under the Covid-19 Regulatory Package, whereby lenders were permitted to grant moratorium on bank loans for 3 months through May 2020 under moratorium 1.0. Eventually, moratorium 2.0 was announced on May 22, 2020, allowing lenders to extend another 3 months' moratorium on bank loans. CRISIL understands that Chaitanya has not opted to avail the moratorium on its debt obligations thus far

The group's liquidity position is strong with an estimated base of investments and marketable securities - of about Rs 3543 crore as of March 31, 2020. As of July 31, 2020 - the group had Rs 1461.8 crore as liquidity available in the form of cash and liquid investments. Against this, it had Rs 90.9 crore of debt obligations to be met over the 2 months ending September 2020. Over Q1 2021, the company has received incremental sanctions to the extent of Rs.150 crore from banks and DFIs which aids its liquidity position.

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 stance of support through future funding support committed by Navi to Chaitanya group - potentially leading to capital position being weaker than that estimated; and/ or 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 network.

#### **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 NFSPL ' 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. As envisaged earlier, Mr.Sachin Bansal presently holds about 98% stake in Navi Technologies Private Limited (Navi) which, in turn, holds 100% stake in Chaitanya group - as the ultimate holding entity.

#### **Key Financial Indicators of CIFCPL (Consolidated)**

As on/ for the period ended	Unit	Jan-20	Mar-19	Mar-18
<b>Total managed assets</b>	<b>Rs crore</b>	<b>2235</b>	<b>765</b>	<b>475</b>
<b>Total income</b>	<b>Rs crore</b>	<b>187</b>	<b>123</b>	<b>86</b>
<b>Profit after tax</b>	<b>Rs crore</b>	<b>35</b>	<b>8</b>	<b>-6</b>
<b>Adjusted Gearing (including off book)</b>	<b>Times</b>	<b>2.1</b>	<b>6.6</b>	<b>5.0</b>
<b>Return on managed assets (annualised)</b>	<b>%</b>	<b>2.8</b>	<b>1.2</b>	<b>-1.2</b>

**Any other information:** Not applicable

#### **Note on complexity levels of the rated instrument:**

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels).

#### **Annexure - Details of Instrument(s)**

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity period	Issue Size (Rs.Cr)	Complexity Level	Rating Assigned with Outlook
NA	Non-convertible debenture*	NA	NA	NA	35	Simple	CRISIL A-/Stable
INE140R07090	Non-convertible debenture	Jun-2020	11.8	May-2023	15	Simple	CRISIL A-/Stable
INE140R07108	Non-convertible debenture	Jul-2020	11.04	Apr-2023	50	Simple	CRISIL A-/Stable
NA	Non-convertible debenture*	NA	NA	NA	65	Simple	CRISIL A-/Stable
NA	Term Loan	Apr-2020	NA	Apr-2023	10	NA	CRISIL A-/Stable

NA	Term Loan	Feb-2020	NA	Feb-2022	50	NA	CRISIL A-/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	440	NA	CRISIL A-/Stable

\*Yet to be issued

#### Annexure - List of Entities Consolidated

Entity consolidated	Extent of consolidation	Rationale for consolidation
Navi Finserv Private Limited	Full	Holding Entity

#### Annexure - Rating History for last 3 Years

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	165.00 21-08-20	CRISIL A-/Stable	04-06-20	CRISIL A-/Stable		--		--		--	--
Fund-based Bank Facilities	LT/ST	500.00	CRISIL A-/Stable	04-06-20	CRISIL A-/Stable		--		--		--	--
				04-05-20	CRISIL A-/Stable							
				21-04-20	CRISIL A-/Stable							
				06-04-20	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	440	CRISIL A-/Stable	Proposed Long Term Bank Loan Facility	440	CRISIL A-/Stable
Term Loan	60	CRISIL A-/Stable	Term Loan	60	CRISIL A-/Stable
<b>Total</b>	<b>500</b>	<b>--</b>	<b>Total</b>	<b>500</b>	<b>--</b>

#### 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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