January 06, 2020

Chaitanya India Fin Credit Private Limited: Long term ratings upgraded to [ICRA]BBB and outlook revised to Positive; Short term rating assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	-	10.00	[ICRA]A2; assigned
Market Linked Non-Convertible Debenture Programme	20.00	20.00	PP-MLD[ICRA]BBB(Positive); rating upgraded from PP-MLD[ICRA]BBB-; outlook revised from Stable to Positive
Bank facilities	52.00	52.00	[ICRA]BBB(Positive); rating upgraded from [ICRA]BBB-; outlook revised from Stable to Positive
Non-Convertible Debenture Programme	128.00	128.00	[ICRA]BBB(Positive); rating upgraded from [ICRA]BBB-; outlook revised from Stable to Positive
Subordinated Debt Programme	20.00	20.00	[ICRA]BBB(Positive); rating upgraded from [ICRA]BBB-; outlook revised from Stable to Positive
Total	**220.00**	**230.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating is based on the consolidated profile of Chaitanya Rural Intermediation Development Services Private Limited (CRIDS) and Chaitanya India Fin Credit Private Limited (CIFCPL), henceforth referred to as Chaitanya Group (the Group). CRIDS holds 100% equity stake in CIFCPL.

The upgrade in long-term ratings and the revision in the outlook to positive takes into account the strengthened capitalisation profile of Chaitanya Group, post the capital infusion of Rs. 600 crore into CRIDS, of which, about Rs. 147 crore was infused downwards into CIFCPL. The capital infusion would support the Group's medium-term growth plans (CAGR of 55% to achieve a managed portfolio of Rs. 3,600 crore by March 2023), while keeping the managed gearing around 3.0-3.5 times and, also support the improvement in its profitability indicators, which currently is moderate (RoMA at 1.1%, provisional, for H1FY2020). The ratings continue to factor in the experience of the management in the microfinance business and, its adequate loan origination and internal controls in the microfinance business, which are commensurate in relation to its current scale of operations. The rating also factors in the Group adequate liquidity profile and, comfortable microfinance asset quality post demonetisation.

ICRA however takes note of the steep growth plans, and evolving business model as the Group looks to venture into and, scale-up lending portfolio in new asset classes, including various consumer and personal loans, two-wheeler loans, business loans (fintech based) etc. The new asset classes originations would largely be undertaken at CRIDS level, while CIFCPL, being an NBFC-MFI, would focus on microfinance loans. Microfinance would form the major part of the Group's overall portfolio, thus ability to manage the risks pertaining to same along with the improvement in the geographical diversification would be crucial going forward.

Capital infusion into CRIDS is from Mr. Sachin Bansal (promoter and CEO), who currently holds about 94% stake. Going forward, Mr. Bansal is expected to move his stake in CRIDS to Navi Technologies Private Limited (NAVI; currently, 100% held by Mr. Bansal), with CRIDS becoming a wholly owned subsidiary of NAVI and, NAVI (Provisional net-worth as on November 2019 of Rs. 963 crore) is expected to be further capitalised in the near term. NAVI would be making other equity and debt investments in the financial services space, on the back of the increased capitalisation, part of which is expected to be through CRIDS. As of now, CRIDS is expected to undertake the debt investments on behalf the overall Group with NAVI extending interest-free debt to CRIDS (Rs 773 crore, as in November-2019). While the capital infused into Chaitanya Group provides comfort on its own business growth and financial performance, ICRA would monitor the overall position, performance and profile of the Chaitanya Group, considering the currently evolving investment plans at the overall Group level.

Key rating drivers and their description

Credit strengths

Strengthened capitalisation profile post equity infusion – Mr. Bansal acquired majority stake in CRIDS post capital infusion of Rs. 600 crore during the current year, of which, ~Rs. 147 crore was down-streamed to CIFCPL. Post the capital infusion the consolidated net-worth of the Group improved to about Rs. 684 crore as on October 31, 2019 (provisional) from Rs. 83 crore as in September 2019. ICRA notes that capital at the consolidated level is adequate for meeting the growth requirements till March 2023 while keeping the consolidated managed gearing around 3-3.5 times. ICRA notes that, CIFCPL is expected to grow its managed portfolio at a CAGR of 46% to reach a level of about Rs. 2,600 crore by March 2023, while CRIDS, during the same period, is expected to grow its book to Rs. 1,000 crore with focus on other consumer and retail asset segments (non-microfinance). CRIDS would have to make further investments into CIFCPL of about Rs. 150-200 crore over the above-mentioned period to keep the managed gearing of CIFCPL at about 4.0 times. ICRA further notes that the ultimate holding company, NAVI, would be further capitalised (net-worth of Rs. 962 crore as on Nov 30, 2019) and is expected to extend support to the Chaitanya Group, when required. However, considering NAVI's own diverse investment plans in other financial services businesses, the extent and timeliness of the support, over the medium to long term, remains a monitorable.

Experience in microfinance business – CIFCPL has been in microfinance business since October 2009 and in lending business via an NGO since 2007. Mr. Anand Rao and Mr. Samit Shetty, the erstwhile promoters have been associated with the company since inception and are actively involved in the day to day business operations as well as strategic decision making and, are expected to continue to do so going forward. CIFCPL has steadily grown from a portfolio of Rs. 9.24 crore in March 2011 spread across 5 districts in Karnataka to a loan book of Rs. 699 crore spread across 49 districts in 5 states; albeit Maharashtra and Karnataka continue to contribute ~89% of its AUM. CRIDS, on the other hand, focused on non-microfinance loans (largely 2-wheeler and micro home loans) and operated at a modest scale, with a portfolio of ~Rs. 65 crore in September 2019.

Microfinance asset quality, post demonetisation, is comfortable – As on October 31, 2019, CIFCPL's 90+dpd stood at 1.2% vis-à-vis 2.3% in March 2019. ICRA takes note of the weakening of asset quality post demonetisation with 90+dpd increasing to 9.2% in May 2017. The company, firstly provided for the demonetisation related overdues during FY2018 and, then wrote-off about Rs. 8.7 crore between April 2018 and September 2019. Incremental disbursements, post January 2017, have shown good collection performance. Collection efficiency over the last 12 months has remained strong at 98-99%. CRIDS on the other hand, with a modest portfolio, comprising of secured loans, is faced with higher delinquencies with 90+ at about 4.8% in March 2019. On a consolidated basis the 90+dpd stood at 2.5% as on March 31, 2019. CIFCPL's collection efficiencies in its portfolio has been good over the recent past, however, its ability to sustain the same going forward considering the envisaged growth and geographical diversification would be crucial, further considering the scale-up plans in new asset classes at CRIDS levels, it would be crucial to keep overall asset quality under control.

Credit challenges

Steep growth plans and, evolving business model, as the Group is expected to venture into new asset classes – The consolidated AUM as on September 30, 2019 stood at ~Rs. 740 crore and the Group is expected to grow to Rs. 3,600 crore by March 2023. With fresh capital in place, the Group is expected to venture into new asset classes, especially at CRIDS levels, performance of the same would be a monitorable. Also, Chaitanya Group's overall position, performance and profile, considering the evolving investment plans of NAVI remains to be observed.

High operating costs exert pressure on earnings; moderation in leverage however would support profitability going forward – On a consolidated basis, operating expenses as a proportion of managed assets (Opex/AMA) stood high at 8.4% (provisional) for H1FY2020 (9.0% in FY2019 and 9.7% in FY2018). After reporting losses of about Rs. 6.0 crore in FY2018 due to the provisions created on the overdue loans, the Group reported net profits of Rs. 7.6 crore for FY2019 and Rs. 4.4 crore (provisional) in H1FY2020. The net profitability, on a managed asset basis, however stood subdued at 1.2% in FY2019 and 1.1% in H1FY2020 because of the high leverage and the cost structure. Cost to income ratio stood high at ~75% (provisional) for H1FY2020 and 82% in FY2019, while managed gearing stood at 7.4 times and 8.3 times in March 2019 and September 2020 respectively. On a standalone basis, CIFCPL' Opex/AMA stood at 8.5% (provisional) for H1FY2020, while managed gearing stood at about 9.8 times in September 2019. Going forward, as the Group's leverage has reduced significantly post the capital infusion, business margins are expected to expand; this along with improved operating efficiencies with the scale increase would support incremental profitability. Further, the Group is expected to benefit from the net income generated from the interest free debt from NAVI, which is proposed to be invested into various debt instruments (as part of the investment management/ treasury activity of the overall Group). However, improvement and stability in earnings, along with retention of the same at Chaitanya Group level remains a monitorable.

Regionally concentrated operations - The Group primarily operates in Karnataka and Maharashtra (which contribute ~89% of the portfolio) as on October 31, 2019. Further, the top ten districts contribute ~48% as on October 31, 2019, indicating high geographical concentration risk, though it improved from 60% as on January 31, 2018. CIFCPL has started operations In Bihar, Uttar Pradesh and Jharkhand, however, the portfolio of these states combined stands very low. Going forward as disbursements pick up in these states and penetration increases, share of Maharashtra and Karnataka in the overall portfolio is expected to steadily come down.

Ability to manage political, communal and other risks in microfinance sector – The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations and thus its financial position. Ability to on-board borrowers with good credit history, recruit and retain employees and maintain geographical diversity would be key for managing the envisaged high growth rates. About 91% of the Group's overall portfolio is in the microfinance business as in March 2019 and the share of microfinance portfolio is expected to remain at about 70-80% of the Group's overall portfolio in the next 2-3 years.

Liquidity position: Adequate

Liquidity profile of the Group remains adequate with no negative cumulative asset-liability mismatches in the less than 1 year maturity bucket. The Group has borrowings in the form of term loans from banks, NBFCs and FIIs. The repayment obligations of the Group for the next 6 months as on October 31, 2019 stood at Rs. 107 crore. Against these repayments, the Group had cash and bank balance and investments of Rs. 435 crore and inflows from loans of Rs. 320 crore (over next 6 months as on Oct 31, 2019). Further, CIFCPL has availed funds from close to 28 different banks/FIIs providing comfort on its ability to raise funds and it has Rs. 250 crore of funding pipeline with 8 different lenders.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating if the Group is able to improve its earnings while maintaining good asset quality indicators as it grows and diversifies its portfolio and, maintains managed gearing at comfortable levels.

Negative triggers – ICRA could downgrade the above said ratings if the Group reports sustained weakening in its earnings or if the asset quality deteriorates in a steady manner or if the managed gearing increases sharply (beyond 5 times).

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated CRIDS and CIFCPL

About the company

CRIDS was promoted by Mr. Anand Rao and Samit Shetty, who along with their relatives and friends, jointly held 66.6% stake and the rest was held by ShoreCap II Limited which is a fund managed by Equator Capital. In November 2019, Mr. Sachin Bansal (founder and ex-CEO of Flipkart) acquired 93.96% stake in the company by providing exit to ShoreCap II Limited and pumping fresh money into CRIDS. The holding company had a portfolio of Rs. 62.72 crore as on Oct 31, 2019, with presence in two-wheeler, mortgage and fin-tech loans.

CIFCPL is a Microfinance Institution (MFI) which started operations from October 2009. It is 100% held by the parent company, CRIDS. CIFCPL lends to women, primarily in rural areas under the Grameen Bank Group Lending model. Chaitanya offers microfinance loans under joint liability Group model as well as individual loans. CIFCPL operated out of 5 states across 49 districts with 3.69 lakh active borrowers as on October 31, 2019. Post capital infusion in CRIDS, around Rs. 150 crore was infused downwards into CIFCPL resulting in a strengthened capitalisation profile.

Key financial indicators – consolidated

	FY2018	FY2019	H1FY20*
Total Income	84.88	117.44	72.97
Profit after tax	-5.93	7.56	4.39
Net-worth	74.59	81.60	83.14
Total managed portfolio	405.85	625.79	737.80
Total managed assets	462.65	762.29	846.68
Return on managed assets	-1.44%	1.23%	1.09%
Return on net-worth	-7.76%	9.68%	10.67%
Managed Gearing (times)	4.53	7.43	8.35

*Amounts in Rs. Crore; Source: Company & ICRA Research; *provisional; All ratios as per ICRA calculations*

Key financial indicators – CIFCPL (standalone)

	FY2018	FY2019	H1FY20*
Total Income	74.94	104.90	73.12
Profit after tax	-8.01	7.25	6.66
Net-worth	49.12	64.22	67.61
Total managed portfolio	358.41	571.84	687.16
Total managed assets	411.72	699.48	766.28
Return on managed assets	-2.2%	1.3%	1.8%
Return on net-worth	-16.64%	12.79%	20.22%
Managed Gearing (times)	6.60	9.15	9.84
Gross NPA (%)	5.40%	2.64%	-
Net NPA (%)	0.56%	0.42%	-

*Amounts in Rs. Crore; Source: Company & ICRA Research; *provisional; All ratios as per ICRA calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)				Rating History for the Past 3 Years							
		Type	Amount Rated	Amount O/s	Rating	FY2019			FY2018	FY2017			
					06-Jan-20	05-Nov-18	10-May-18	05-Apr-18	31-Jul-17	31-Dec-16	11-Nov-16	20-Sep-16
1	Commercial Paper	ST	10.00	NA	[ICRA]A2	-	-	-	-	-	-	-
2	Non-Convertible Debenture Programme	LT	128.00	128.00	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Subordinated Debenture Programme	LT	20.00	20.00	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
4	Fund based bank facilities	LT	52.00	52.00	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
5	Market Linked Debenture	LT	20.00	20.00	PP-MLD [ICRA]BBB (Positive)	PP-MLD [ICRA]BBB- (Stable)	PP-MLD [ICRA]BBB- (Stable)	-	-	-	-	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
INE140R07041	Non-convertible Debenture	22-11-2016	13.8%	05-10-2022	21.0	[ICRA]BBB(Positive)
INE140R07058	Non-convertible Debenture	29-06-2017	12.4%	29-06-2022	25.0	[ICRA]BBB(Positive)
INE140R08023	Non-convertible Debenture	15-02-2016	14.5%	15-04-2022	5.0	[ICRA]BBB(Positive)
INE140R07066	Non-convertible Debenture	03-08-2017	12.9%	03-08-2020	33.0	[ICRA]BBB(Positive)
INE140R07074	Non-convertible Debenture	06-11-2018	13.1%	06-11-2022	44.0	[ICRA]BBB(Positive)
INE140R08031	Subordinated Debenture	29-12-2016	14.5%	30-12-2022	15.0	[ICRA]BBB(Positive)
INE140R08015	Subordinated Debenture	15-02-2016	17.0%	15-04-2022	5.0	[ICRA]BBB(Positive)
INE140R08049	Market Linked Debenture	10-05-2018	Index Linked	06-11-2011	20.0	PP-MLD[ICRA]BBB (Positive)
-	Term loan - 1	18-09-2018	NA	30-11-2020	3.8	[ICRA]BBB(Positive)
-	Term loan - 2	26-07l-2019	NA	30-09-2021	9.6	[ICRA]BBB(Positive)
-	Term loan - 3	03-03-2017	NA	29-02-2020	2.2	[ICRA]BBB(Positive)
-	Term loan - 4	23-07-2019	NA	08-08-2021	10.0	[ICRA]BBB(Positive)
-	Term loan - 5	13-12-2017	NA	14-02-2022	2.5	[ICRA]BBB(Positive)
-	Term loan - 6	05-02-2019	NA	05-02-2020	1.0	[ICRA]BBB(Positive)
-	Term loan - 7	24-04-2017	NA	01-01-2021	0.9	[ICRA]BBB(Positive)
-	Term loan - 8	12-09-2019	NA	-	15.0	[ICRA]BBB(Positive)
-	Unallocated bank facilities	-	-	-	7.0	[ICRA]BBB(Positive)
-	Commercial paper*	-	-	-	10.0	[ICRA]A2

*Source: Company; Amounts in Rs. Crore; *yet to be placed*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Relationship with rated entity	Consolidation Approach
Chaitanya India Fin Credit Private Limited	-	Full consolidation
Chaitanya Rural Intermediation Development Services Private Limited	Parent	

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