

February 02, 2021

Chaitanya India Fin Credit Private Limited: PP-MLD[ICRA]A-(Stable) assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Market Linked Debenture	-	31.00	PP-MLD[ICRA]A-(Stable); assigned
Market Linked Debenture	20.00	20.00	PP-MLD[ICRA]A-(Stable); outstanding
Bank Facilities	72.71	72.71	[ICRA]A-(Stable); reaffirmed
Bank Facilities	77.29	0.00	[ICRA]A-(Stable); reaffirmed and withdrawn
Non-convertible Debenture	110.00	110.00	[ICRA]A-(Stable); outstanding
Subordinated Debt Programme	20.00	20.00	[ICRA]A-(Stable); outstanding
Commercial Paper Programme	10.00	10.00	[ICRA]A1; outstanding
Total	310.00	263.71	

*Instrument details are provided in Annexure-1; In addition to the above instruments, ICRA has a rating outstanding on the pooled loan issuance (PLI) programme of Vivriti Capital Private Limited – refer to this [link](#) for details

Rationale

The ratings are based on the consolidated profile of the parent, Navi Finserv Private Limited (NFPL; erstwhile Chaitanya Rural Intermediation Development Services Private Limited), and Chaitanya India Fin Credit Private Limited (CIFCPL), henceforth referred to as the NFPL Group. CIFCPL is held 100.0% by NFPL, which, in turn, is held 99.6% by Navi Technologies Private Limited (NAVI; ultimate parent). NAVI had a net worth of ~Rs. 3,960 crore in March 2020 with Mr. Sachin Bansal (ex-founder of Flipkart) holding a stake of ~98%.

The ratings consider the NFPL Group's strong capitalisation and liquidity profile with a net worth of about Rs. 1,070 crore in September 2020 and a gearing of 2.3 times (0.6 times adjusted for intra-Group borrowings). The capitalisation profile was supported by a capital infusion of around Rs. 900 crore into NFPL in FY2020. Further, the liquidity position of NFPL Group is strong with a largely liquid investment book of Rs. 2,139.6 crore as on September 30, 2020 (68% invested in AAA or equivalent/AA+ rated securities). At the overall Group level, NAVI is expected to hold liquidity of about Rs. 1,000 crore, which would be available for meeting the requirements of the various Group entities including the NFPL Group. The strengthening of the NFPL Group's capital and liquidity profile in the recent past has helped improve its borrowing profile and cost of funds.

The NFPL Group's portfolio growth was impacted in H1 FY2021 by the Covid-19 pandemic though it envisages a steep growth over the medium term. NFPL will focus on online personal loans and housing loans in the near term while CIFCPL will continue to focus on microfinance. ICRA notes that the NFPL Group will have to strengthen its management team and control systems in view of its growth plans and asset class diversification going forward.

The performance track record, especially in the non-microfinance segment, would be key going forward, as it is expected to account for close to 45-50% of the overall Group's portfolio vis-à-vis ~28% in September 2020. CIFCPL's 90+dpd increased sequentially to 4.2% in December 2020 (1.0% in March 2020) and the 30+dpd stood higher at 8.0%; in view of the build-up in the delinquencies, timely recoveries would be crucial. ICRA takes note of the expected credit loss (ECL) provisioning of 4.6% on the portfolio as of September 2020 vis-à-vis 2.2% as of March 2019. ICRA also takes note of the improvement in the NFPL Group's earnings profile on the back of investment income. A sustained improvement in the core business' earnings would also be crucial from a rating perspective.

The Stable outlook factors in the Group's comfortable capital and liquidity profile, which would support its growth plans. However, an improvement in the core business' (microfinance and other lending activities) earnings and the achievement of good quality portfolio growth would remain monitorable.

ICRA has reaffirmed and withdrawn the rating for the Rs. 77.29-crore bank facilities. The rating was withdrawn at the request of the company in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strong capitalisation – The NFPL Group's capital profile improved considerably following the recent equity infusions. Mr. Bansal had acquired a majority stake in NFPL with a capital infusion of Rs. 600 crore in October 2019. He then moved his stake in NFPL to NAVI, with NFPL becoming a wholly-owned subsidiary of NAVI. NAVI's net worth stood at ~Rs. 3,960 crore as of March 2020. It infused an additional Rs. 300-crore equity capital into NFPL in March 2020, taking the NFPL Group's consolidated net worth to about Rs. 1,070 crore in September 2020 from Rs. 83 crore as of September 2019. NFPL has received interest-free loans from NAVI (Rs. 1,824 crore as of September 2020), which are used for investment in various debt securities as a part of the overall Group's treasury management plan. Income from this has improved the internal generation of the NFPL Group in the recent past. ICRA, however, notes that the quantum of interest-free loans would moderate going forward, as these surpluses would be deployed for other investments envisaged by NAVI.

NFPL holds a 100% stake in CIFCPL and its investment in CIFCPL stood at about Rs. 325 crore post the conversion of the compulsorily convertible debentures in H1 FY2021. ICRA notes that the NFPL Group's capital profile has been strengthened for meeting the growth requirements till March 2022 while keeping the consolidated managed gearing at around 3.0-3.5 times. ICRA notes that the NFPL Group is expected to grow its managed portfolio to Rs. 4,200 crore by March 2022, with CIFCPL focusing on microfinance and NFPL focusing on other consumer and retail asset segments (non-microfinance).

Experience in microfinance business – CIFCPL has been in the microfinance business since 2009 and in the lending business via an NGO since 2007. Mr. Anand Rao and Mr. Samit Shetty, the erstwhile promoters, have been associated with CIFCPL since inception and are actively involved in the day-to-day business operations as well as strategic decision-making of the NFPL Group and are expected to continue doing so going forward. While Mr. Anand continues with CIFCPL as the Joint Managing Director, Mr. Samit is currently the Chief Executive Officer (CEO) of NFPL.

CIFCPL's loan book grew to Rs. 1,035.3 crore in December 2020, spread across 72 districts in 6 states, from a portfolio of Rs. 32 crore in March 2013 spread across 8 districts in Karnataka. However, Karnataka and Maharashtra continued to contribute 56% and 20%, respectively, to its assets under management (AUM) as of December 2020. NFPL, on the other hand, with an AUM of Rs. 505.8 crore as of December 2020, is in the digital lending segment in the personal loans space in addition to having a legacy book comprising two-wheeler loans, rural housing loans, etc. NFPL expects to build a housing finance portfolio, going forward, along with personal loans.

Improving funding profile – CIFCPL's lender base comprised 25 lenders as on September 30, 2020, including banks, non-banking financial companies (NBFCs) and financial institutions (FIs). The funding profile has improved in the last one year with the share of banks increasing to 47% in September 2020 from 29% in August 2019. While the share of banks has increased, the incremental cost of borrowings has also improved. The company has also pre-closed some of its high-cost borrowings in the recent past. CIFCPL secured fresh borrowings of about Rs. 320 crore in H1 FY2021 (Rs. 565.1-crore borrowings outstanding as on September 30, 2020).

NFPL does not have any sizeable external borrowings at present as it has surplus capital as well as access to interest-free loans from NAVI, a part of which was utilised for the build-up of the personal loans book over the last few months. NFPL's external borrowings will increase going forward. However, with the overall NAVI Group expected to maintain about Rs. 1,000 crore of liquidity on a sustained basis, this provides comfort from a liquidity perspective.

Credit challenges

Steep growth plans and evolving business model with the Group expected to venture into new asset classes – The consolidated AUM, as on December 31, 2020, stood at Rs. 1,497.5 crore and is expected to grow to Rs. 4,200 crore by March 2022. NFPL launched a digital personal loan product in May 2020 and is currently disbursing around Rs. 70-80 crore per month while home loans were launched in December 2020. While NFPL would focus on leveraging the digital channel for non-microfinance lending (gross portfolio of Rs. 462.2 crore in December 2020) and running down its legacy exposure – two-wheeler, rural housing, etc (Rs. 44.0 crore in December 2020), CIFCPL would continue to focus on microfinance loans in the near to medium term. In view of its growth plans, NFPL would have to significantly strengthen its management team and risk control and monitoring systems, which are currently evolving, because of its limited track record in the new focus segments.

Sustained improvement in core profitability would be crucial; current earnings supported by investment income and low leverage – The NFPL Group reported a net profit of Rs. 14.8 crore in FY2020 with a return on managed assets (RoMA) of 0.6%. The profitability improved to 6.0% (annualised) in H1 FY2021 with a net profit of Rs. 117.3 crore. The improvement was largely driven by the Rs. 165.6-crore income from treasury activities (~57% of the total income), interest-free loan from NAVI, and the overall low leverage.

On a standalone basis, CIFCPL reported a profit after tax (PAT) of Rs. 13.5 crore (unaudited) with RoMA of 2.8% (annualised) in H1 FY2021 vis-à-vis PAT of Rs. 5.1 crore and RoMA of 0.6% in FY2020. The improvement in CIFCPL's profitability was partly driven by the improvement in the cost of funds and lower operating expenses due to the sharing of employee expenses with NFPL. The improvement also resulted from lower business-related expenses on account of the Covid-19-related lockdown despite the increase in credit costs due to additional Covid-related provisioning. A sustained improvement in the Group's core business earnings, in view of the steep growth and product diversification, remains a key monitorable going forward.

Impact of Covid-19 on microfinance book, which is also susceptible to other industry-specific risks; performance of non-microfinance book a monitorable – As on December 31, 2020, CIFCPL's 90+dpd stood at 4.2% vis-à-vis 1.0% in March 2020. The overall PAR stood at 11.2% in December 2020 vis-à-vis 2.4% in August 2020 (2.8% in March 2020). The company's ability to improve the collection efficiency (93%¹ in December 2020) while arresting the forward flow in the dpd buckets would be crucial going forward. ICRA takes note of the expected credit loss (ECL) provisioning of 4.6% on the overall portfolio as of September 30, 2020 vis-à-vis 2.2% as of March 2019.

CIFCPL primarily operates in Karnataka and Maharashtra, which accounted for ~56% and 20% of the portfolio, respectively, as of December 2020. Further, the top 10 districts accounted for ~42% of the AUM as on December 30, 2020, indicating high geographical concentration risk, though it improved from 60% as on January 31, 2018. CIFCPL ventured into Maharashtra in FY2016 and has taken initiatives in the recent past to further diversify its geographical presence. It started operations in Bihar, Uttar Pradesh and Jharkhand though the combined portfolio in these states is currently low. Going forward, as disbursements pick up in these states and penetration increases, the share of Maharashtra and Karnataka in the overall portfolio is expected to decline steadily.

Also, the borrower segment is more vulnerable to political, communal and other influences, which have posed risks to microfinance businesses in the past. CIFCPL's ability to manage these risks and strengthen its processes to maintain the portfolio quality while expanding its footprint would continue to be critical for the ratings, going forward.

About 69% of the Group's overall lending portfolio was in the microfinance business as of December 2020. NFPL is in the digital lending space and is currently in the personal loans segment, and has recently forayed in to the home loan segment. The performance of the non-microfinance loan book which is expected to scale up in future, given the limited track record in this segment, would be a monitorable.

¹ Collection efficiency = Collections from month's dues / EMIs due for the month

Liquidity position: Strong

As on December 31, 2020, the NFPL Group's external debt repayments during January 2021-June 2021 were about Rs. 214.5 crore. Cash and other debt/liquid investments stood at Rs. 2,188 crore as on December 31, 2020. About 90% of the total investments are rated AA and above (~55-60% are rated AAA or equivalent) and 60% of these are estimated to be liquidated in a week's time. CIFCPL also had Rs. 370-crore sanctioned undrawn lines from lenders as on December 31, 2020, which provide support to the overall liquidity. Disbursements are expected to be Rs. 175 crore on a monthly basis for the next three months for CIFCPL.

At the overall NAVI Group level, liquidity of about Rs. 1,000 crore is expected to be maintained on a steady-state basis, over the near to medium term, to meet the liquidity requirements of various Group entities including the NFPL Group.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the Group demonstrates a track record of good quality portfolio growth and diversification while improving its core earnings performance on a sustained basis.

Negative factors – ICRA could downgrade the ratings if the Group reports a sustained weakening in its earnings or if the asset quality deteriorates significantly or if the managed gearing remains high (beyond 3.5 times) on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group Support	ICRA expects liquidity and capital support from NAVI
Consolidation/Standalone	To arrive at the ratings, ICRA has considered the consolidated financial profile of the entities in the lending business in the NAVI Group i.e. NFPL and CIFCPL

About the company

NFPL was promoted by Mr. Anand Rao and Mr. Samit Shetty, who along with their relatives and friends, jointly held a 66.6% stake while the rest was held by other investors. In October 2019, Mr. Sachin Bansal (founder and ex-CEO of Flipkart) acquired a 93.96% stake in NFPL. Mr. Bansal moved his stake in NFPL to NAVI, with NFPL becoming a wholly-owned subsidiary of NAVI. NAVI was further capitalised to the extent of ~Rs. 3,000 crore by Mr. Bansal, resulting in its net worth increasing to ~Rs. 3,960 crore (~98% stake held by Mr. Bansal) as of March 2020. NFPL, on a standalone basis, had a gross portfolio of Rs. 363.5 crore as on September 30, 2020, with a presence in digital lending including the legacy book (two-wheelers, rural housing, etc).

CIFCPL is a microfinance institution (MFI), which started operations from October 2009. It is fully held by the parent company, NFPL. CIFCPL lends to women, primarily in rural areas under the Grameen Bank Group Lending model. It offers microfinance loans under the joint liability group model as well as individual loans. Post capital infusion in NFPL, around Rs. 261 crore (Rs. 114-crore compulsorily convertible debentures were converted into equity in H1 FY2021) was infused as equity into CIFCPL resulting in a strengthened capitalisation profile. As on December 31, 2020, CIFCPL was operating out of 6 states across 72 districts with 4.59 lakh active borrowers. CIFCPL reported PAT of Rs. 13.5 crore in H1 FY2021 on AUM of Rs. 856.2 crore vis-à-vis PAT of Rs. 5.1 crore in FY2020 on AUM of Rs. 881.0 crore.

Key financial indicators (audited)

NFPL - Consolidated	FY2019	FY2020	H1 FY2021[^]
Total income	128.9	220.6	292.1
Profit after tax	5.0	14.8	117.3
Net worth	75.5	954.8	1,069.5
Total managed portfolio	620.2	975.4	1,147.6
Total managed assets	731.6	4,314.6	3,549.0
Return on managed assets	0.8%	0.6%	6.0%*
Return on net worth	6.9%	2.9%	23.2%*
Managed gearing (times)	8.3	3.5	2.3
Managed gearing adjusted for internal borrowings (times)	8.3	0.9	0.6

Source: Company, ICRA research; [^] Provisional numbers; All ratios as per ICRA calculations; *Annualised; Amount in Rs. crore

CIFCPL - standalone	FY2019	FY2020	H1 FY2021[^]
Total income	112.8	168.6	104.6
Profit after tax	4.2	5.1	13.5
Net worth	61.5	316.9	338.1
Total managed portfolio	568.6	866.5	821.2
Total managed assets	672.7	952.3	958.6
Return on managed assets	0.8%	0.6%	2.8%*
Return on net worth	7.6%	2.7%	8.2%*
Managed gearing (times)	9.6	1.9	1.7
Gross NPA (%)	2.4%	0.8%	0.9%
Net NPA (%)	1.0%	0.4%	0.5%

Source: Company, ICRA research; [^] Provisional numbers; All ratios as per ICRA calculations; *Annualised; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018	
					Feb 02, 2021	Dec 04, 2020 Dec 10, 2020	Mar 20, 2020	Jan 06, 2020 Jan 27, 2020 Mar 17, 2020	May 10, 2018 Nov 05, 2018	Apr 05, 2018	Jul 31, 2017	
1	Market Linked Debenture	Long Term	-	31.00	P-MLD [CRA]A-(table)							
2	Market Linked Debenture	Long Term	20.00	20.00	P-MLD [CRA]A-(table)	P-MLD [CRA]A-(table)	P-MLD [CRA]BBB+(table)	P-MLD [CRA]BBB(positive)	P-MLD[ICRA]BB-(Stable)			
3	Non-convertible Debenture	Long Term	110.00	110.00	[CRA]A-(table)	[CRA]A-(Stable)	[CRA]BBB+(table)	[CRA]BBB(positive)	[CRA]BBB-(table)	[CRA]BBB-(table)	[CRA]BBB-(table)	[CRA]BBB-(table)
4	Commercial Paper	Short Term	10.00	10.00	[CRA]A1	[CRA]A1	[CRA]A2+	[CRA]A2				
5	Subordinated Debenture	Long Term	20.00	20.00	[CRA]A-(table)	[CRA]A-(table)	[CRA]BBB+(table)	[CRA]BBB(positive)	[CRA]BBB-(table)	[CRA]BBB-(table)	[CRA]BBB-(table)	[CRA]BBB-(table)
6	Fund-based Bank Facilities	Long Term	77.29	-	[CRA]A-(table); affirmed & withdrawn	[CRA]A-(table)	[CRA]BBB+(table)	[CRA]BBB(positive)	[CRA]BBB-(table)	[CRA]BBB-(table)	[CRA]BBB-(table)	[CRA]BBB-(table)
7	Fund-based Bank Facilities	Long Term	72.73	72.73	[CRA]A-(table)	[CRA]A-(table)	[CRA]BBB+(table)	[CRA]BBB(positive)	[CRA]BBB-(table)	[CRA]BBB-(table)	[CRA]BBB-(table)	[CRA]BBB-(table)

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 [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE140R08023	Non-convertible Debenture	15-Feb-16	14.5%	15-Apr-22	5.0	[ICRA]A-(Stable)
INE140R07058	Non-convertible Debenture	29-Jun-17	12.4%	29-Jun-22	25.0	[ICRA]A-(Stable)
INE140R07140	Non-convertible Debenture	15-Dec-20	9.4%	15-Jun-22	25.0	[ICRA]A-(Stable)
-	Non-convertible Debenture*	-	-	-	55.0	[ICRA]A-(Stable)
INE140R08031	Subordinated Debenture	29-Dec-16	14.5%	30-Dec-22	15.0	[ICRA]A-(Stable)
INE140R08015	Subordinated Debenture	15-Feb-16	17.0%	15-Apr-22	5.0	[ICRA]A-(Stable)
INE140R08049	Market Linked Debenture	10-May-18	Index Linked	06-Nov-21	20.0	PP-MLD[ICRA]A-(Stable)
INE140R07157	Market Linked Debenture	01-Feb-21	GSEC Linked	29-Apr-22	15.5	PP-MLD[ICRA]A-(Stable)
INE140R07165	Market Linked Debenture	01-Feb-21	GSEC Linked	29-Jul-22	15.5	PP-MLD[ICRA]A-(Stable)
-	Term Loan-1	01-Mar-19	13.50%	28-Feb-21	1.30	[ICRA]A-(Stable)
-	Term Loan-2	20-Dec-19	11.20%	03-Jan-22	12.85	[ICRA]A-(Stable)
-	Term Loan-3	17-Sep-19	11.00%	17-Dec-21	12.50	[ICRA]A-(Stable)
-	Term Loan-4	13-Jun-18	13.75%	01-Jun-22	11.25	[ICRA]A-(Stable)
-	Term Loan-5	21-Aug-18	14.00%	01-Oct-21	3.33	[ICRA]A-(Stable)
-	Term Loan-6	23-Jul-19	14.00%	08-Aug-21	3.81	[ICRA]A-(Stable)
-	Term Loan-7	23-Dec-15	16.50%	30-Jun-22	5.00	[ICRA]A-(Stable)
-	Term Loan-8	06-Jan-20	11.15%	30-Jan-22	21.67	[ICRA]A-(Stable)
-	Cash Credit	05-Feb-19	10.50%		1.00	[ICRA]A-(Stable)
-	Commercial Paper	-	-	7-365 days	10.00	[ICRA]A1

Source: Company; *Yet to be placed

Annexure-2: List of entities considered for consolidated analysis

Company Name	Relationship	Consolidation Approach
Navi Finserv Private Limited	Parent of CIFCPL	Full consolidation

Source: Company

Note: ICRA has taken a consolidated view of CIFCPL and NFPL while assigning the ratings

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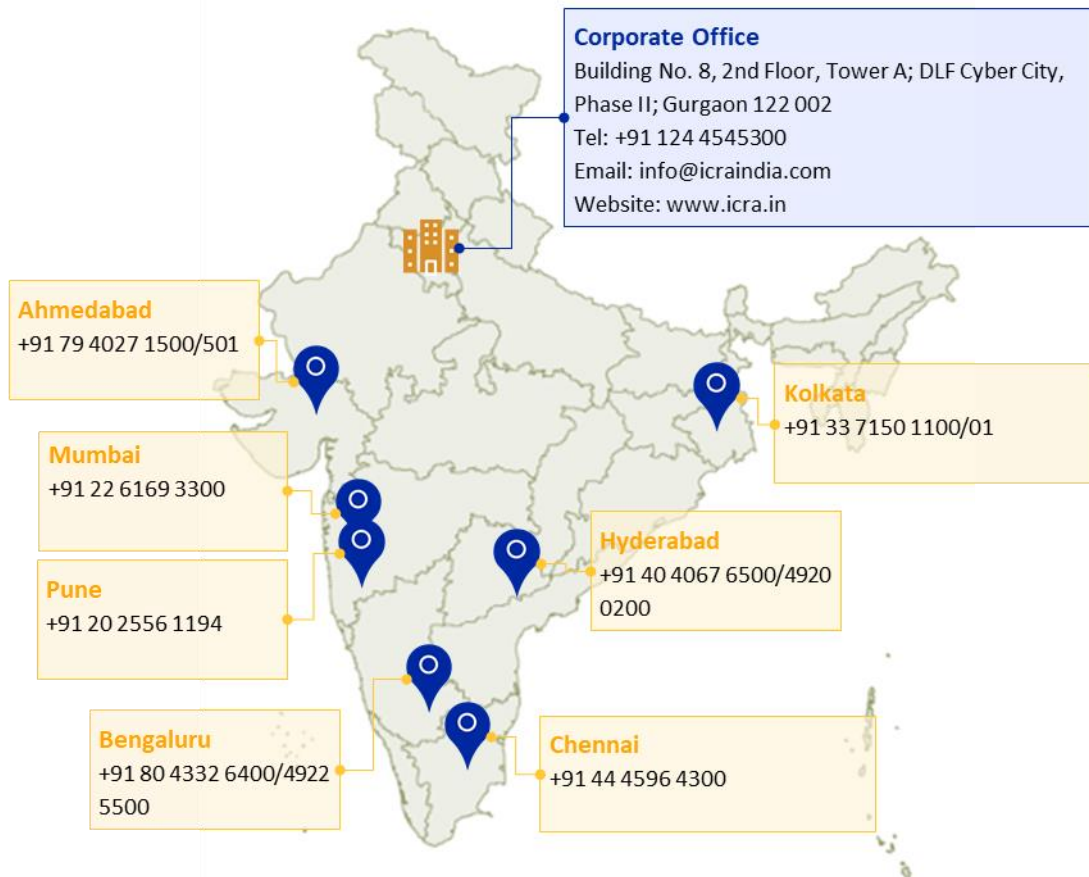


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