

## Chaitanya India Fin Credit Private Limited

April 05, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities	52.00	52.00	[ICRA]BBB- (Stable) / Reaffirmed
Non-Convertible Debenture Programme	84.00	84.00	[ICRA]BBB- (Stable) / Reaffirmed
Subordinated Debt Programme	20.00	20.00	[ICRA]BBB- (Stable) / Reaffirmed
<b>Total</b>	<b>156.00</b>	<b>156.00</b>	

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus)<sup>1</sup> to the Rs.52.00 crore bank facilities, the Rs.84.00 crore non-convertible debenture programme and the Rs.20.00 crore subordinated debt programme of Chaitanya India Fin Credit Private Limited (Chaitanya or the company)<sup>2</sup>. The outlook on the long-term rating is 'Stable'.

### Rationale

The rating reaffirmation continues to factor the profile of Chaitanya's promoters and senior management with track record in the microfinance business, the company's adequate capitalization at the consolidated level<sup>3</sup> and liquidity profile supported by undrawn sanctioned bank lines in excess of Rs.60.00 crore as on December 31, 2017. Chaitanya's consolidated and standalone gearing stood at 4.4x and 6.3x as on December 31, 2017 respectively (as per unaudited results; on a managed basis). However, given the envisaged growth of 35-40% over the next three years, the company would have to secure equity capital to the extent of about Rs.100 crore for maintaining a comfortable capital structure. The rating continues to factor in Chaitanya's unsecured nature of lending to marginal borrower profile, risks associated with geographically concentrated operations, lack of diversification in earnings and modest profitability. Elevated credit costs on account of steep rise in delinquencies post demonetization would result in net losses for the company during FY2018. The company would have to provide of an additional Rs.5-6 crore during H1 FY2019 if recoveries do not improve meaningfully; thereby maintaining pressure on profitability during FY2019. The company's ability to improve operating efficiencies would be crucial from profitability perspective going forward.

The rating continues to factor the company's adequate loan origination and internal controls, which are commensurate in relation to the scale of its current operations. ICRA also takes note of Chaitanya's recently strengthened senior management team, which is expected to support its growth plans. The group is in the process of raising sizeable equity which would be crucial for maintaining comfortable solvency profile – especially in the face of steep envisaged growth and sizeable unprovided overdues in relation to its current net worth.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>3</sup> Consolidated with Chaitanya Rural Intermediation Development Services Private Limited, which holds 100% stake in Chaitanya India Fin Credit Private Limited

## Outlook: Stable

ICRA believes that Chaitanya would continue to benefit from the promoters' experience in the microfinance sector and the recent strengthening of its senior management. The outlook may be revised to 'Positive' if Chaitanya is able to improve its capital structure and profitability metrics in steady manner as portfolio expands. The outlook may be revised to 'Negative' if Chaitanya reports material deterioration in asset quality and earnings or in the event of a weakened capitalisation profile.

## Key rating drivers

### Credit strengths

**Experienced promoters and senior management team in microfinance industry:** Chaitanya's promoter directors -Mr. Anand Rao and Mr. Samit Shetty - with adequate experience in microfinance sector, are actively involved in the day to day business operations as well as strategic decision making of the company. The company has recently strengthened its management team across functions including finance, information technology, internal audit, and business operations. Chaitanya's management team comprises experienced personnel in the field of finance, social work, training and project implementation. Having a management team with good understanding of the microfinance sector enables the company to frame and maintain robust lending and monitoring systems.

**Adequate internal control and audit systems along with scalable information technology (IT) and management information systems (MIS):** In line with the growth in business, Chaitanya has steadily fortified its IT and MIS systems. Augmented lending software encompassing client management, portfolio tracking and reporting services across branches enables Chaitanya's management to monitor the progress on portfolio, collections and disbursements on a real time basis. The company is in the process of further upgrading the features of its information systems which would enable enhanced risk mitigation practices and early warning signals. Chaitanya also has a strong internal audit team with responsibility to audit each branch at least once a month. The scope of the internal audit is detailed with all aspects of the loan process being covered during the audit process.

**Adequate liquidity with fairly diversified funding mix:** Chaitanya has an adequate liquidity profile with an unutilized sanctioned limit of Rs. 60.0 crore as on December 31, 2017. The company's debt profile is fairly diversified with debentures accounting for 34% of the total debt as on February 28, 2018, followed by term loans from financial institutions (33%), banks (24%), and securitization funding (10%). The company's ability to achieve a more diversified funding mix, would be crucial as business expands.

### Credit weaknesses

**Timely equity infusion is crucial in the near to medium term:** ICRA takes comfort from the adequate consolidated capitalisation profile with gearing of 4.4 times (on managed basis) as on December 31, 2017. The company received capital to the extent of Rs.10.0 crore during FY2018 following the increase in credit costs and the consequent impact on its net worth. However, in ICRA's opinion, the company would have to secure equity capital in the range of Rs.100 crore over the next 3-4 years to support the envisaged annual growth rate of about 35-40% while maintaining a comfortable risk adjusted capital profile, considering the credit losses expected in the microfinance exposures. ICRA notes that the group is in the process of securing external equity infusion by H1FY2019, which would be crucial for its capitalisation profile. Timely equity raise is crucial going forward.

**Moderation in asset quality profile post demonetization:** Chaitanya's disbursements and collection efficiency were impacted significantly post demonetization with the 90+dpd increasing up to 12% in June 2017. While the same have improved over the last few months, the high 90+ delinquencies of 6.0% as on February 28, 2018 could result in write-off or incremental provisions of about Rs.5-6.0 crores (2-3% of the total portfolio or 10-15% of its net worth in FY2019), which would adversely impact its overall profitability. The company is witnessing some recoveries from harder bucket delinquencies; however, the same is quite minimal. While Chaitanya's collection efficiencies in the portfolio generated post-January 2017 remains healthy - its ability to sustain the same going forward would be crucial from a rating perspective.

**Regionally concentrated and monoline nature of operations in a highly competitive industry:** The company primarily operates in Karnataka and Maharashtra, accounting for 84% and 14% of its portfolio respectively as on December 31, 2017 (as compared to 99% and 1% respectively as on March 31, 2016). Further, the top five districts contribute 35% of its total portfolio as on December 31, 2017, indicating high geographical concentration risk. This in the backdrop of high competitive intensity in the industry increases its vulnerability to any income shocks of its marginal borrower profile. However, the company is taking initiatives to diversify its geographical presence. It has recently forayed into Bihar and is planning expansion into adjoining states such as Uttar Pradesh, Chhattisgarh, Jharkhand and Odisha which is expected to aid in reducing concentration on Karnataka going forward.

**To reduce high operating costs and improve profitability:** The company's operating expenses as a proportion of the managed assets increased to 10.8% for 11M FY2018 (as per unaudited results; compared to 7.5% in FY2016) as the company increased its employee base during the year to gear-up for future growth. This, along with the provision of Rs.11.7 crore during 11M FY2018 towards the increase in delinquencies, impacted its profitability which resulted in net loss / average managed assets of 2.6% (provisional). ICRA expects the company's credit costs to remain high over the next two quarters. Going forward, the company's ability to undertake recoveries from harder buckets, avoid incremental slippages and, improvement in the operating efficiencies would be critical for incremental profitability.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

## About the company:

Chaitanya India Fin Credit Pvt. Ltd. (Chaitanya) is a Microfinance Institution (MFI) that was set up by Mr. Anand Rao and Mr. Samit Shetty in September 200 as an NBFC and started operations from October 2009. The company is 100% held by the parent company - Chaitanya Rural Intermediation Development Services Private Limited (Holding Company), in which the equity has been primarily brought in by the promoters and their associates; the holding company had a portfolio of about Rs. 48 crore as on December 31, 2017, with presence in two wheeler, mortgage and fin-tech loans. Chaitanya lends to women primarily in rural areas under the Grameen Bank Group Lending model. Chaitanya offers varied products to suit the borrower's requirements with relatively higher loan amount. As on December 31, 2017, Chaitanya operated in 31 districts of three states (Karnataka, Maharashtra and Bihar) and served 2.15 lakh borrowers with a total portfolio outstanding of Rs.326.2 crore.

For the financial year FY2017, Chaitanya reported a net profit of Rs. 1.5 crore (Rs. 1.2 crore in FY2016) on a total asset base of Rs. 301.4 crore as on March 31, 2017. As per unaudited results, for 11M FY2018, the company reported net loss of Rs.8.7 crore on a total asset base of Rs.353.9 crore.

## Key Financial Indicators (Audited)

	FY 2016	FY 2017
Total Income (Rs. Crore)	36.8	62.4
Profit after Tax (Rs. Crore)	1.5	1.2
Net worth (Rs. Crore)	25.9	47.1
Total Managed Portfolio (Rs. Crore)	217.3	245.3
Total Managed Assets (Rs. Crore)	241.9	333.2
Return on Managed Assets (%)	0.8%	0.4%
Return on Net worth (%)	5.9%	3.4%
Gearing (times)	6.8	5.2
Gross NPA (%)	0.0%	0.0%
Net NPA (%)	0.0%	0.0%
Capital Adequacy Ratio (%)	18.2%	29.3%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for last three years:

	Instrument	Type	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	FY2018			FY2017	FY2016	FY2015
					Apr 2018	Jul 2017	Jun 2017			
1	Bank facilities	LT	52.00	52.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+ Positive	[ICRA]BB+ (Stable)
2	NCD	LT	84.00	84.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+ Positive	-
3	Subordinated Debt	LT	20.00	20.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+ (Positive)	-

## 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](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan-1	22-06-2016	NA	22-06-2018	2.86	[ICRA]BBB- (Stable)
	Term loan-2	14-02-2018	NA	14-02-2020	10.00	[ICRA]BBB- (Stable)
	Term loan-3	26-04-2017	NA	27-04-2020	4.60	[ICRA]BBB- (Stable)
	Term loan-4	12-01-2016	NA	12-01-2019	1.66	[ICRA]BBB- (Stable)
	Term loan-5	26-09-2016	NA	30-09-2018	1.75	[ICRA]BBB- (Stable)
	Term loan-6	30-03-2016	NA	29-03-2019	1.41	[ICRA]BBB- (Stable)
	Term loan-7	31-05-2016	NA	08-06-2019	1.56	[ICRA]BBB- (Stable)
	Proposed facilities	-	-	-	28.16	[ICRA]BBB- (Stable)
	<b>Total</b>				<b>52.00</b>	
INE140R07041	NCD	22-11-2016	13.8%	05-10-2022	21.00	[ICRA]BBB- (Stable)
INE140R07058	NCD	29-06-2017	12.4%	29-06-2022	25.00	[ICRA]BBB- (Stable)
INE140R08023	NCD	15-02-2016	14.5%	15-04-2022	5.00	[ICRA]BBB- (Stable)
INE140R07066	NCD	03-08-2017	12.9%	03-08-2020	33.00	[ICRA]BBB- (Stable)
	<b>Total</b>				<b>84.00</b>	
INE140R08031	Sub-debt	29-12-2016	14.5%	30-12-2022	15.00	[ICRA]BBB- (Stable)
INE140R08015	Sub-debt	15-02-2016	17.0%	15-04-2022	5.00	[ICRA]BBB- (Stable)
	<b>Total</b>				<b>20.00</b>	

Source: Chaitanya

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