

January 27, 2023<sup>(Revised)</sup>

## Chaitanya India Fin Credit Private Limited: Ratings reaffirmed and withdrawn

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	71.71	0.00	[ICRA]A- (Stable); reaffirmed & withdrawn
Long-term fund based – Cash credit	1.00	0.00	[ICRA]A- (Stable); reaffirmed & withdrawn
Non-convertible debentures	110.00	0.00	[ICRA]A- (Stable); reaffirmed & withdrawn
Market linked debentures	31.00	0.00	PP-MLD [ICRA]A- (Stable); reaffirmed & withdrawn
Subordinated debt programme	20.00	0.00	[ICRA]A- (Stable); reaffirmed & withdrawn
Commercial paper	10.00	0.00	[ICRA]A1; reaffirmed & withdrawn
<b>Total</b>	<b>243.71</b>	<b>0.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The ratings are based on the consolidated profile of the parent, Navi Finserv Limited (NFL; erstwhile Chaitanya Rural Intermediation Development Services Private Limited), and Chaitanya India Fin Credit Private Limited (CIFCPL), henceforth referred to as the NFL Group. CIFCPL is fully held by NFL, which is wholly held by Navi Technologies Limited (NAVI; ultimate parent). NAVI had a net worth of Rs. 3,590 crore in March 2022 with Mr. Sachin Bansal (former Chairman & Co-Founder of Flipkart) holding a stake of ~98%. NAVI has invested in insurance, asset management and other technology-related businesses, apart from NFL.

ICRA has reaffirmed and withdrawn the ratings for bank facilities programme upon maturity or after receiving no-objection certificate from the lenders. The ratings for non-convertible debenture programme, market linked debenture programme and subordinated debt programme have been reaffirmed and withdrawn upon maturity. In addition to this, the ratings for commercial paper programme have been reaffirmed and withdrawn at the request of the company in accordance with ICRA's policy on the withdrawal of credit ratings.

The reaffirmation of the ratings takes into consideration the NFL Group's comfortable capitalisation profile. The Group had a net worth of about Rs. 2,118 crore as of September 2022 (Rs. 1,200 crore as of September 2021 and Rs. 1,070 crore as of September 2020) and a managed gearing of 4.0 times. The capitalisation profile was supported by a capital infusion of Rs. 750 crore into NFL in H1 FY2023. Further, NAVI is in the process of raising capital through an initial public offering (IPO) in the near term, a sizeable portion of which is expected to be utilised for funding the Group's growth plans. ICRA notes that the overall Group's liquidity/treasury management is currently being handled by NAVI; equity capital management would also be via NAVI, which would raise capital from external sources for infusion into the Group's various businesses (lending, insurance, asset management, broking and other technology-related investments).

The Group's consolidated assets under management (AUM), as on September 30, 2022, stood at Rs. 9,462 crore (Rs. 3,649 crore as on December 31, 2021 and Rs. 1,892.2 crore as on March 31, 2021) and is expected to grow substantially by March 2023. On account of the improvement in the net interest margin (NIM), the consolidated net profitability {profit after tax (PAT)/average managed assets (AMA)} improved to 2.5% in H1 FY2023 from -0.3% in FY 2022. ICRA notes that with the steep scale-up in the portfolio, it will be crucial for the Group to control its operating and credit costs.

As of September 2022, the share of joint liability group (JLG) loans in the consolidated portfolio stood at 37% with the share of personal and housing loans at 57% and 6%, respectively. The share of the non-microfinance book is expected to increase further, going forward. As such, the performance track record, especially in the non-microfinance segment, would be a key monitorable.

## Key rating drivers and their description

### Credit strengths

**Comfortable capitalisation profile at present; planned IPO to support Group's medium-term growth plans** – NAVI, owned by Mr. Sachin Bansal, holds a 100% stake in NFL. CIFCPL is a wholly-owned subsidiary of NFL and NFL's investment in the company stood at about Rs. 495 crore as of September 2022. The Group received a capital infusion of about Rs. 750 crore in H1 FY2023, which significantly improved its capital structure, with its net worth increasing to about Rs. 2,118 crore in September 2022 (Rs. 1,259 crore in March 2022 and Rs. 1,176 crore in March 2021) from about Rs. 83 crore in September 2019. ICRA notes that NAVI is planning to raise sizeable capital through an IPO in the near term, a major portion of which would be to fund the Group's growth.

The Group's managed gearing stood at 4.0 times as of September 2022; accordingly, given the strong AUM growth expected going forward, NAVI's ability to conclude the IPO in a timely manner would be critical to support the Group's medium-term growth plans and maintain a comfortable capitalisation profile.

**Experience in microfinance business** – CIFCPL has been in the microfinance business since 2009 and in the lending business via a non-governmental organisation (NGO) since 2007. Mr. Anand Rao and Mr. Samit Shetty, the erstwhile promoters, have been associated with CIFCPL since inception and are involved in the strategic decision-making of the Group; Mr. Rao is also actively involved in the day-to-day business operations. While Mr. Rao continues with CIFCPL as the Joint Managing Director, Mr. Shetty is on CIFCPL's board as a Nominee Director.

CIFCPL's net loan book increased to Rs. 2,870 crore in September 2022 from Rs. 2,210 crore in March 2022 and Rs. 1,132 crore in March 2021), with the portfolio spread across 171 districts in 12 states. It forayed into Haryana and Odisha in H1 FY2023. However, Karnataka and Bihar accounted for about 32% and 19%, respectively, of its AUM as of September 2022. Portfolio concentration in Karnataka is expected to reduce to ~20% in the next 2-3 years as the company expands its geographical presence. CIFCPL expects its AUM to grow to about Rs. 5,000 crore in FY2023.

**Improving profitability** – The Group was able to improve its NIM in H1 FY2023, backed by better lending rates to its customers. Further, with the strong scale-up of operations, the operating costs improved to 6.2% in H1 FY2023 from 8.0% in FY2022. Accordingly, it reported a profit of about Rs. 111 crore in H1 FY2023, translating into a return on average managed assets (RoMA) of 2.5% and a return on net worth (RoNW) of 13.2%, against a net loss of Rs. 14.7 crore in FY2022 with RoMA of -0.3% and RoNW of -1.2%.

On a standalone basis, CIFCPL reported a profit of Rs. 56.4 crore in H1 FY2023, translating into RoMA of 3.2% and RoNW of 22.0%, against a net profit of Rs. 52.3 crore in FY2022 with RoMA of 2.2% and RoNW of 14.0%. ICRA notes that the operating costs increased to 7.0% in H1 FY2023 from 5.9% in FY2022 on account of branch expansion and technological expenses. However, the improvement in NIMs and significant income from securitisation helped improve the profitability on a standalone basis. ICRA expects the operating costs to stabilise, going forward, which will further support the profitability.

**Improved financial flexibility** – CIFCPL enjoys financial flexibility/lender comfort arising from its parentage. It has a base of 35+ lenders comprising banks, non-banking financial companies (NBFCs) and financial institutions (FIs). The share of borrowings through banks, NBFCs and FIs stood at 88% as of September 2022 and 87% as of March 2022. Given the improving financial flexibility, the company has been able to reduce its incremental cost of borrowings in recent quarters. ICRA notes that CIFCPL also has a Rs. 100-crore emergency credit line from NFL.

As on September 30, 2022, NFL had Rs. 4,716.8 crore of external borrowings and Rs. 350 crore of interest-free loans from NAVI. NFL's external borrowings are expected to increase going forward, given the strong AUM growth.

## Credit challenges

**Steep growth plans; limited track record in personal and housing loan segments** – The consolidated AUM, as on September 30, 2022, stood at Rs. 9,462 crore (Rs. 5,159 crore as of March 31, 2022) and is expected to grow substantially by March 2023. As of September 2022, the share of JLG loans in the consolidated portfolio was about 37% with the share of personal loans and housing loans at 57% and 6%, respectively. In the next two years, the share of JLG loans is expected to moderate further and the Group expects to focus more on expanding the personal loan and housing loan segments.

NFL launched its digital personal loan product in Q1 FY2021 (AUM stood at Rs. 5,359 crore as of September 2022), for which average monthly disbursements stood at Rs. 1,000 crore in H1 FY2023. It also launched the housing loan product in Q3 FY2021 (AUM stood at Rs. 540 crore as of September 2022) with average monthly disbursements of Rs. 27 crore. While NFL would focus on leveraging the digital channel for non-microfinance lending, CIFCPL would continue to focus on microfinance loans in the near to medium term. As portfolio scale-up in the new segments has been quite recent and the near-term growth plans are considerably steep, portfolio seasoning is expected to be limited.

**Performance of non-microfinance book a monitorable; Group also exposed to risks inherent in microfinance business** – The Group's consolidated 90+ days past due (dpd) stood at 0.7% as of September 2022 compared to 2.5% as of December 2021 (90+dpd on consolidated basis stood at 7.2% as of June 2021 and 4.3% as of March 2021). The improvement may be attributed to a combination of the increasing effectiveness of the Group's underwriting model with more stringent selection of borrowers, collection efforts with the scale-up in the collections team as well as the write-offs witnessed at NFL.

On a standalone basis, NFL wrote off Rs. 28.6 crore in H1 FY2023 (1.0% of the AUM outstanding of March 2022), largely in the personal loan segment. The 90+dpd stood at 0.7% in September vis-à-vis 1.0% in December 2021 and 9.9% in June 2021. The overall expected credit loss (ECL) provisions carried by NFL stood at 5.4% of the AUM as of March 2022 (15.4% as of March 2021 and 11.2% as of September 2021). ICRA notes that the loan losses in the past were largely on account of initial teething issues in loan underwriting/sourcing and the performance of the loans originated post June 2021 has improved as the company augmented its origination and collections process. NFL has also strengthened its collection process for the personal loan book, wherein it has tied up with over 60 agencies across major locations. It has also developed an internal field team to coordinate and monitor these agencies. Moreover, NFL has set up an internal tele-calling team to communicate and coordinate collections from the softer overdue buckets (less than 30 dpd). However, considering the limited seasoning of these loans in view of the significant scale-up in FY2023 and the sharp growth expected in the near term, sustained performance remains a monitorable.

Microfinance is susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple sources of finance in CIFCPL's areas of operations. Further, political and operational risks associated with microfinance may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political, climatic and operational risks, which could negatively impact CIFCPL's operations. Additionally, in line with the industry, the company's ability to onboard borrowers with a good credit history and recruit and retain employees would be a key monitorable. Nevertheless, ICRA notes that the revised guidelines for the microfinance industry are expected to provide the players, including CIFCPL, with better pricing ability in view of the underlying risks.

## Liquidity position: Strong

As of December 2022, CIFCPL had unencumbered cash and liquid investments of Rs. 377.5 crore. Its debt repayments (including interest) in January 2023 amounted to ~Rs. 210 crore. CIFCPL also has access to undrawn funding lines of Rs. 210 crore.

As on December 2022, NFL had unencumbered cash and liquid investments of ~Rs. 706 crore. Its debt repayments (including interest) in January 2023 amounted to ~Rs. 332 crore. NFL also has access to undrawn funding lines of Rs. 50 crore.

## Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – Not applicable

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Non-banking Finance Companies Rating Methodology</a> <a href="#">Policy on Withdrawal of Credit Ratings</a> <a href="#">Rating Approach - Consolidation</a>
Parent/Group support	Liquidity and capital support from NAVI as overall Group liquidity and capital plans would be managed by NAVI
Consolidation/Standalone	To arrive at the ratings, ICRA has considered the consolidated financial profile of NFL and CIFCPL

## About the company

NFL was promoted by Mr. Anand Rao and Mr. Samit Shetty, who held a 66.6% stake along with their relatives and friends, while the rest was held by other investors. In October 2019, Mr. Sachin Bansal acquired a 93.96% stake in NFL. He moved his stake in NFL to NAVI, with NFL 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. 3,590 crore as of March 2022, with Mr. Bansal holding a ~98% stake. NFL, on a standalone basis, had a portfolio of Rs. 5,650.5 crore as on September 30, 2022, with a presence in the digital personal loan and housing loan business.

CIFCPL is a microfinance institution (MFI), which started operations in October 2009. It is fully held by the parent company, NFL. CIFCPL lends to women, primarily in rural areas, under the Grameen Bank Group Lending model. It offers microfinance loans under the JLG model as well as individual loans. NFL holds a 100% stake in CIFCPL and its investment in CIFCPL stood at about Rs. 495 crore as of September 2022, resulting in a strengthened capitalisation profile. As on September 30, 2022, CIFCPL was operating out of 12 states across 171 districts and 631 branches with 10.9 lakh active borrowers.

## Key financial indicators (audited)

NFL – Consolidated	FY2020	FY2021	FY2022	H1 FY2023*
Total income	227.2	565.2	819.9	831.1
Profit after tax	14.8	118.2	(14.7)	111.5
Net worth	1,059.9	1,176.1	1,259.1	2,118.2
Net loan book	937.5	1,660.8	5,000.8	8,520.0
Total managed assets	4,451.4	4,632.4	6,910.9	11,153.0
Return on assets	0.6%	2.6%	-0.3%	2.5%
Return on net worth	2.6%	10.6%	-1.2%	13.2%
Gross gearing (times)	3.1	2.7	3.9	3.7
Managed gearing (times)	3.2	2.7	4.2	4.0

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

CIFCPL	FY2020	FY2021	FY2022	H1 FY2023*
Total income	175.2	233.7	360.0	321.7
Profit after tax	5.1	20.6	52.3	56.4
Net worth	316.9	348.2	398.6	629.8
Net loan book	828.6	1,131.5	2,210.0	2,869.5
Total managed assets	973.0	1,695.1	2,956.0	4,047.6
Return on assets	0.6%	1.5%	2.2%	3.2%
Return on net worth	2.7%	6.2%	14.0%	22.0%

CIFCPL	FY2020	FY2021	FY2022	H1 FY2023*
Gross gearing (times)	1.8	3.0	5.1	4.3
Managed gearing (times)	1.9	3.5	6.1	5.2
Gross NPA	0.8%	4.1%	1.3%	0.6%
Net NPA	0.4%	0.9%	0.4%	0.2%
CRAR	38.2%	26.4%	17.4%	19.4%

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

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

**Any other information: None**

**Rating history for past three years**

	Instrument	Type	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021			Date & Rating in FY2020
					Jan 27, 2023		Feb 01, 2022	Feb 02, 2021	Dec 04, 2020 Dec 10, 2020	Apr 20, 2020
1	Market Linked debenture	Long term	31.00	0.00	PP-MLD [ICRA]A-(Stable); reaffirmed & withdrawn	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	-	-	-
2	Non-convertible debenture	Long term	110.00	0.00	[ICRA]A-(Stable); reaffirmed & withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Positive)
3	Commercial paper	Short term	10.00	0.00	[ICRA]A1; reaffirmed & withdrawn	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2
4	Subordinated debenture	Long term	20.00	0.00	[ICRA]A-(Stable); reaffirmed & withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Positive)
5	Long-term fund-based term loan	Long term	71.71	0.00	[ICRA]A-(Stable); reaffirmed & withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Positive)
6	Long-term fund-based cash credit	Long term	1.00	0.00	[ICRA]A-(Stable); reaffirmed & withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Positive)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Term loan	Simple
Long-term fund based – Cash credit	Simple
Non-convertible debentures	Simple
Subordinated debt	Moderately complex
Market linked debentures	Moderately complex
Commercial paper	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan-I	Dec 20, 2019	11.7%	Jan 03, 2022	1.05	[ICRA]A- (Stable); reaffirmed & withdrawn
NA	Term loan-II	Jun 13, 2018	13.8%	Jun 01, 2022	3.75	[ICRA]A- (Stable); reaffirmed & withdrawn
NA	Term loan-III**	Dec 23, 2015	16.5%	Jun 30, 2022	5.00	[ICRA]A- (Stable); reaffirmed & withdrawn
NA	Term loan-IV	Jan 06, 2020	11.2%	Jan 30, 2022	1.67	[ICRA]A- (Stable); reaffirmed & withdrawn
NA	Term loan-V	Dec 21, 2022	8.8%	Oct 31, 2024	20.00	[ICRA]A- (Stable); reaffirmed & withdrawn
NA	Term loan -VI	Dec 20, 2022	9.2%	Dec 01, 2024	40.00	[ICRA]A- (Stable); reaffirmed & withdrawn
NA	Cash credit	Mar 16, 2021	9.4%	Mar 15, 2022	1.00	[ICRA]A- (Stable); reaffirmed & withdrawn
NA	Term loan - Unallocated	NA	NA	NA	0.24	[ICRA]A- (Stable); reaffirmed & withdrawn
INE140R08023	Non-convertible debenture	Feb 15, 2016	14.5%	Apr 15, 2022	5.0	[ICRA]A- (Stable); reaffirmed & withdrawn
INE140R07058	Non-convertible debenture	Jun 29, 2017	12.4%	Jun 29, 2022	25.0	[ICRA]A- (Stable); reaffirmed & withdrawn
INE140R07140	Non-convertible debenture	Dec 15, 202	9.4%	Jun 15, 2022	25.0	[ICRA]A- (Stable); reaffirmed & withdrawn
NA	Non-convertible debenture*	NA	NA	NA	55.0	[ICRA]A- (Stable); reaffirmed & withdrawn
INE140R08031	Subordinated debenture	Dec 29, 2016	14.5%	Dec 30, 2022	15.0	[ICRA]A- (Stable); reaffirmed & withdrawn
INE140R08015	Subordinated debenture	Feb 15, 2016	17.0%	Apr 15, 2022	5.0	[ICRA]A- (Stable); reaffirmed & withdrawn
INE140R07157	Market linked debenture	Feb 01, 2021	G-Sec linked	Apr 29, 2022	15.5	PP-MLD [ICRA]A- (Stable); reaffirmed & withdrawn
INE140R07165	Market linked debenture	Feb 01, 2021	G-Sec linked	Jul 29, 2022	15.5	PP-MLD [ICRA]A- (Stable); reaffirmed & withdrawn
NA	Commercial paper#	NA	NA	NA	10.00	[ICRA]A1; reaffirmed & withdrawn

Source: Company; \*Yet to be placed; \*\*Subordinated; #Unutilised

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
Navi Finserv Limited	100.00%	Full Consolidation
Chaitanya India Fin Credit Private Limited	100.00%	Full consolidation

Source: Company

**Corrigendum**

Document dated January 27, 2023 has been corrected with revision as detailed below:

**Section where revision has been made:**

Analytical approach: Page 4

**Revision made:** Rating approach – Consolidation has been updated under “Applicable rating methodologies”

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