

Chaitanya India Fin Credit Private Limited

November 05, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Market Linked Non-Convertible Debenture Programme	20.00	20.00	PP-MLD[ICRA]BBB- (Stable) / Outstanding
Bank facilities	52.00	52.00	[ICRA]BBB- (Stable) / Outstanding
Non-Convertible Debenture Programme	-	44.00	[ICRA]BBB- (Stable) / Rating Assigned
Non-Convertible Debenture Programme	84.00	84.00	[ICRA]BBB- (Stable) / Outstanding
Subordinated Debt Programme	20.00	20.00	[ICRA]BBB- (Stable) / Outstanding
Total	176.00	220.00	

Rating action

ICRA has assigned a rating of [ICRA]BBB- (pronounced ICRA triple B minus)¹ to the Rs.44.00 crore Non-Convertible Debenture (NCD) Programme of Chaitanya India Fin Credit Private Limited (Chaitanya / the company). ICRA also has rating outstanding of [ICRA]BBB- (pronounced ICRA triple B minus) on the Rs.52.00 crore bank facilities, the Rs.84.00 crore NCD programme and the Rs.20.00 crore subordinated debt programme and rating of PP-MLD[ICRA]BBB- (pronounced PPMLD ICRA triple B minus) on the Rs.20.00 crore Market Linked Non-Convertible Debenture Programme of Chaitanya India Fin Credit Private Limited. The outlook on the long-term rating is 'Stable'.

Rationale

The assigned rating factors in the profile of Chaitanya's promoters and senior management with experience in the microfinance business and its adequate loan origination and internal controls, which are commensurate in relation to the scale of its current operations. Chaitanya's standalone and consolidated² gearing stood at 7.15x and 4.97x as on September 30, 2018 respectively (as per unaudited results). ICRA notes that 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 – 120 crore for maintaining a comfortable capital structure. ICRA also notes that the group is currently in the process of raising equity, which would be crucial for maintaining adequate capital profile – especially in the face of steep envisaged growth and the currently high leverage. The company with sanctioned un-utilized lines of Rs.28 crore as on September 30, 2018, which along with its comfortable ALM profile provides support to its liquidity profile. However, ability to secure incremental funding in a timely manner would be crucial going forward.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² Consolidated with Chaitanya Rural Intermediation Development Services Private Limited, which holds 100% stake in Chaitanya India Fin Credit Private Limited

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 resulted in net losses for the company during FY2018. As per unaudited results for H1 FY2019, the company's PAT / AMA stood at 1.1%, ICRA expects the profitability to remain weighed down by credit provisions in FY2019. The company's ability to improve operating efficiencies and keeping credit cost under control would be crucial going forward.

Outlook: Stable

ICRA believes that Chaitanya would continue to benefit from the promoters' experience in the microfinance sector its adequate loan origination and internal controls. 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 on account of a delay in securing external capital as envisaged.

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. The company has strong management team across functions including finance, information technology, internal audit, and business operations over the recent past. 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's liquidity profile was adequate with an unutilized sanctioned limit of Rs. 28.0 crore as on September 30, 2018. The company has a positive ALM position with majority of its portfolio is due for repayments in less than one-year bucket while its borrowing maturities are in the 1-5 year bucket. The company's debt profile is fairly diversified with debentures accounting for 40% of the total debt as on September 30, 2018, followed by term loans from financial institutions (37%) and banks (23%). The company's ability to achieve a more diversified funding mix and secure funding at competitive rates, 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 of the group with gearing of 4.97 times as on September 30, 2018. 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 - 120 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 in FY2019, which would be crucial for its capitalisation profile.

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 driven by the management's efforts towards recoveries from the harder buckets, the high 90+ delinquencies of 3.9% (Rs.17.6 crore) as on September 30, 2018 could result in write-off or incremental provisions of about Rs. 4-5 crores (~1% of the total portfolio or 8-10% of its net worth in FY2018), which would adversely impact its overall profitability in the current fiscal. 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 which accounted for 75% and 19% of its portfolio respectively as on September 30, 2018 (as compared to 99% and 1% respectively as on March 31, 2016). Further, the top five districts contribute 31% of its total portfolio as on September 30, 2018, 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 10.2% in FY2018 as the company increased its employee base during the year to gear-up for future growth. This, along with the provision of Rs.11.8 crore during FY2018 towards the increase in delinquencies, impacted its profitability which resulted in net loss/ average managed assets of 2.1%. The expected credit cost of about Rs. 4-5 crore in FY2019 would adversely impact the overall profitability in FY2019. The company reported net profitability of 1.1% (provisional) in H1 FY2019, owing to lower credit costs. Given the increase in funding costs over the last few quarters, 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 2009 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 has the portfolio of 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 September 30, 2018, Chaitanya operated in 33 districts of three states (Karnataka, Maharashtra and Bihar) and served 2.89 lakh borrowers with a total portfolio outstanding of Rs.454.98 crore.

For the financial year FY2018, Chaitanya reported a net loss of Rs. 8.0 crore on a total asset base of Rs. 367.7 crore as on March 31, 2018. As per unaudited results, for H1FY2019, the company reported net profit of Rs.2.4 crore on a total asset base of Rs.456.0 crore.

Key Financial Indicators

	FY2017	FY2018
Total Income (Rs. Crore)	63.1	74.9
Profit after Tax (Rs. Crore)	1.2	(8.0)
Net worth (Rs. Crore)	47.1	49.1
Total Managed Portfolio (Rs. Crore)	244.0	359.3
Total Managed Assets (Rs. Crore)	331.7	413.6
Return on Managed Assets (%)	0.4%	-2.1%
Return on Net worth (%)	3.4%	-16.6%
Gearing (times)	5.2	5.9
Gross NPA (%)	7.3%	5.4%
Net NPA (%)	5.8%	0.6%
Capital Adequacy Ratio (%)	29.3%	20.5%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)						Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	FY2019			FY2018	FY2017			FY2016	
					Nov 2018	May 2018	Apr 2018	July 2017	Dec 2016	Nov 2016	Sep 2016	Mar 2016	
1	Market linked Non-Convertible Debenture	LT	20.0	20.0	PP-MLD [ICRA]BBB - (Stable)	PP-MLD [ICRA]BBB - (Stable); assigned	-	-	-	-	-	-	-
2	Bank facilities	LT	52.00	52.00	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BB+ (Positive)
3	NCD	LT	84.00	84.00	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BB+ (Positive)
4	Subordinated Debt	LT	20.00	20.00	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BB+ (Positive)
5	NCD	LT	44.00	-	[ICRA]BBB - (Stable)	-	-	-	-	-	-	-	-

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 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)
	Total				52.00	
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)
To be placed	NCD	-	-	-	44.00	[ICRA]BBB- (Stable)
	Total				128.00	
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)
	Total				20.00	
INE140R08049	Market Linked Debentures	10.05.2018	-	06.11.2021	20.00	PP-MLD[ICRA]BBB- (Stable)
	Total				20.00	

Source: Chaitanya

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