



Press Release

Chetana Financial Services Private Limited (CFSP)

September 23, 2024

Ratings

Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities – Term Loans	36.59 (Increased from Rs. 15.85 Crores)	IVR BBB/Stable (IVR Triple B with Stable Outlook)	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Proposed - Long Term Bank Facilities	83.41	IVR BBB/Stable (IVR Triple B with Stable Outlook)	-	Assigned	Simple
Total			120.00		
					(One hundred and twenty crore only)

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics rating has reaffirmed its ratings assigned to debt facilities of Chetana Financial Services Private Limited (CFSP) as it continues to derive comfort from experienced promoters of the Navachetana group with adequate systems and processes to manage its operations coupled with comfortable capitalisation, stable asset quality and consistent growth in AUM albeit moderation in FY24. However, these rating strengths are constrained by monoline nature of operations of the group with relatively risky target segment, exposure to regulatory & socio-political risks, regional concentration of operation.

The 'Stable' outlook indicates expected sustained improvement in AUM and stable profitability over FY25-FY27. IVR believes Navachetana group will continue benefit from its operational track record in the business, healthy asset quality, and comfortable capital adequacy.

Key Rating Sensitivities

Upward Factors



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- Substantial and sustained growth in its AUM while maintaining healthy asset quality, capitalization and liquidity levels.

Downward Factors

- Substantial deterioration in its AUM, overall financial profile of the company, capitalization levels and liquidity.
- Any adverse movement in collection efficiency impacting the asset quality of the company and there by the profitability of the company.

Key Rating Drivers with detailed description

Key Rating Strengths-

Experienced Promoters:

NMSPL & CFSPL both are promoted by Mr. Nagendra Mali who has been engaged in micro finance and rural development activities in Karnataka through Navachetana Foundation since 2006 hence has vast experience.

Adequate Systems and Processes:

The group has installed good tracking and MIS systems, which are adequate to support future growth expansion. Further, the group has installed monitoring systems to ensure credit bureau checks and loan utilization checks being conducted in all cases which has resulted in sound asset quality. Going forward, the group's ability to maintain prudent lending policies while growing at the envisaged pace will be a key rating monitorable.

Comfortable Capital Adequacy:

Due to continuous capital infusion by the promoters, the group has maintained a healthy capital adequacy ratio (CAR) in both the companies over the years. The promoters have infused Rs 6.62 crore in NMSPL during FY24 (refers to period from April 1st, 2023, to Mar 31, 2024). As on March 31, 2024, NMSPL's and CFSPL CAR stood healthy at 21.69% (21.52% - FY23) and 23.99% (32.93% - FY23) respectively. As on 31 March 2024 group's combined net worth stood at Rs 105.86 crores (Rs. 83.15 crore – FY23). However, the group's



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gearing has increased from 4.02x in FY23 to 4.58x in FY24 due to increase in external borrowings in FY24. Infomerics expects the capitalisation levels to be comfortable in the near to medium term on the back of expected capital infusion by the promoters.

Stable Asset Quality:

The group has maintained healthy collection efficiency in both the companies. NMSPLs has managed to keep its average collection efficiency ~94% in the last 12 months ended June 2024. NMSPLs though remain exposed to risks associated with the MFI business, was able to maintain a stable asset quality backed by its strong loan monitoring and adequate credit appraisal process. NMSPL's GNPA remained stable at 0.91% as on March 31, 2024 (31st March 2023: 0.96%) and given that the company provided 100% provisioning, NNPA remained NIL. CFSPs GNPA remained stable at 0.72% as on 31 March 2024 (31st March 2023: 1.76%) and NNPA with 0.52% as on 31 March 2024 (31st March 2023: 0.44%).

Consistent growth in AUM albeit moderation in FY24 due to restructuring

The group's AUM during FY24 moderated to Rs 745.70 crore from Rs 1,109.38 crore in FY23 on the back of restructuring of AUM to comply with regulatory requirements as per Section 45-IA of the RBI Act, 1934, which mandates that a company's financial assets must constitute more than 50 percent of its total assets and income from financial assets should make up more than 50 percent of its gross income to be registered as an NBFC by the RBI. To comply with the same, NMSPL had to transfer its ESAF Small Finance Bank's BC portfolio to a group entity, As on 31 Dec 2023, the managed book which got transferred from NMSPL to group entity stood at Rs. 856.53 crore, the same has further grown to Rs. 1,127.55 crore as on 31 March 2024. However, if we include ESAFs Small Finance Bank's BC portfolio of Rs 1127.55 crore, overall group's AUM would have been ~Rs 1873.85 crores.

Key Rating Weaknesses

Monoline nature of operations; relatively risky target segment and regulatory risks & socio-political risks :



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CFSP's product diversification remains low being concentrated only in the MSME segment. The MSME industry is prone to socio-political, regulatory and operational risks, which could negatively impact the company's operations and thus its financial position. Further, unsecured lending to the marginal borrower profile and the political & operational risks associated with microfinance lending may result in high volatility in the asset quality indicators. On the other hand, a part of loan portfolio of CFSP comprise unsecured loans. Besides the business loan portfolio also possess high default risk. The group's ability to maintain the asset quality indicators through economic cycles remains a key rating monitorable.

Regional Concentration of Operations:

The group's operations are regionally concentrated with Karnataka contributing to 77% and 100% of its AUM as on March 31, 2024, in NMSPL and CFSP respectively. Generally, the risk profile of a NBFC with a geographically diversified portfolio is more resilient compared to that of an entity with a geographically concentrated portfolio. However, the group has forayed into new states Tamil Nadu and Madhya Pradesh.

Analytical Approach: Consolidated

Infomerics has combined the financials of Navachetana Microfin Services Private Limited (NMSPL) and Chetana Financial Services Private Limited (CFSP) and hereafter referred as Chetna group as both the entities have common management with same beneficial owner and is engaged in the lending business.

Applicable Criteria:

[Rating Methodology for Financial Institutions/Non-Banking Finance companies](#)

[Policy on Default Recognition and Post – Default Curing Period](#)

[Criteria of assigning Rating Outlook](#)

[Complexity level of rated instruments/Facilities](#)

[Financial Ratios & Interpretation \(Financial Sector\)](#)

[Criteria on consolidation of companies](#)

Liquidity: Adequate



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The liquidity profile of the group remains strong with no cumulative mismatches in its asset-liability management profile as on March 31, 2024. Further the group has a liquidity cushion of Rs. 44.47 crore in the form of cash and cash equivalents (Rs. 21.12 crore), and undrawn banking lines (Rs. 20.85 crore) as on 31 March 2024. IVR does not foresee any liquidity risk in the near term, given groups adequate liquidity position and its ability to raise funds.

About NBFC

Chetana Financial Services Private Limited (CFSP) is a non-deposit taking Non-Banking Financial Company (NBFC) engaged in extending Vehicle loans, Mortgage loans (Loan against Property) and Business loans directed towards SME and Consumer Durable loans. At present, The group operates through 29 branches operating in the state of Karnataka.

Financials (Standalone) : CFSP

(Rs. Crore)

For the year ended/As on*	31-03-2023	31-03-2024
	(Audited)	(Audited)
Total Income	8.72	9.12
PAT	0.53	0.66
Assets Under Management	46.38	82.42
Tangible Net worth	11.50	12.11
Total debt	29.92	50.30
Ratios		
NIM (%)	13.56	7.02
Overall Gearing (Times)	2.60	4.15
Total CRAR (%)	32.93%	23.99%
Gross NPA (%)	1.76%	0.72%
Net NPA (%)	1.41%	0.52%
Interest coverage (Times)	1.16	1.18

*Classification as per Infomerics' standards

Financials (Consolidated): NMSPL & CFSP

(Rs. Crore)



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For the year ended/As on*	31-03-2023	31-03-2024
	(Audited)	(Audited)
Total Income	99.58	155.57
PAT	5.67	14.45
Assets Under Management	1109.38	745.70
Tangible Net worth	83.15	105.86
Total debt	334.42	484.63
Ratios		
NIM (%)	5.97	6.50
Overall Gearing (Times)	4.02	4.58
Total CRAR (%)	40.34	35.92
Interest coverage (Times)	1.15	1.36

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (July 28, 2023)	Date(s) & Rating(s) assigned in 2022-23 (May 25, 2022)	Date(s) & Rating(s) assigned in 2021-22
1.	Long Term Bank Facilities – Term Loans	Long Term	36.59	IVR BBB/ Stable Outlook	IVR BBB/ Stable Outlook	IVR BBB/ Stable Outlook	--
2.	Proposed Long Term Bank Facilities	Long Term	83.41	IVR BBB/ Stable Outlook	-	-	-

Name and Contact Details of the Rating Team:



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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

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Annexure 1: Details of Facilities

Name of Facility/Instrument	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook	Listing status
Long Term Bank Facilities – Term Loans	-	-	31.07.2028	36.59	IVR BBB/Stable	Not Applicable
Proposed Long Term Bank Facilities	-	-	-	83.41	IVR BBB/Stable	Not Applicable
Total				120.00		

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Chetana-financial-23sept24.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not applicable

Annexure 4: List of companies considered for consolidated analysis:

Name of the Company	Consolidation Approach
Chetana Financial Services Pvt Ltd	Full
Navachetana Microfin Services Pvt Ltd	Full

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.