Ceejay Finance Limited

December 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	15.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**15.00 (Rs. Fifteen Crore Only)**		

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Ceejay Finance Limited (CFL) continues to derive strength from the continuous funding support from various group entities of Ceejay Group which has diversified business interests in the fields such as tobacco, real estate and food & beverages. The rating also continues to derive strength from CFL's healthy capital adequacy ratio (CAR) and comfortable overall gearing along with adequate liquidity. The rating, however, continues to be constrained by CFL's modest but stagnant scale of operations, weak asset quality; albeit secured nature of lending, and product and geographical concentration in loan portfolio with mainly two-wheeler loans largely extended in Gujarat region. The ability of the company to grow its operations while diversifying its operations and improving the asset quality would remain the key rating monitorables.

Key Rating Sensitivities

Positive factors - Factors that could lead to positive rating action/upgrade:

- Significant growth in total income driven by expansion and diversification in loan portfolio.
- Sustained increase in profitability
- Significant improvement in asset quality with GNPA (90+ dpd) falling below 5% on a sustained basis.

Negative factors: Factors that could lead to negative rating action/downgrade:

- Rise in gearing above 2 times on a sustained basis
- Decline in asset quality with credit cost increasing to over 3% and / or GNPA basis 90dpd remaining above 15% on a sustained basis
- Deterioration of profitability with Return on Total Assets (ROTA) falling below 3%

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established operations of Ceejay Group in varied businesses

CFL is part of Ceejay group which has an established presence of more than a century across sectors like tobacco, real estate, food & beverages and finance. CFL has an operational track record of more than two decades in financing business with experienced promoters. Mr. Kiran Patel, Chairman of CFL, has more than three decades of industry experience whereas Mr. Deepak Patel, Managing Director, has more than 25 years of industry experience.

Support from group in form of low-cost funding, resulting in low reliance on external debt

CFL has received continuous funding support from its group entities in the form of unsecured loans at relatively lower interest rates ranging from 8.5% to 9%. Although, this has made CFL's resource base concentrated, it has historically rendered the benefit of low cost of funds to CFL. As on March 31, 2021, company had a net worth of Rs.51.47 crore and unsecured loans from group of Rs.3.60 crore, as against a loan portfolio of Rs.68.31 crore. This translates into low reliance on external borrowings and has resulted into healthy NIM of 16.40% during FY21 (PY: 19.48%). The net worth improved further to Rs.53.50 crore as on September 30, 2021, due to internal accruals with NIM improving further to 17.93% for H1FY22. However, going forward, ability of the company to reduce reliance on inter-group borrowings and tap external debt, if required, at cost effective rates, to fund future growth, remain to be key credit monitorables.

Healthy CAR and comfortable overall gearing

CFL reported a healthy CAR of 74.66% as on March 31, 2021, primarily on account of low to modest growth and internal accruals. The overall gearing as on March 31, 2021, also remained comfortable at 0.36 times improving from 0.63 times as on March 31, 2020. CFL's CAR improved further as on September 30, 2021, and stood at 75.02% and the gearing further improved to 0.29 times as on September 30, 2021, on account of reduction in the overall borrowings and improvement in net worth on account of internal accruals.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Key rating weakness

Modest scale of operations

CFL has not been able to grow its book in past several years and its scale of operations continue to remain modest with a loan portfolio of Rs.68.31 crore as at FY21 end, compared to Rs.77.48 crore as at FY20 end. The loan portfolio was impacted on account of reduced disbursements due to Covid-19. The loan portfolio stood at Rs.64.85 crore as on September 30, 2021. The loan portfolio growth rate has been low due to the company's strategy of selective lending with focus on profitability, and higher reliance on own resources. Growth in loan portfolio aided by diversified funding resources shall remain crucial going forward.

Weak asset quality; albeit secured nature of lending

CFL's asset quality remained weak with gross stage 3 assets and net stage 3 assets (90+ dpd) of 14.90% and 14.06% respectively as on March 31, 2021 (gross NPA stood 10.91% based on 180+ dpd as on March 31, 2021). However, the stage 3 assets showed improvement over FY20 from 21.22% and 20.44% respectively (gross NPA stood 9.36% based on 180+ dpd as on March 31, 2020). The stage 3 assets showed further improvement in H1FY22 with gross stage 3 assets and net stage 3 assets at 13.19% and 11.66% respectively. The collection efficiency also improved averaging around 94% in the trailing 12 months ended October 2021 as compared to 89% in the previous year. The asset quality is weak mainly due to weak and vulnerable credit profile of the borrowers, as majority of them are farmers whose income depends upon agricultural output. However, its 98% loan portfolio is secured by way of hypothecation or mortgage. This provides a comfort to the lending business, as actual loss in case of delinquency is lower compared to unsecured loans.

Regionally concentrated portfolio with major portion deployed towards two-wheeler financing

Product portfolio of CFL continues to remain concentrated towards two-wheeler loans which form around 60% of the loan portfolio as at H1FY22 end, due to high IRR and shorter tenure of loans. Furthermore, major portion of its outstanding loan portfolio continues to remain concentrated in Gujarat (83%) as on September 30, 2021, while balance is in Maharashtra. Overall, company has a network of 19 branches in these two states and other dealer tie-ups.

Liquidity- Adequate

CFL has adequate liquidity with shorter tenure loans and portfolio largely being funded through net worth and unsecured loans from group entities, resulting in low reliance on external debt with no major long-term loans or scheduled repayments. Moreover, utilization of its fund-based limits remains low on account of low-cost funds from the group entities. Furthermore, company also has free cash balance of around Rs.1.80 crore as on October 25, 2021, aiding its liquidity against which it has debt repayments of Rs.1.80 crore for the next 1 year.

Analytical approach: Standalone along with group support

Applicable Criteria

Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Criteria for Non-Banking Financial Companies
Financial ratios – Financial Sector
Factoring Linkages Parent Sub JV Group

About the Company

Incorporated in 1993, CFL is a Reserve Bank of India (RBI) registered Non-Banking Finance Company (NBFC) – Asset Finance Company promoted by Mr. Harshad Dalal, Mr. Kiran Patel and Mr. Deepak Patel. CFL is primarily engaged in the business of asset financing (mainly vehicles finance and LAP). CFL operates in the state of Gujarat and Maharashtra through its network of 19 branches as on March 31, 2021, and some dealer networks.

CFL is part of Ceejay group which was initially established in 1912 as C. J. Patel and Co., a partnership firm with the objective of trading tobacco and subsequently it started manufacturing and marketing of beedis. Over the years, the group has diversified its business interest in real estate & finance sectors through its various entities and also owns wind-mills with a power generating capacity of 8.50 Mega Watts. The group has recently ventured into ready to eat food business and has also established Ceejay Microfin Ltd. as microfinance institution.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total Income	17.35	14.32	7.41
PAT	4.82	4.47	2.36
Total Assets (Net of Intangibles)	78.70	71.90	71.25
Net NPA (%) (180+ dpd)	5.57	7.76	6.86
Net Stage 3 (%) (90+ dpd)	20.44	14.06	11.66
ROTA (%)	6.31	5.96	6.63
RONW (%)	10.70	9.06	8.99

A: Audited

Status of non-cooperation with previous CRA: ICRA placed the rating of CFL under 'Issuer Non-Cooperating Category' as per press release dated April 22, 2021, due to absence of requisite information to carry its review.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bank Facilities- -LT-Cash Credit	-	-	-	-	15.00	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Bank facilities- LT-Cash Credit	LT*	15.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (18-Nov-20)	1)CARE BBB-; Stable (01-Oct-19)	1)CARE BBB-; Stable (03-Oct-18)

** Long Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bank Facilities-Long Term- Cash Credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Name - Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name - Mr. Saurabh Joshi
Contact no.- +91-22-6754 3421
Email ID – Saurabh.Joshi@careratings.com

Relationship Contact
Name: Mr. Saikat Roy
Contact no.: +91-22-6754 3404
Email ID – saikat.roy@careratings.com

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