Ceejay Finance Limited

January 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	0.00	-	Reaffirmed at CARE BBB-; Stable and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed and withdrawn the outstanding rating of 'CARE BBB-; Stable', assigned to the bank facilities of Ceejay Finance Limited (CFL) with immediate effect. The above action has been taken at the request of CFL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE Ratings.

The rating reaffirmation of the bank facilities of CFL derives strength from the continuous funding support in the past from various group entities of the Ceejay Group, having diversified business interests in the fields like tobacco, real estate and food & beverages. The rating also derives comfort from CFL's healthy capital adequacy ratio (CAR) and comfortable overall gearing along with adequate liquidity. The rating, however, remains constrained by the company's growing but modest scale of operations, relatively weak asset quality, and geographical concentration in the loan portfolio.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

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

Negative factors

- Rise in gearing above 2x on a sustained basis.
- Decline in the 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%.

Analytical approach: Standalone along with group support

Key strengths

Experienced promoters and established operations of the Ceejay Group in varied businesses

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

Support from the group in the 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.

For FY22, the company's net worth stood at ₹56.10 crore as against ₹51.47 crore in FY21. It further improved to ₹58.97 crore in H1FY23. This translates into low reliance on external borrowings and has resulted into healthy net interest margin (NIM) of 20.23% during FY21 (PY: 18.39%).

Healthy CAR and comfortable overall gearing

The company's capitalisation levels have been comfortable throughout. The reported overall CAR as well as Tier-1 CAR for FY22 stood at 70.14%. The total borrowings of the company increased to ₹24.08 crore in FY22 and furthermore to ₹26.97 crore in H1FY23 as against ₹18.43 crore in FY21. Following the increase in borrowings, the gearing stood at 0.43x in FY22 and 0.46x in

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

H1FY23 as against 0.36x in FY21. CARE Ratings notes that the low gearing is because of majority of funding coming from own funds and no significant external borrowing on account of small size of the business.

Key weaknesses

Modest scale of operations

The loan portfolio growth rate of the company has been low due to the company's strategy of selective lending with focus on profitability, and higher reliance on own resources.

In FY22, the company reported a profit after tax (PAT) of ₹4.97 crore (PAT margin: 27.6%) as against a PAT of ₹4.47 crore in FY21 (PAT margin – 27.7%). The company's total income grew from ₹16 crore to ₹18 crore as a result of increase in the loan book to ₹80 crore in FY22 as against 68 crore in FY21. The NIM increased to 20.23% in FY22 as against 18.39% in FY21 on account of increased yield on advances. As of March 31, 2022, the company reported a ROTA and RONW of 6.48% and 9.24%, respectively.

During H1FY23, the company reported a total income of ₹9.63 crore and PAT of ₹2.42 crore with a PAT margin of 25.12%. The NIM, however, dropped to 18.65% from 20.23% in FY22, on account of increased cost of funds. The cost of funds rose to 11.34% in FY22 from 9.22% in FY21 and to 12.30% in H1FY23. The overall profitability moderated during H1FY23 with ROTA of 5.65% and RONW of 8.41%.

Weak asset quality; albeit secured nature of lending

For FY22, the asset quality metrics showed improvement, yet remain relatively high. The GNPA and net non-performing asset (NNPA) figures improved to 11% and 10% in FY22 as against 16% and 14% in FY21, respectively. The asset quality for the company is weak on account of the vulnerable credit profile of the borrowers, as majority of them are farmers who depend on the agricultural output for their income. The collection efficiency is impacted due to the collections depending on the harvest for the period. However, as 98% of its loan portfolio is secured by way of hypothecation or mortgage, it provides a comfort to the lending business, as actual loss in case of delinquency is lower compared to the unsecured loans.

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

The 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, the 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 the group entities, resulting in low reliance on external debt with no major long-term loans or scheduled repayments. Moreover, utilisation of its fund-based limits remains low on account of low-cost funds from the group entities. Furthermore, the company also has cash and cash equivalents of ₹2.02 crore as on September 30, 2022.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non Banking Financial Companies
Policy on Withdrawal of Ratings

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 Harshad Dalal, Kiran Patel and Deepak Patel. CFL is primarily engaged in the business of asset financing (mainly vehicles finance and loan against property [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 a part of the Ceejay group which was initially established in 1912 as C. J. Patel and Co., a partnership firm, with the objective of trading tobacco. Subsequently, it started manufacturing and marketing of beedis. Over the years, the group has diversified its business interest in real estate and finance sectors through its various entities and also owns windmills with a power generating capacity of 8.50 Mega Watts. The group recently ventured into ready-to-eat food business and has also established Ceejay Microfin Ltd. as a microfinance institution.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	16.08	17.95	9.63
PAT	4.47	4.97	2.42
Total assets	71.09	82.27	89.14
Net NPA (%)	15	10	Not available
ROTA (%)	5.96	6.48	5.65

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	-	-	-	1)CARE BBB-; Stable (03-Dec-21)	1)CARE BBB-; Stable (18-Nov-20)	1)CARE BBB-; Stable (01-Oct-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple

Annexure-5: Lender details

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

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

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About us:
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