

March 29, 2016

Facilities	Amount (Rs. Crore)	Ratings
Term Loans	318.20	SMERA BBB+/Stable (Assigned)
Term Loans (Proposed)	50.00	SMERA BBB+/Stable (Assigned)

SMERA has assigned the long-term rating of '**SMERA BBB+**' (read as **SMERA triple B plus**) to the Rs.368.20 crore bank facilities of RGVN (North East) Microfinance Limited (RGVN). The outlook is '**Stable**'. The rating derives comfort from long standing experience of the management, sound asset quality, comfortable asset-liability maturity position and comfortable financial risk profile. The rating also derives comfort from the company's adequate capitalization levels and profitability metrics, and significant equity infusion in the past two years. However, the rating is constrained by the company's limited track record and modest scale of operations, portfolio concentration in North Eastern States majorly in Assam (~95 per cent of its total portfolio), company's moderate IT infrastructure and regulatory & socio-political risks inherent in the microfinance industry.

The rating also factors that the Reserve Bank of India (RBI) has granted "in-principle" approval to RGVN to set-up Small Finance Bank (SFB) on September 16, 2015. The "in-principle" approval granted will be valid for 18 months to enable RGVN to comply with the requirements under the Guidelines stipulated by the RBI. In case RGVN complies with the requisite conditions (laid down by RBI) as a part of "in-principle" approval, the RBI would consider granting RGVN a licence for commencement of banking business under Section 22(1) of the Banking Regulation Act, 1949. Until a final licence is issued, RGVN cannot undertake any banking business. SMERA believes that if the company receives a final approval from RBI for conversion into a Small Finance Bank, its ability to raise retail deposits and access other alternative sources of funds to maintain its portfolio growth will be a challenge. Furthermore, RGVN's profitability is expected to decline sharply during the initial few years after conversion. However, the company is expected to sustain its financial risk profile by maintaining a healthy capital position, with a gearing of around 3 times, during this transition period. SMERA will monitor the developments in this regard and will assess their impact on the credit risk profile of RGVN. This remains a key rating sensitivity factor.

Rating Sensitivity Factors

- Ability to increase scale of microfinance operations with reducing portfolio concentration in Assam
- Sustainable improvement in profitability, asset quality and capital adequacy

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**Outlook: Stable**

SMERA believes RGVN will maintain its adequate capitalisation and liquidity profile and will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' if RGVN scales up and diversifies loan portfolio geographically, while maintaining capital position, asset quality, and profitability. Conversely, the outlook may be revised to 'Negative' if a material changes in the asset quality indicators. Decline in RGVN's profitability, resulting in stress on capital position, or substantial decline in scale of operations, may also lead to outlook revision to 'Negative'.

About the Company

RGVN (North East) Microfinance Limited (RGVN), is registered as a NBFC-MFI from RBI, was incorporated in July, 2008 to carry out microfinance and developmental activities in North Eastern states (Assam, Sikkim, Meghalaya, Arunachal Pradesh and Nagaland) of India. RGVN had taken over the 'Credit & Savings Programme' (CSP) of the RGVN Society (the parent organization of RGVN), which started from 1995, with a view to provide microfinance to the poorer section of the society. The day-to-day operations of the company are managed by Ms. Rupali Kalita, Managing Director.

RGVN's networth stood at Rs.86.65 crore as on March 31, 2015, as compared to Rs.35.50 crore in the previous year. The company's gearing stood comfortable at 2.02 times as on March 31, 2015, which improved from 2.90 times in the previous year. The capital adequacy of the company stood at 36.14% as on March 31, 2015 as compared to 27.54% in the previous year. The company intends to raise capital over the next 3-6 months, which would further support its capitalisation levels to an extent. RGVN's interest spread stood at 12.55 per cent in FY2014-15 as compared to 12.88 per cent in the previous year. The net interest margin has remained healthy at 15.00 per cent in FY2014-15 as compared to 15.09 per cent in the previous year. The 90+ DPD (days past due) for RGVN stood at 0.15 per cent as on December 31, 2015 from 0.17 per cent as on March 31, 2015.

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