

RGVN (North East) Microfinance Limited: Assigned

Name of the Instrument	Amount (Rs Crore)	Rating/Outlook
Non Convertible Debentures	33.26	SMERA BBB+/Stable (Assigned)
Non Convertible Debentures	16.00	SMERA BBB+/Stable (Assigned)

SMERA has assigned long-term rating of '**SMERA BBB+**' (read as **SMERA triple B plus**) to the abovementioned Non-Convertible Debentures (NCDs) of RGVN (North East) Microfinance Limited issued in July 2015. The outlook is '**Stable**'. The rating derives comfort from the extensive experience of the management, sound asset quality and significant increase in loan portfolio. The rating also factors in the comfortable asset-liability maturity position and comfortable financial risk profile. The rating is further strengthened by the adequate capitalisation levels and profitability metrics in addition to the significant equity infusion in the past two years. However, the rating is constrained by the limited track record and portfolio concentration in North Eastern States majorly in Assam (~95 per cent of total portfolio). Additionally, the rating also takes into account the moderate IT infrastructure apart from the regulatory and socio-political risks inherent in the microfinance industry.

The rating also notes that RBI has granted 'in-principle' approval to RGVN on September 16, 2015 to set-up a Small Finance Bank (SFB). The approval, valid for 18 months is expected to enable RGVN to comply with the stipulated requirements subsequent to which RBI would consider granting a licence for commencement of banking business under Section 22(1) of the Banking Regulation Act, 1949.

It may be noted that until a final licence is issued, RGVN cannot undertake 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 could be a challenge. Furthermore, RGVN's profitability is expected to decline 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 gearing of around three times, during the transition period. SMERA will monitor the developments in this regard and will assess the impact on the credit risk profile of RGVN. This remains a key rating sensitivity factor.

RGVN's scale of operations has increased significantly in FY2016 over FY2015. The loan portfolio stood at Rs.487.54 crore as on March 31, 2016 as against Rs.229.10 crore as on March 31, 2015. RGVN's healthy asset quality is reflected in the on-time collection rate of ~99 per cent over the past three years. The company has a well-diversified funding base with borrowings from banks, financial institutions and also through NCD's raised through private placements. RGVN's comfortable capitalisation is reflected in the capital adequacy ratio (CAR) of 20.94 per cent as on March 31, 2016. However, due to significant increase in portfolio in FY2015-16, CAR has fallen from 38.56 per cent as on March 31, 2015.

Outlook-Stable

SMERA believes RGVN will maintain adequate capitalisation, liquidity profile and 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' in case of material change in the asset quality indicators. Further, a fall in RGVN's profitability, resulting in stress on capital position or substantial decline in scale of operations, may result in a 'Negative' outlook.

Rating Sensitivity Factors

- Increasing scale of microfinance operations
- Reducing portfolio concentration in Assam
- Sustainable improvement in profitability, asset quality and capital adequacy

Criteria applied to arrive at the rating:

- Non-Banking Finance Companies

About the Company

RGVN, an NBFC-MFI was incorporated in July, 2008 to carry out microfinance and developmental activities in the North East (Assam, Sikkim, Meghalaya, Arunachal Pradesh and Nagaland). RGVN had taken over the 'Credit & Savings Programme' (CSP) of RGVN Society (the parent organisation of RGVN), that commenced operations from 1995, with an aim to provide microfinance to the poorer sections of society. The day-to-day operations are managed by Ms. Rupali Kalita, Managing Director.

Rating History

Date	Name of the Instruments	Amount (Rs. Crore)	Rating		Rating/Outlook
			Long Term	Short Term	
29 Mar, 2016	Term Loans	318.20	SMERA BBB+ (Assigned)	-	Stable
	Proposed Term Loans	50.00	SMERA BBB+ (Assigned)	-	Stable
09 June, 2016	Non Convertible Debentures (Series A)	25.00	SMERA BBB+ (Assigned)	-	Stable
	Non Convertible Debentures (Series B)	15.00	SMERA BBB+ (Assigned)	-	Stable

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ABOUT SMERA

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