

Press Release

RGVN (North East) Microfinance Limited (RGVN)

March 22, 2017

Rating Reaffirmed

Total Bank Facilities Rated	Rs. 494.00 Cr (Revised from Rs. 396.00 Cr)
Long Term Rating	SMERA BBB+/Stable Reaffirmed & Assigned

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BBB+**' (read as SMERA triple B plus) on the Rs. 396.00 cr bank facilities and assigned long-term rating of '**SMERA BBB+**' (read as SMERA triple B plus) on the Rs. 98.00 cr facilities of RGVN (North East) Microfinance Limited (RGVN). Further, SMERA has withdrawn the long term rating of 'SMERA BBB+' (read as SMERA triple B plus) on the Rs.14.20 cr bank facilities of RGVN. The outlook is '**Stable**'.

RGVN (North East) Microfinance Limited (RGVN), registered as an NBFC-MFI with RBI, was incorporated in July, 2008 to carry out microfinance and developmental activities in the North East (Assam, Sikkim, Meghalaya, Arunachal Pradesh and Nagaland).

List of key rating drivers and their detailed description:

Strengths:

Experienced management and marquee investor profile: The board of RGVN comprises experienced professionals from the financial sector. Mr. Brij Mohan, Chairperson, has more than two decades of experience in the aforementioned sector. Mr. N. Srinivasan, Director has over two decades of experience with NABARD and RBI. Major shareholders of the company include Dia Vikas Capital (P) Ltd. (29.81 per cent), Oiko Credit Ecumenical Development Cooperative Society (19.85 per cent), Norway Microfinance Initiative (19.01 per cent) and Small Industries Development Bank of India (12.94 per cent). SMERA believes that RGVN will benefit from its experienced management and its ability to attract reputed investors.

Adequate capitalisation and liquidity profile: The capital adequacy of RGVN stood at 20.94 per cent as on March 31, 2016 as compared to 38.56 per cent as on March 31, 2015. Further, it stood at 20.59 per cent as on February 28, 2017 (Unaudited).

RGVN has a comfortable liquidity position due to well matched maturity of assets and liabilities. Further, Tier I CRAR as on February 28, 2017 is 19.62 per cent as compared to 20.12 per cent as on March 31, 2016 and 37.31 per cent as on March 31, 2015. The tenure of loans is about 24 months, whereas the bank funding typically has a tenure of about 24-60 months. Going ahead, SMERA expects the liquidity of the company to remain comfortable given the matched tenure of

assets and liabilities. The funding pattern of RGVN as on March 31, 2016 included 77.76 per cent term loans from banks and financial institutions as compared to 92.64 as on March 31, 2015.

Healthy profitability margins: RGVN's net interest margins (NIMs) have been in the 15.00 per cent - 15.20 per cent range for the past three years (FY2016 to FY2014). The Return on Average Asset (ROAA) for FY2015-16 stood at 3.38 per cent as compared to 3.52 per cent for FY2014-15.

SMERA believes that RGVN should be able to sustain the profitability in the near to medium term.

Sound asset quality: RGVN's healthy asset quality is reflected in the Non-Performing Asset (NPA) of 0.16 per cent out of the total loan portfolio of Rs. 487.54 cr as on March 31, 2016 as compared to 0.17 per cent out of the total loan portfolio of Rs. 229.10 cr as on March 31, 2015. The asset quality marginally declined to 0.40 per cent as on February 28, 2017 (Unaudited) on a loan portfolio of Rs.607.61 cr. The net NPA as on March 31, 2016 stood at 0.12 per cent as compared to 0.15 per cent as on March 31, 2015.

Weaknesses

Moderate scale of operations coupled with geographic concentration: The loan portfolio of the company increased to Rs. 487.54 cr as on March 31, 2016 as compared to Rs. 229.10 cr as on March 31, 2015. The total loan portfolio further grew to Rs. 607.61 cr as on February 28, 2017. RGVN's operations remain highly concentrated in the state of Assam i.e. 93.86 per cent of its total portfolio as on February 28, 2017. Generally the risk profile of a micro finance company with a geographically dispersed portfolio will be more resilient as compared to the risk profile of an entity with a centralised portfolio. With an aim to reduce portfolio concentration, the company opened branches in Meghalaya, Arunachal Pradesh, Nagaland and Sikkim which is ~ 7 per cent of the portfolio. SMERA believes that moderate size of its loan book and the geographical concentration of its portfolio will continue to impinge on its credit profile over the near to medium term.

SMERA believes that RGVN should be able to maintain a healthy asset quality in the near to medium term backed by its strong lending and credit monitoring profile.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company.

Applicable Criteria

- Bank and Financial Institutions <https://www.smera.in/criteria-banks.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook - Stable

SMERA believes that RGVN will maintain a healthy asset quality and portfolio owing to its established position in the micro finance sector and experienced management. The outlook may be revised to 'Positive' if RGVN scales up and diversifies its loan portfolio geographically, while maintaining capital position, asset quality, and profitability. Conversely, the outlook may be revised to 'Negative' in case of a material change in its asset quality indicators. Decline in

RGVN's profitability resulting in stress on capital position, may also result in a 'Negative' outlook.

About the Rated Entity

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

For FY2015-16, RGVN reported profit after tax (PAT) of Rs. 13.53 cr on net interest income of Rs.43.44 cr as compared with PAT of Rs. 7.35 cr on net interest income of Rs. 26.50 cr for FY2014-15. Further, for April 2016 to December 2016, the company registered PAT of Rs.23.42 cr on net interest income of Rs.50.27 cr (provisional). The net worth stood at Rs. 100.18 cr as on March 31, 2016 as compared to Rs. 86.65 cr as on March 31, 2015. Further, the net worth as on February 29, 2017 stood at Rs. 125.62 cr (Unaudited).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: The rating also factors in the fact that the Reserve Bank of India (RBI) has granted an "in-principle" approval on September 16, 2015 to RGVN to set-up a Small Finance Bank (SFB). 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 key rating sensitivity. SMERA will monitor the developments in this regard and assess the impact on the credit risk profile of RGVN. This remains a key rating sensitivity factor.

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Term Loan	Long Term	464.00	SMERA BBB+/Stable (Reaffirmed)	-	-	Mar 29, 2016	SMERA BBB+/Stable (Assigned)	-	-
Proposed Term Loan	Long Term	30.00	SMERA BBB+/Stable (Reaffirmed)	-	-	Mar 29, 2016	SMERA BBB+/Stable (Assigned)	-	-
Term Loan	Long Term	14.20	SMERA BBB+/Stable (Withdrawn)	-	-	-	-	-	-
Non-Convertible Debentures	Long Term	33.26	-	Aug 8, 2016	SMERA BBB+/Stable (Assigned)	-	-	-	-
Non-Convertible Debentures	Long Term	16.00	-	Aug 8, 2016	SMERA BBB+/Stable (Assigned)	-	-	-	-
Non-Convertible Debentures	Long Term	25.00	-	June 9, 2016	SMERA BBB+/Stable (Assigned)	-	-	-	-
Non-Convertible Debentures	Long Term	15.00	-	June 9, 2016	SMERA BBB+/Stable (Assigned)	-	-	-	-

***Annexure - Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Term Loan I	NA	NA	January 2018	30.00 (Revised from 40.00)	SMERA BBB+/Stable (Reaffirmed)
Term Loan II	NA	NA	March 2017	6.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan III	NA	NA	March 2017	10.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan IV	NA	NA	NA	4.20	SMERA BBB+/Stable (Withdrawn)
Term Loan V	NA	NA	NA	10.00	SMERA BBB+/Stable (Withdrawn)
Term Loan VI	NA	NA	November 2018	130.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan VII	NA	NA	August 2017	5.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan VIII	NA	NA	September 2018	50.00	SMERA BBB+/Stable (Assigned)
Term Loan IX	NA	NA	July 2018	15.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan X	NA	NA	July 2019	10.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan XI	NA	NA	June 2018	10.00	SMERA BBB+/Stable (Assigned)
Term Loan XII	NA	NA	March 2018	50.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan XIII	NA	NA	March 2019	15.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan XIV	NA	NA	January 2022	35.00	SMERA BBB+/Stable (Assigned)
Term Loan XV	NA	NA	August 2018	33.00	SMERA BBB+/Stable (Assigned)
Term Loan XVI	NA	NA	September 2018	50.00	SMERA BBB+/Stable (Assigned)
Term Loan XVII	NA	NA	September 2019	15.00	SMERA BBB+/Stable (Assigned)
Proposed Term Loan	NA	NA	NA	30.00 (Revised from 50.00)	SMERA BBB+/Stable (Reaffirmed)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Hina Gupta, Rating Analyst, Tel: 022-67141111 Email: hina.gupta@smera.in	

ABOUT SMERA

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