

Press Release

Dakshin Budhakhali Improvement Society

17 February, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 35.00 Cr.
Long Term Rating	SMERA BB/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB**' (read as SMERA double B) on the Rs. 35.00 crore bank facilities of Dakshin Budhakhali Improvement Society (DBIS). The outlook is '**Stable**'.

DBIS, incorporated in 1995, is a West Bengal-based charitable society that commenced MFI operations in 2006. The society, led by Mr. Prasanta Kumar Panda and Ms. Swapna Das as per the Self Help Group (SHG) model for women, operates through nine branches across West Bengal.

Key rating drivers

Strengths

Experienced promoters: DBIS was formed in 1995 as a charitable society, and started micro finance operations from 2006. The operations are led by Mr. Prasanta Kumar Panda (Secretary), Ms. Swapna Das (President) and others. Both Mr. Prasanta Kr. Panda and Ms. Swapna Das have more than a decades experience in the MFI sector.

Comfortable net interest margins and interest spreads: The net interest margins (NIM) stood at 7.83 per cent in FY2017 as against 8.71 per cent in FY2016. The operating income increased from Rs.1.14 crore in FY2016 to Rs.2.35 crore in FY2017. The average lending rate to SHG is 25 per cent.

Moderate asset quality: The asset quality of DBIS improved in FY2017 which is evident from its improvement in collection efficiency from 99.66 percent in FY2016 to 99.79 percent in FY2017. Further, PAR>90 days improved from 0.33 percent in Mar'16 to 0.16 percent in Mar'17 and further to 0.08 percent in FY2018 (9M Provisional).

Weaknesses

Small scale of operations: The loan portfolio of the company increased from Rs.6.54 crore as on 31 March, 2016 to Rs.14.06 crore as on 31 Mar, 2017 and further to Rs.23.98 crore as on December 31, 2017. However, the scale of operations continues to remain small as compared to other players in the industry. The operating income stood at Rs.2.35 crore in FY2017 and Rs. 1.14 crore in FY2016. DBIS has reported operating income of Rs 4.12 crore for the period April-December, 2017.

Deterioration in capitalisation: DBIS's CRAR declined from 35.63 per cent in FY2016 to 23.91 per cent in FY2017. This was due to increase in loan portfolio from Rs.6.54 crore in FY2016 to Rs.14.06 crore in FY2017 and the same was funded through debt. However, CRAR improved to 31.59 per cent in FY2018 (9M Provisional).

Geographic concentration risk: The operations are highly concentrated in West Bengal (100 per cent) as on December 2017. DBIS plans to expand its geographical reach in Orrisa, Jharkhand and Assam. It has nine branches as on 31 December, 2017 and plans to open around six more in the coming months in Orrisa.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Dakshin Budhakhali Improvement Society to arrive at the rating.

Outlook – Stable

SMERA believes that DBIS will maintain a Stable outlook over the medium term driven by its adequate capital position and track record in the MFI business. The outlook may be revised to 'Positive' in case DBIS significantly scales up its operations and diversifies its loan portfolio geographically while maintaining an adequate capital position, asset quality and profitability. Conversely, the outlook may be revised to 'Negative' in case of any material change in the asset quality indicators. Any decline in profitability, resulting in stress on capital position or substantial decline in scale of operations may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Total Assets	Rs. Cr.	19.82	7.71	6.34
Total Income	Rs. Cr.	1.22	0.64	0.54
PAT	Rs. Cr.	0.56	0.22	0.17
Net Worth	Rs. Cr.	3.36	2.33	1.88
Return on Assets (RoA)	(%)	4.09	3.17	5.49
Return on Net Worth (RoNW)	(%)	19.79	10.57	18.50
Total Debt/Tangible Net Worth (Gearing)	Times	4.82	2.23	2.30
Gross NPA	(%)	0.16	0.34	1.06
Net NPA	(%)	0.08	0.03	0.02

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Non-banking financing Entities - <https://www.smerra.in/criteria-nbfc.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable):

None

Rating History (Upto last three years)

Not Applicable

Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.70	SMERA BB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA BB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	3.98	SMERA BB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	10.50	SMERA BB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.77	SMERA BB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	15.55	SMERA BB/ Stable (Assigned)

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