

## Press Release

### RGVN (North East) Microfinance Limited (RGVN)

29 June, 2017

#### Rating Assigned and Reaffirmed



<b>Total Bank Facilities Rated</b>	Rs. 494.00 Cr
<b>Non-Convertible Debentures</b>	Rs. 186.26 Cr (Revised from Rs. 89.26)
<b>Long Term Rating</b>	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. 494.00 crore bank facilities and Rs. 89.26 crore Non-Convertible Debentures. SMERA has assigned long-term rating of **'SMERA BBB+' (read as SMERA triple B plus)** on the Rs. 97.00 crore Non-Convertible Debentures 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 Further, SMERA has withdrawn the long term rating of **'SMERA BBB+' (read as SMERA triple B plus)** on the Rs.16.00 crore bank facilities of RGVN. The outlook is **'Stable'**. The rating is subject to review once the operations of small finance bank, North East Small Finance Bank Limited commence from the second quarter of FY2018.

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. (19.36 per cent), Oiko Credit Ecumenical Development Cooperative Society (12.89 per cent), Norway Microfinance Initiative (15.59 per cent) and Small Industries Development Bank of India (8.40 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 32.17 per cent as on 31 March, 2017 as compared to 20.94 per cent as on 31 March, 2016. RGVN has a comfortable liquidity position due to well matched maturity of assets and liabilities. Further, Tier I CRAR as on 31 March, 2017 is 31.52 per cent as compared to 20.12 per cent as on 31 March, 2016 and 37.31 per cent as on 31 March, 2015. The tenure of loans is about 24 months,

whereas the bank funding typically has 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 31 March, 2017 included 66.40 per cent term loans from banks and financial institutions as compared to 79.76 as on March 31, 2016.

**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 four years (FY2014 to FY2017). The Return on Average Asset (ROAA) for FY2016-17 stood at 3.65 per cent as compared to 3.21 per cent for FY2015-16.

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 0.53 per cent out of the total loan portfolio of Rs. 688.32 crore as on 31 March, 2017 as compared to 0.16 per cent out of the total loan portfolio of Rs. 587.54 crore as on 31 March, 2016. The asset quality marginally declined as on 31 March, 2017 on account of demonetisation which led to lower collections in last two quarters of FY2017. The net NPA as on 31 March 31, 2017 stood at 0.15 per cent as compared to 0.12 per cent as on 31 March, 2016.

### Weaknesses

**Moderate scale of operations coupled with geographic concentration:** The loan portfolio of the company increased to Rs. 688.48 crore as on 31 March, 2017 as compared to Rs. 487.56 crore as on 31 March, 2016. RGVN's operations remain highly concentrated in Assam i.e. 93.48 per cent of its total portfolio as on 30 April, 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 FY2016-17, RGVN reported profit after tax (PAT) of Rs. 27.54 crore on net interest income of Rs.75.58 crore as compared with PAT of Rs. 13.54 crore on net interest income of Rs. 43.45 crore for FY2015-16. The net worth stood at Rs. 225.03 crore as on 31 March, 2017 as compared to Rs. 100.18 crore as on 31 March, 2016.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** RGVN received final approval from RBI for conversion into a Small Finance Bank on March 31, 2017 and is expected to commence commercial operations from second quarter of FY2018. North East Small Finance Bank Limited incorporated in July 2016 is expected to start commercial operations in second quarter FY2018. SMERA believes\after commencing operations as a small finance bank, RGVN's 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			FY2017		FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term Loan	Long Term	448.00	SMERA BBB+/Stable (Reaffirmed)	Mar 22, 2017	SMERA BBB+/Stable (Reaffirmed)	Mar 29, 2016	SMERA BBB+/Stable (Assigned)	-	-	-	-
Proposed Term Loan	Long Term	46.00	SMERA BBB+/Stable (Reaffirmed)	Mar 22, 2017	SMERA BBB+/Stable (Reaffirmed)	Mar 29, 2016	SMERA BBB+/Stable (Assigned)	-	-	-	-
Term Loan	Long Term	16.00	SMERA BBB+/Stable (Withdrawn)	Mar 22, 2017	SMERA BBB+/Stable (Withdrawn)	-	-	-	-	-	-
Non-Convertible Debentures I	Long Term	16.00	SMERA BBB+/Stable (Reaffirmed)	Aug 8, 2016	SMERA BBB+/Stable (Assigned)	-	-	-	-	-	-
Non-Convertible Debentures II	Long Term	33.26	SMERA BBB+/Stable (Reaffirmed)	Aug 8, 2016	SMERA BBB+/Stable (Assigned)	-	-	-	-	-	-
Non-Convertible Debentures III	Long Term	25.00	SMERA BBB+/Stable (Reaffirmed)	June 9, 2016	SMERA BBB+/Stable (Assigned)	-	-	-	-	-	-
Non-Convertible Debentures IV	Long Term	15.00	SMERA BBB+/Stable (Reaffirmed)	June 9, 2016	SMERA BBB+/Stable (Assigned)	-	-	-	-	-	-
Non-Convertible Debentures V	Long Term	97.00	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	SMERA BBB+/Stable (Reaffirmed)
Term Loan II	NA	NA	NA	-	SMERA BBB+/Stable (Withdrawn)
Term Loan III	NA	NA	NA	-	SMERA BBB+/Stable (Withdrawn)
Term Loan IV	NA	NA	November 2018	130.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan V	NA	NA	August 2017	5.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan VI	NA	NA	September 2018	50.00	SMERA BBB+/Stable (Reaffirmed )
Term Loan VII	NA	NA	July 2018	15.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan VIII	NA	NA	July 2019	10.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan IX	NA	NA	June 2018	10.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan X	NA	NA	March 2018	50.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan XI	NA	NA	March 2019	15.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan XII	NA	NA	January 2022	35.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan XIII	NA	NA	August 2018	33.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan XIV	NA	NA	September 2018	50.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan XV	NA	NA	September 2019	15.00	SMERA BBB+/Stable (Reaffirmed)
Proposed Term Loan	NA	NA	NA	46.00 (Revised from 30.00)	SMERA BBB+/Stable (Reaffirmed)
Non-Convertible Debenture I	July 2015	13.90	July 2020	16.00	SMERA BBB+/Stable (Reaffirmed)
Non-Convertible Debenture II	November 2015	14.50	November 2020	33.26	SMERA BBB+/Stable (Reaffirmed)

Non-Convertible Debenture III	May 2016	13.25	May 2022	25.00	SMERA BBB+/Stable (Reaffirmed)
Non-Convertible Debenture IV	May 2016	13.25	June 2019	15.00	SMERA BBB+/Stable (Reaffirmed)
Non-Convertible Debenture V	June 2017	14.50	June 2022	97.00	SMERA BBB+/Stable (Assigned)

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

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### ABOUT SMERA

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