

Press Release

RGVN (North East) Microfinance Limited (RGVN)

12 August, 2017



Rating Assigned and Reaffirmed

Total Bank Facilities Rated	Rs. 494.00 Cr
Non-Convertible Debentures	Rs. 295.76 Cr (Revised from Rs. 186.26)
Commercial Paper	Rs. 25.00 Cr
Long Term Rating	SMERA BBB+/Stable (Reaffirmed & Assigned)
Short Term Rating	SMERA A2 (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. 186.26 crore Non-Convertible Debentures. SMERA has assigned long-term rating of '**SMERA BBB+** (read as SMERA triple B plus) on the Rs. 109.50 crore Non-Convertible Debentures of RGVN (North East) Microfinance Limited (RGVN) and assigned short term rating of '**SMERA A2**' (read as SMERA A two) on the Rs. 25.00 crore Commercial Paper. 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 34.24 per cent as on June 30, 2017 as compared to 32.17 per cent as on 31 March, 2017. RGVN has a comfortable liquidity position due to well matched maturity of assets and liabilities. Further, the Tier I CRAR registered 33.93 per cent as on 30 June, 2017 compared to 31.52 per cent as on 31 March, 2017 and 20.12 per cent as on 31 March, 2016. 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 30 June, 2017 included 72.37 per cent of term loans from banks and financial institutions compared to 75.01 as on 31 March, 2017.

Healthy profitability margins: RGVN's net interest margins (NIMs) have been in the range of 15.00 per cent to 15.20 per cent for the past four years (FY2014 to FY2017). The Return on Average Asset (ROAA) for FY2016-17 stood at 3.65 per cent as against 3.21 per cent in FY2015-16.

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

Sound asset quality: RGVN's Non-Performing Assets (NPA) constitute 0.89 per cent of the total loan portfolio of Rs. 653.44 crore as on 30 June, 2017 compared to 0.53 per cent of the loan portfolio of Rs. 688.32 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 the last two quarters of FY2017. The net NPA as on 31 March, 2017 stood at 0.15 per cent as against 0.12 per cent as on 31 March, 2016.

Weaknesses

Moderate scale of operations and geographic concentration risk: The loan portfolio of the company declined marginally to Rs. 653.44 crore as on 30 June, 2017 as against Rs. 688.48 crore as on 31 March, 2017. RGVN's operations are highly concentrated in Assam - 93.32 per cent of its total portfolio as on 30 June, 2017. Generally, the risk profile of a micro finance company with a geographically dispersed portfolio is more resilient compared to that of an entity with a centralised portfolio. In order to reduce portfolio concentration, the company opened branches in Meghalaya, Arunachal Pradesh, Nagaland and Sikkim which constitute around 7 per cent of the portfolio. SMERA believes that the moderate size of its loan book and 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 operations and diversifies its loan portfolio geographically, while maintaining the 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. Any 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 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 against 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 31 March, 2017 and is expected to commence commercial operations from the second quarter of FY2018. The North East Small Finance Bank Limited incorporated in July 2016 is expected to start commercial operations in the second quarter of FY2018. SMERA believes that after commencing operations as a small finance bank, RGVN's ability to raise retail deposits and access 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:

***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	November 2018	130.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan III	NA	NA	August 2017	5.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan IV	NA	NA	September 2018	50.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan V	NA	NA	July 2018	15.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan VI	NA	NA	July 2019	10.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan VII	NA	NA	June 2018	10.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan VIII	NA	NA	March 2018	50.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan IX	NA	NA	March 2019	15.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan X	NA	NA	January 2022	35.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan XI	NA	NA	August 2018	33.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan XII	NA	NA	September 2018	50.00	SMERA BBB+/Stable (Reaffirmed)
Term Loan XIII	NA	NA	September 2019	15.00	SMERA BBB+/Stable (Reaffirmed)
Proposed Term Loan	NA	NA	NA	46.00	SMERA BBB+/Stable (Reaffirmed)
Non-Convertible	July 2015	13.90	July 2020	16.00	SMERA BBB+/Stable

Debenture I					(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 (Reaffirmed)
Non-Convertible Debenture VI	August 2017	11.00	August 2020	50.00	SMERA BBB+/Stable (Assigned)
Non-Convertible Debenture VII	August 2017	11.00	August 2020	59.50	SMERA BBB+/Stable (Assigned)
Commercial Paper (Proposed)	NA	NA	NA	25.00	SMERA A2 (Assigned)

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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