

## Press Release

### North East Small Finance Bank Limited

February 28, 2019



### Rating Assigned Reaffirmed and Withdrawn

<b>Total facilities</b>	<b>Rs.1161.98 Cr.</b>
<b>Total Bank Facilities Rated*</b>	<b>Rs.1027.31 Cr.</b>
Long Term Rating	ACUITE A-/Stable
<b>Total Non-Convertible Debentures Rated</b>	<b>Rs.134.67 Cr.</b>
Long Term Rating	ACUITE A- /Stable

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed its long-term rating of **ACUITE A- (read as ACUITE A minus)** to the Rs.465.92 Cr. bank facilities and assigned the same rating to the Rs.561.39 Cr. bank facilities of North East Small Finance Bank Limited (NESFBL). The outlook is '**Stable**'.

Acuite has reaffirmed its long term rating of **ACUITE A- (read as ACUITE A minus)** to the Rs.134.67 Cr. Nonconvertible Debentures.

Further, Acuite has withdrawn the rating of **ACUITE A- (read as ACUITE A minus)** on the Rs.53.9 Cr. bank facilities and Rs.49.26 Cr. Nonconvertible Debentures of NESFBL as these instruments have been fully redeemed.

NESFBL is a Small Finance Bank promoted by RGVN (North East) Microfinance Limited (RGVN) in 2016. RGVN, a NBFC-MFI, had commenced operations in 2008 and was engaged in extending micro credit to weaker sections focusing on the north eastern states of Assam, Sikkim, Meghalaya, Arunachal Pradesh and Nagaland. RGVN transferred its assets and liabilities to NESFBL through slump sale in October 2017. As per the current structure, RGVN operates as a holding company having 99.9 percent stake in NESFBL.

NESFBL commenced its SFB operations in October 2017. The SFB had network of 162 branches as on December 31, 2018 in North East India, of which 83 being liability branches and the rest being asset branches extending micro credit. NESFBL has plans to gradually convert all its asset branches to full-fledged branches. NESFBL is the only financial institution in North East India to have received a banking license.

### Analytical Approach

Acuite has adopted a standalone approach on NESFBL's business and financial risk profile for arriving at the rating.

### Key Rating Drivers

#### Strengths

#### • Established presence in North Eastern states

NESFBL commenced its banking operations in October 2017, prior to which the microfinance operations were carried out via RGVN since 2008. RGVN's business of microfinance lending was transferred to NESFBL by way of slump sale under a business Transfer agreement signed between the two entities and the entire asset and liabilities of RGVN were transferred to NESFBL. NESFBL operates as a wholly owned subsidiary of RGVN which has become the holding company to SFB. RGVN has attracted capital funding from marquee investors such as SIDBI, RNT Associates, Pi ventures, Nordic Microfinance Initiative Fund, Dia Vikas Capital Private Limited, Bajaj Allianz and RGVN ESOP Trust amounting to Rs. 76.30 Cr. which makes RGVN a domestically owned organisation with 54.10 percent domestic holding.

The key benefit of conversion to SFB is the access to low cost customer deposits, more particularly the CASA deposits. In order to leverage on the SFB status, NESFBL plans to convert all its asset only branches

into full-fledged branches i.e. asset and liability branches in a phased manner. The SFB has strengthened its systems and processes by implementing core banking solution for undertaking banking operations across its branches. NESFBL, as on December 31, 2018, had 162 branches of which 83 were already converted to full-fledged branches and the rest were asset branches i.e. branches extending micro credit. The gradual expansion in branches (i.e. conversion of asset branches to full-fledged branches) is likely to result in higher levels of deposits (CASA and Fixed deposits) which in turn is likely to result in lower cost of funds and higher profitability. The bank is focused on creating a granular retail deposit base as a result of which the entire depositor base is retail in nature. The SFB has garnered overall deposits of Rs. 172 Cr. as on December 31, 2018, of which CASA deposits amounted to Rs. 22.7 Cr. The number of customer accounts as on December 31, 2018 were 73,915.

On the assets side, NESFBL stands to benefit considerably from its established presence in micro finance segment in the North Eastern states. It gradually plans to introduce other products such as housing equipment loans, business loans and loans to NBFC/ MFI's, enterprise development loans and Overdraft against Fixed deposit.

Operations are currently headed by Ms. Rupali Kalita, a development banker having expertise in the banking and financial sector for over three decades. NESFBL's board comprises of Nominee Directors who are seasoned professionals. NESFBL also benefits from the presence of ex-bankers, Mr. Bhaskar Jyoti Sarma & Mr. Ranjit Goswami ex bankers, who are Independent Directors on the Board of the SFB. Further, the key areas of the SFB such as credit and treasury are headed by experienced professionals from banking and finance domain.

Acuite believes that the SFB's operational performance will be supported by competitive positioning on the asset side along with strong systems and processing in place to carry out banking operations.

#### • **Healthy asset quality and comfortable capitalisation levels**

NESFBL's loan book mainly comprises microfinance loans extended to the weaker sections of the society. The stringent credit appraisal and loan monitoring process as imbibed from the operational discipline of RGVN has enabled NESFBL to report low delinquencies. The SFB operates through a branch network of 162 branches as on December 31, 2018 in the North East of India, of which 83 being liability branches and the rest being asset branches extending micro credit across 9 states of North east India catering to a borrower base of 5.58 lakhs as on December 31, 2018.

The SFB's loan portfolio has grown from Rs. 744 Cr. as on December 31, 2017 to Rs. 1132 Cr. as on December 31, 2018. Despite aggressive growth, GNPA stood at 1.29 percent as on December 31, 2018 vis-à-vis 0.85 percent as on March 31, 2018. The Net NPA Ratio stood at 0.57 percent and 0.43 percent as on December 31, 2018 and March 31, 2018. The SFB plans to diversify its product mix by introducing products such as housing equipment loans, business loans and enterprise development loans, which is likely to improve the credit profile of borrower in the medium term. NESFBL has demonstrated its expertise in the microfinance segment; however, the track record in other products is yet to be established.

NESFBL commenced banking operations in October 2017 and the management has focused on conversion of asset only branches to full-fledged branches and to bring them under Core banking solution. As a result of which the operating costs has spiked up causing a decline in the Return on Average Assets. The average cost of funding is expected to come down with gradual increase in deposit base and replacement of high cost borrowing with low cost deposit, more specifically, CASA deposits. Thereby resulting in improved profitability from operations. The SFB is also maintaining excess SLR and CRR as prudent policy to maintain adequate liquidity which has implications on its profitability.

The SFB has comfortable capitalisation level with overall Capital Adequacy Ratio of 22.59 percent as on December 31, 2018 (21.74 percent as on March 31, 2018) mainly by way of Tier I capital of 22.2 percent (21 percent as on March 31, 2018) as against regulatory threshold of 15 percent. This has added flexibility to raise Tier II bonds even in case of aggressive growth strategy.

Acuite believes that NESFBL is well positioned to benefit from its strong franchise in microfinance lending segment coupled with its increasing branch network resulting in higher customer deposits and adequate capitalisation levels.

## Weaknesses

- **Limited track record of banking operations; Retail Deposit Franchise yet to be established**

NESFBL had commenced its banking operations in October 2017 and has completed over one year of banking operations. The operations were initially carried out under an NBFC, RGVN. Consequent to a slump sale to NESFBL and conversion to SFB, the management will have to ensure strict compliance with all the regulatory requirements applicable to SFBs, such as maintenance of CRR and SLR, among others. The management of RGVN has, in the past, demonstrated a sound track record in the microfinance lending segment. While the management of the SFB comprises experienced bankers, their ability to scale up the business while managing the various risks inherent to banking such as interest rate risk, Asset Liability management risk, market risk and operational risk is yet to be demonstrated. On the assets side, the SFB plans to introduce new products to expand its loan book, the ability to manage credit risk also becomes critical.

The key benefit on conversion to SFB is access to low cost customer deposits, especially CASA deposits. The SFB is gradually expanding its branch network by converting its existing asset origination branches to full-fledged branches which also accept retail deposits. NESFBL will have to compete with other established banks/ institutions to garner customer deposits. The SFB has presence mostly in the north eastern states of India, considering the relatively low penetration of trade and industry in these states significant scaling up of operations could prove to be a challenging task. The existing network of nationalised and private sector banks will also impact the ability to scale up its deposits franchise.

Acuite believes that NESFBL will continue to scale up its operations; however, its track record in the other areas such as retail deposits, treasury, and liquidity management, among others will be key determinants of its operating performance and influence its key business parameters and its overall efficiency.

## Liquidity Position

NESFBL's resource profile mostly comprises of net worth base, long term borrowings and deposits from customers. Assets mostly comprise microfinance lending with tenure upto 2 years. NESFBL has managed to maintain a healthy balance between its longer tenure liabilities and short tenure advances. Besides maintaining CRR and SLR in excess of statutory requirements, the SFB has also maintained liquid investments in non-SLR category which provide liquidity buffers. The SFB also has access to lines of credit from certain banks. The SFB has excess liquidity coverage ratio.

## Outlook: Stable

Acuite believe that NESFBL's credit profile will be supported by its established presence in the microfinance sector. The outlook may be revised to positive in case of significant improvement in profitability on account of increase in customer deposits, while maintaining the asset quality and capitalisation levels. The outlook may be revised to negative in case of significant deterioration in asset quality and profitability/ capitalisation levels.

## About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Total Assets	Rs. Cr.	1550.9	NA	NA
Total Income*	Rs. Cr.	52.3	NA	NA
PAT	Rs. Cr.	22.3	NA	NA
Net Worth	(%)	315.7	NA	NA
Return on Average Assets (RoAA)	(%)	1.5	NA	NA
Return on Average Net Worth (RoNW)	(%)	7.2	NA	NA
Total Debt/Tangible Net Worth (Gearing)	Times	3.4	NA	NA
Gross NPA	Times	0.9	NA	NA
Net NPA	Times	0.4	NA	NA

\* Total income equals to Net interest income plus other income

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

None

## Any other information

None

## Applicable Criteria

- Criteria for Rating of Banks and Financial Institutions- <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition -<https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

## Note on complexity levels of the rated instrument

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

## Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
06-Mar-2018	Term Loan	Long Term	28.13	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	56.9	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	19.52	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	1.61	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	67.87	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	9.74	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	36.27	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	4.11	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	68.93	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	13.33	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	34.11	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	2.17	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	37.5	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	78.26	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	8.33	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	43.75	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	47.38	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	10.86	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	7.67	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	42.63	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	44.1	ACUITE A-/Stable (Assigned)
	Proposed facility Term Loan	Long Term	364.14	ACUITE A-/Stable (Assigned)

	Secured Redeemable Non-convertible Debentures	Long Term	16	ACUITE A-/Stable (Assigned)
	Secured Redeemable Non-convertible Debentures	Long Term	33.26	ACUITE A-/Stable (Assigned)
	Secured Redeemable Non-convertible Debentures	Long Term	58	ACUITE A-/Stable (Assigned)
	Secured Redeemable Non-convertible Debentures	Long Term	25	ACUITE A-/Stable (Assigned)
	Secured Redeemable Non-convertible Debentures	Long Term	15	ACUITE A-/Stable (Assigned)
	Secured Redeemable Non-convertible Debentures	Long Term	36.67	ACUITE A-/Stable (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A4+ (Assigned)

**\*Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	14.19	ACUITE A-/Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	2.5	ACUITE A-/Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	32.14	ACUITE A-/Stable (Assigned)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	100	ACUITE A-/Stable (Assigned)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	6.43	ACUITE A-/Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	1.61	ACUITE A-/Stable (Withdrawn)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	46.76	ACUITE A-/Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	9.74	ACUITE A-/Stable (Withdrawn)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	36.27	ACUITE A-/Stable (Withdrawn)

NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	4.11	ACUITE A- /Stable (Withdrawn)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	21.43	ACUITE A- /Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	8.09	ACUITE A- /Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	13.36	ACUITE A- /Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	2.17	ACUITE A- /Stable (Withdrawn)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	24.25	ACUITE A- /Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	106.25	ACUITE A- /Stable (Assigned)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	170	ACUITE A- /Stable (Assigned)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	150	ACUITE A- /Stable (Assigned)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	3	ACUITE A- /Stable (Assigned)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	29.57	ACUITE A- /Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE A- /Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	18.75	ACUITE A- /Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	13.33	ACUITE A- /Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	2.34	ACUITE A- /Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	4	ACUITE A- /Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	25.12	ACUITE A- /Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	26.71	ACUITE A- /Stable (Reaffirmed)
NA	Term Loan	Not Applicable	Not Applicable	Not Applicable	97	ACUITE A- /Stable (Reaffirmed)
NA	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	108.34	ACUITE A- /Stable (Reaffirmed)



INE152T07018	Secured Redeemable Non-convertible Debentures	July 14,2015	13.91%	July 14, 2020	16	ACUITE A-/Stable (Withdrawn)
INE152T07026	Secured Redeemable Non-convertible Debentures	July 17,2015	14.50%	Nov 13,2020	33.26	ACUITE A-/Stable (Withdrawn)
INE152T07059	Secured Redeemable Non-convertible Debentures	June 10, 2016	13.25%	Jun 30, 2019	15	ACUITE A-/Stable (Reaffirmed)
INE152T07034	Secured Redeemable Non-convertible Debentures	Aug 29, 2017	11%	Aug 29, 2020	36.67	ACUITE A-/Stable (Reaffirmed)
INE152T07042	Secured Redeemable Non-convertible Debentures	Aug 09,2017	11%	Aug 09, 2020	58	ACUITE A-/Stable (Reaffirmed)
INE152T08016	Secured Redeemable Non-convertible Debentures	Jun 09, 2016	13.25%	Jun 09,2022	25	ACUITE A-/Stable (Reaffirmed)

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## About Acuite Ratings & Research:

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