

Press Release

North East Small Finance Bank

February 19, 2021



Rating Reaffirmed and Withdrawn

Total facilities	Rs.260.58Cr.
Total Bank Facilities Rated*	Rs.202.58 Cr.
Instruments Rated*	Rs.151.32 Cr.
Long Term Rating	ACUITE A-/Stable (Reaffirmed)
Instruments Rated*	Rs.51.26 Cr.
Long Term Rating	ACUITE A- (Withdrawn)
Total Non-Convertible Debentures Rated	Rs.58.00 Cr.
Long Term Rating	ACUITE A- (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of **ACUITE A-(read as ACUITE A minus)** on the Rs.151.32 Cr. bank facilities of North East Small Finance Bank Limited (NESFBL). The outlook is "**Stable**".

Acuite has withdrawn the long term rating of **ACUITE A- (read as ACUITE A minus)** on the Rs.38.54 Cr. bank facilities of North East Small Finance Bank Limited (NESFBL). Further, Acuite has withdrawn the long term rating of **ACUITE A- (read as ACUITE A minus)** on the Rs.58.00 Cr. Non-convertible Debentures and Rs.12.72 Cr. bank facilities of NESFBL as these instruments have been fully repaid and redeemed. This rating withdrawal is in accordance with the Acuite's policy on withdrawal of rating. The rating is being withdrawn on account of request received from the company.

The rating continues to factor in the established presence in the North eastern region, experienced management and institutional support. Rating also factors in the SFB's adequate capitalization metrics marked by CAR which stood at 22.44 percent as on September 30,2020. The gearing has seen moderate improvements from 2.05 times as on March 31,2020 to 1.91 times as on September 30, 2020. The rating also reflects healthy funding profile of the SFB marked by deposits of Rs.1097 Cr. as on December 31, 2020 (Rs.813 Cr. as on December 31,2019), of which CASA deposits amounted to Rs.301 Cr. (27.4 percent) as on December 31,2020 (Rs.184 Cr. (22.7 percent) as on December 31,2019).

These strengths are partially offset by relatively moderate scale of operations and geographical concentration in Assam (~88 percent of the total portfolio as on December 31, 2020). Acuite notes that the management has been expanding its operations so as to diversify its geographical presence. Further, Acuite notes the inherent risks in microfinance portfolio, accentuated by the economic impact of COVID-19, rendering the portfolio vulnerable to asset quality risks. Acuite understands that NESFBL has maintained status quo on the NPAs in view of the Supreme Court's dispensation restricting banks and financial institutions from classifying accounts as NPA. Against this backdrop, the SFB reported GNPA (90 dpd+) at 1.56 percent as on December 31,2020 as against 1.94 percent as on March 31,2020.

About the company

NESFBL is an Assam based 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, Mizoram, Manipur, West Bengal, Tripura 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 has network of 214 branches as on December 31, 2020 in North East India, of which 124 being liability branches and the rest being asset

branches extending micro credit. 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:

- **Experienced management supported by marquee investors**

NESFB commenced its operations in October, 2017. The operations of the SFB are 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-banker, Mr. Bhaskar Jyoti Sarma who is an Independent Director 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. 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 Private Limited, Pi Ventures LLP, Nordic Microfinance Initiative Fund, Dia Vikas Capital Private Limited, Bajaj Allianz and RGVN ESOP Trust amounting to Rs.70.34 Cr. which makes RGVN a domestically owned organization with 65 percent domestic holding as on September 30, 2020.

Acuite believes that the business risk profile of the SFB will benefit from the experienced professional management and the support of marquee investors.

- **Established presence in North Eastern India**

NESFB commenced its operations as an SFB in October, 2017, prior to which it operated as an NBFC-MFI in the North eastern region since 2008. Over the years the SFB has established its presence in the North Eastern states, with a branch network of 214 branches spread across 59 districts in 9 states as on December 31, 2020. The number of full-fledged branches, i.e. asset and liability branches increased to 124 as on December 31, 2020 as against 110 branches as on December 31, 2019. The gradual branch expansion (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 key benefit of conversion to SFB is the access to low cost customer deposits, more particularly the CASA deposits. The SFB has strengthened its systems and processes by implementing core banking solution for undertaking banking operations across its branches. The SFB has garnered overall deposits of Rs.1097 Cr. as on December 31, 2020 (Rs.813 Cr. as on December 31, 2019), of which CASA deposits amounted to Rs.301 Cr. (27.4 percent) as on December 31, 2020 (Rs.184 Cr. (22.7 percent) as on December 31, 2019).

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 expand its other products such as housing equipment loans, business loans, enterprise development loans and Overdraft against Fixed deposits.

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.

Weaknesses

- **Moderate Geographic Concentration; susceptibility of performance to socio-political climate in North East region**

NESFB has expanded its operations over the past three years and currently operates in nine states in North Eastern Region (the seven sister states, Sikkim and West Bengal) spread across 59 districts with 214 branches as on December 31, 2020. Nevertheless, NESFB's loan book remained largely concentrated in Assam which accounted for ~88 percent of the loan book (~89 percent as on December 31, 2019) followed by Sikkim at ~2.3 percent (~2.2 percent as on March 31, 2020) as on December 31, 2020. The performance of the loan book is linked to socio-economic activities or impact of natural calamities in a particular region and thereby, a concentrated portfolio carries the risks of the performance of these regions.

The SFB primarily extends microfinance loans to relatively weaker sections of society with lower capacity to absorb shocks of any changes in economic activities or impact of natural calamities in these regions. In the past, the portfolio of NESFB was impinged by the socio political environment in the Upper Assam region, which led to shrinking of the loan portfolio and increase in delinquency in this region. COVID-19 pandemic and consequent lockdowns have resulted in significant logistical challenges, which has impacted the operations of microfinance industry as a whole, as their activities are linked to the movement of men and goods and linked to holding of frequent centre meetings. Gradually, the policies regarding restrictions and implementation of the lockdowns are being handled at the level of state government and local government levels. Hence, the policies of the state and local government bodies will be critical from a business continuity standpoint. This will also have an impact on the trajectory of collection efficiency.

Acuité believes that geographical concentration of its portfolio will continue to weigh on the SFB's credit profile over the near to medium term.

- **Moderate Asset Quality Metrics**

NESFB's loan book stood at Rs.1578 Cr. as on December 31,2020 as against Rs.1363 Cr. as on March 31, 2020 and Rs.1390 Cr. as on March 31, 2019. While the SFB has been increasingly expanding its other products, particularly business loans (~14 percent of the loan book as on December 31,2020 as against ~4 percent as on March 31,2020), microfinance loans continue to account for majority of the loan book (~83 percent of the loan book as on December 31,2020 as against ~94 percent of the loan book as on March 31,2020). Acuité notes the inherent risks in microfinance portfolio, accentuated by the economic impact of COVID-19, rendering the portfolio vulnerable to asset quality risks. Further, Acuité understands that NESFB has maintained status quo on the NPAs in view of the Supreme Court's dispensation restricting banks and financial institutions from classifying accounts as NPA. Against this backdrop, the SFB reported GNPA (90 dpd+) at 1.56 percent as on December 31,2020 as against 1.94 percent as on March 31,2020.

Acuité believes NESFB's ability to demonstrate growth in loan assets while containing asset quality risks in the light of continuously evolving scenario will be crucial.

Liquidity Position: Adequate

NESFB's has well managed liquidity profile with no cumulative mismatches in upto 1 year buckets as per ALM dated December 31,2020. The resource profile mostly comprises of net worth base, long term borrowings and deposits from customers with a maturity pattern ranging between three to five years. Assets mostly comprise microfinance lending with tenure upto 2 years. It has a well-managed asset liability maturity to maintain a healthy balance between its longer tenure liabilities and short tenure advances. Besides maintaining Liquidity Coverage Ratio of 161.49 percent as on December 31,2020, the SFB has also maintained liquid investments and excess CRR and SLR which provide additional liquidity buffers.

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 growth in portfolio and 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, profitability and capitalisation levels.

About the Rated Entity Financials

	Unit	FY20 (Audited)	FY19 (Audited)
Total Assets	Rs. Cr.	2062	1770
Total Income*	Rs. Cr.	188	162
PAT	Rs. Cr.	13	37
Net Worth	Rs. Cr.	365.27	352.68
Return on Average Assets (RoAA)	(%)	0.66	2.22
Return on Average Net Worth (RoNW)	(%)	3.51	11.05
Total Debt/Tangible Net Worth (Gearing)	Times	2.05	3.12
Gross NPA	(%)	1.94	1.02
Net NPA	(%)	1.20	0.71

Status of non-cooperation with previous CRA

Not Applicable

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Banks and Financial Institutions - <https://www.acuite.in/view-rating-criteria-45.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
February 21, 2020	Term Loan	Long Term	0.61	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	2.67	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	2.50	ACUITE A- (Withdrawn)
	Term Loan	Long Term	17.86	ACUITE A- (Reaffirmed)
	Term Loan	Long Term	75.00	ACUITE A- (Reaffirmed)

	Term Loan	Long Term	6.43	ACUITE A-(Withdrawn)
	Term Loan	Long Term	46.76	ACUITE A-(Withdrawn)
	Term Loan	Long Term	21.43	ACUITE A-(Withdrawn)
	Term Loan	Long Term	8.09	ACUITE A-(Withdrawn)
	Term Loan	Long Term	13.36	ACUITE A-(Withdrawn)
	Term Loan	Long Term	24.25	ACUITE A-(Withdrawn)
	Term Loan	Long Term	106.25	ACUITE A-(Withdrawn)
	Term Loan	Long Term	170.00	ACUITE A-(Withdrawn)
	Term Loan	Long Term	150.00	ACUITE A-(Withdrawn)
	Term Loan	Long Term	3.00	ACUITE A-(Withdrawn)
	Term Loan	Long Term	29.57	ACUITE A-(Withdrawn)
	Term Loan	Long Term	3.75	ACUITE A-(Withdrawn)
	Term Loan	Long Term	18.75	ACUITE A-(Withdrawn)
	Term Loan	Long Term	13.33	ACUITE A-(Withdrawn)
	Term Loan	Long Term	2.34	ACUITE A-(Withdrawn)
	Term Loan	Long Term	4.00	ACUITE A-(Withdrawn)
	Term Loan	Long Term	3.80	ACUITE A-(Withdrawn)
	Term Loan	Long Term	5.64	ACUITE A-(Withdrawn)
	Term Loan	Long Term	97.00	ACUITE A-(Withdrawn)
	Secured Redeemable Non-convertible Debentures	Long Term	58.00	ACUITE A-(Withdrawn)
	Secured Redeemable Non-convertible Debentures	Long Term	25.00	ACUITE A-(Withdrawn)
	Secured Redeemable Non-convertible Debentures	Long Term	15.00	ACUITE A-(Withdrawn)
	Secured Redeemable Non-convertible Debentures	Long Term	36.67	ACUITE A-(Withdrawn)
February 28, 2019	Term Loan	Long Term	14.19	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	2.50	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	32.14	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	100.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	6.43	ACUITE A-/Stable

				(Reaffirmed)
	Term Loan	Long Term	46.76	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	21.43	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	8.09	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	13.36	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	24.25	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	106.25	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	170.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	150.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	3.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	29.57	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	3.75	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	18.75	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	13.33	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	2.34	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	4.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	25.12	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	26.71	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	97.00	ACUITE A-/Stable (Reaffirmed)
	Proposed Term Loan	Long Term	108.34	ACUITE A-/Stable (Reaffirmed)
	Secured Redeemable Non-convertible Debentures	Long Term	58.00	ACUITE A-/Stable (Reaffirmed)
	Secured Redeemable Non-convertible Debentures	Long Term	25.00	ACUITE A-/Stable (Reaffirmed)
	Secured Redeemable Non-convertible Debentures	Long Term	15.00	ACUITE A-/Stable (Reaffirmed)
	Secured Redeemable Non-convertible Debentures	Long Term	36.67	ACUITE A-/Stable (Reaffirmed)
March 06, 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	44.10	ACUITE A-/Stable (Assigned)
	Proposed facility Term Loan	Long Term	364.14	ACUITE A-/Stable (Assigned)
	Secured Redeemable Non-convertible Debentures	Long Term	16.00	ACUITE A-/Stable (Assigned)
	Secured Redeemable Non-convertible Debentures	Long Term	33.26	ACUITE A-/Stable (Assigned)
	Secured Redeemable Non-convertible Debentures	Long Term	58.00	ACUITE A-/Stable (Assigned)
	Secured Redeemable Non-convertible Debentures	Long Term	25.00	ACUITE A-/Stable (Assigned)
	Secured Redeemable Non-convertible Debentures	Long Term	15.00	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. Cr.)	Ratings/Outlook
NA	Term Loan	Not Available	Not Available	Not Available	0.61	ACUITE A- (Withdrawn)
NA	Term Loan	Not Available	Not Available	Not Available	2.67	ACUITE A- (Withdrawn)
NA	Term Loan	Not Available	Not Available	Not Available	3.57	ACUITE A-/Stable (Reaffirmed)
NA	Term Loan	Not Available	Not Available	Not Available	75.00	ACUITE A-/Stable (Reaffirmed)
NA	Term Loan	Not Available	Not Available	Not Available	3.80	ACUITE A- (Withdrawn)
NA	Term Loan	Not Available	Not Available	Not Available	5.64	ACUITE A- (Withdrawn)
NA	Term Loan	Not Available	Not Available	Not Available	72.75	ACUITE A-/Stable (Reaffirmed)
NA	Term Loan	Not Available	Not Available	Not Available	38.54	ACUITE A- (Withdrawn)
INE152T07042	Secured Redeemable Non- convertible Debentures	Aug 09, 2017	11.00%	Aug 09, 2020	58.00	ACUITE A- (Withdrawn)

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