

Press Release

North East Small Finance Bank Limited

May 17, 2022



Rating Downgraded & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	151.32	ACUITE BBB Downgraded & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	151.32	-	-

Rating Rationale

Acuité has downgraded & withdrawn the long-term rating to **ACUITE BBB (read as ACUITE Triple B)** from **ACUITE A- (read as ACUITE A minus)** on the Rs.151.32 Cr. bank facilities of North East Small Finance Bank Limited (NESFBL). This rating withdrawal is in accordance with the Acuité's policy on withdrawal of rating. The rating is being withdrawn on account of request received from the company and NOCs received from the banks.

Reason for Downgrade:

The revision in rating is primarily driven by sharp increase in delinquencies across different buckets, the on time collection has declined from ~74 per cent as on March 31, 2020 to ~65 per cent in March 31, 2021 and further to ~55 per cent as on March 31, 2022. The elevated stress levels are reflected in other buckets as well, the 30 to 90dpd bucket increased from 17.89 per cent as on March 31, 2021 (11.63 per cent as on March 31, 2020) to ~27 per cent as on March 31, 2022. Further the gross NPA (PAR 90) stood high at 10.78 percent as on March 31, 2022, as against 11.07 percent as on March 31, 2021 (1.94 percent as of March 31, 2020). On account of weak asset quality, NESFBL had to undertake write-offs and provisions of Rs. 166 Cr in FY2022, which resulted in losses of Rs. 102 Cr as compared to net profit of Rs. 7 Cr in FY2021. The rating also take into account the deviation in actual performance vis-à-vis the envisage performance of the SFB. The rating takes into cognizance the banks's moderate scale of operations, geographical concentration in Assam (~88 percent of the total portfolio as on December 31, 2020) and moderate profitability.

The SFB continues to derive strength from its established presence in the North-eastern region, experienced management and institutional support. The rating also reflects healthy funding profile of the SFB marked by deposits of Rs.1528.78 Cr. as on March 31, 2022 (Rs.1277.23 Cr. as on March 31, 2021), of which CASA deposits amounted to Rs.574.62 Cr. (37.59 percent) as on March 31, 2022 (Rs.563.93 Cr. (44.15 percent) as on March 31, 2021).

About the company

NESFBL is a 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 216 branches as on February 2022 in North East India. NESFBL is the only financial institution in North East India to have received a banking license.

Analytical Approach

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

Key Rating Drivers

Strength

- **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.

Acuité 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 NBFCMFI 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 216 branches spread across 62 districts in 9 states as on February 2022. 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.1528.78 Cr. as on March 31,2022 (Rs.1277.83 Cr. as on March 31,2020), of which CASA deposits amounted to Rs.574 Cr. (38 percent) as on March 31,2022 (Rs.563 Cr. (44 percent) as on March 31,2021).

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

Acuité 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.

Weakness

- **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

Northeastern Region (the seven sister states, Sikkim and West Bengal) spread across 62 districts with 216 branches as on February 2022. 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.

- **Weak Asset Quality Metrics**

NESFB's loan book stood at Rs.1632 Cr. as on March 31, 2022 as against Rs.1655 Cr. as on March 31, 2021 and Rs.1348 Cr. as on March 31, 2020. While the SFB has been increasingly expanding its other products, particularly business loans, microfinance loans continue to account for majority of the loan book. There is significant deterioration in asset quality of NESFB. The bank has reported a spike in delinquencies with the proportion of 30 to 90 dpd bucket rising to 27.40 percent as on March 31, 2022, from 17.89 percent as on March 31, 2021. Gross NPA (PAR 90) stood high at 10.78 percent as on March 31, 2022, as against 11.07 percent as on March 31, 2021 (1.94 percent as on March 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.

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.

Rating Sensitivity

- Significant increase in geographical diversification
- Significant growth in retail deposits on sustained basis
- Movement in profitability

- Movement in capitalization and liquidity levels
- Asset quality pressures
- Changes in Regulatory environment

Material Covenants

None

Liquidity Position: Adequate

NESFBL's has cash and cash equivalents of Rs.80.93 Cr. as on March 31, 2022, and negative cumulative mismatch in 3 to 12 months buckets. 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. NESFBL has maintained Liquidity Coverage Ratio of 225.47 percent as on December 31,2021.

Outlook:

Not Applicable

Key Financials - Standalone / Originator

	Unit	FY21 (Audited)	FY20 (Audited)
Total Assets	Rs. Cr.	2154	1879
Total Income*	Rs. Cr.	193	188
PAT	Rs. Cr.	7	13
Net Worth	Rs. Cr.	372.45	365.27
Return on Average Assets (RoAA)	(%)	0.36	0.69
Return on Average Net Worth(RoNW)	(%)	1.95	3.51
Total Debt/Tangible Net Worth (Gearing)	Times	1.38	2.05
Gross NPA	(%)	11.07	1.94
Net NPA	(%)	6.81	1.20

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Jul 2021	Term Loan	Long Term	3.57	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	2.67	ACUITE A- (Withdrawn)
	Term Loan	Long Term	5.64	ACUITE A- (Withdrawn)
	Term Loan	Long Term	0.61	ACUITE A- (Withdrawn)
	Term Loan	Long Term	75.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	3.80	ACUITE A- (Withdrawn)
	Term Loan	Long Term	72.75	ACUITE A- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	58.00	ACUITE A- (Withdrawn)
	Term Loan	Long Term	38.54	ACUITE A- (Withdrawn)
19 Feb 2021	Term Loan	Long Term	3.57	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	3.80	ACUITE A- (Withdrawn)
	Term Loan	Long Term	72.75	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	38.54	ACUITE A- (Withdrawn)
	Term Loan	Long Term	0.61	ACUITE A- (Withdrawn)
	Term Loan	Long Term	75.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	2.67	ACUITE A- (Withdrawn)
	Term Loan	Long Term	5.64	ACUITE A- (Withdrawn)
	Non Convertible Debentures	Long Term	58.00	ACUITE A- (Withdrawn)
	Term Loan	Long Term	170.00	ACUITE A- (Withdrawn)
	Term Loan	Long Term	3.00	ACUITE A- (Withdrawn)
	Term Loan	Long Term	2.67	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	24.25	ACUITE A- (Withdrawn)
	Term Loan	Long Term	3.80	ACUITE A- (Withdrawn)
	Term Loan	Long Term	97.00	ACUITE A- (Withdrawn)
	Term Loan	Long Term	3.75	ACUITE A- (Withdrawn)
	Non Convertible Debentures	Long Term	25.00	ACUITE A- (Withdrawn)
		Long		

21 Feb 2020	Term Loan	Term	46.76	ACUITE A- (Withdrawn)
	Term Loan	Long Term	13.36	ACUITE A- (Withdrawn)
	Term Loan	Long Term	2.34	ACUITE A- (Withdrawn)
	Non Convertible Debentures	Long Term	15.00	ACUITE A- (Withdrawn)
	Term Loan	Long Term	150.00	ACUITE A- (Withdrawn)
	Term Loan	Long Term	13.33	ACUITE A- (Withdrawn)
	Term Loan	Long Term	2.50	ACUITE A- (Withdrawn)
	Term Loan	Long Term	0.61	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	18.75	ACUITE A- (Withdrawn)
	Term Loan	Long Term	4.00	ACUITE A- (Withdrawn)
	Term Loan	Long Term	29.57	ACUITE A- (Withdrawn)
	Non Convertible Debentures	Long Term	58.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	8.09	ACUITE A- (Withdrawn)
	Non Convertible Debentures	Long Term	36.67	ACUITE A- (Withdrawn)
	Term Loan	Long Term	75.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	21.43	ACUITE A- (Withdrawn)
	Term Loan	Long Term	6.43	ACUITE A- (Withdrawn)
	Term Loan	Long Term	17.86	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	5.64	ACUITE A- (Withdrawn)
	Term Loan	Long Term	106.25	ACUITE A- (Withdrawn)
	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	1.61	ACUITE A- Stable (Withdrawn)
	Term Loan	Long Term	46.76	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	9.74	ACUITE A- Stable (Withdrawn)
	Term Loan	Long Term	36.27	ACUITE A- Stable (Withdrawn)

28 Feb 2019	Term Loan	Long Term	4.11	ACUITE A- Stable (Withdrawn)	
	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	2.17	ACUITE A- Stable (Withdrawn)	
	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)	
	Non Convertible Debentures	Long Term	16.00	ACUITE A- Stable (Withdrawn)	
	Non Convertible Debentures	Long Term	33.26	ACUITE A- Stable (Withdrawn)	
	Non Convertible Debentures	Long Term	15.00	ACUITE A- Stable (Reaffirmed)	
	Non Convertible Debentures	Long Term	36.67	ACUITE A- Stable (Reaffirmed)	
	Non Convertible Debentures	Long Term	58.00	ACUITE A- Stable (Reaffirmed)	
	Non Convertible Debentures	Long Term	25.00	ACUITE A- Stable (Reaffirmed)	
		Term Loan	Long Term	68.93	ACUITE A- Stable (Assigned)
		Term Loan	Long Term	13.33	ACUITE A- Stable (Assigned)
	Term Loan	Long	34.11	ACUITE A- Stable	

06 Mar 2018	Term Loan	Term Long Term	2.17	(Assigned) ACUITE A- Stable (Assigned)
	Term Loan	Long Term	37.50	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 Bank Facility	Long Term	364.14	ACUITE A- Stable (Assigned)
	Non Convertible Debentures	Long Term	16.00	ACUITE A- Stable (Assigned)
	Non Convertible Debentures	Long Term	33.26	ACUITE A- Stable (Assigned)
	Non Convertible Debentures	Long Term	15.00	ACUITE A- Stable (Assigned)
	Non Convertible Debentures	Long Term	36.67	ACUITE A- Stable (Assigned)
	Non Convertible Debentures	Long Term	58.00	ACUITE A- Stable (Assigned)
	Non Convertible Debentures	Long Term	25.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	28.13	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	56.90	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)	

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	3.57	ACUITE BBB Downgraded & Withdrawn (from ACUITE A-)
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	75.00	ACUITE BBB Downgraded & Withdrawn (from ACUITE A-)
International Finance Corporation	Not Applicable	Term Loan	Not available	Not available	Not available	72.75	ACUITE BBB Downgraded & Withdrawn (from ACUITE A-)

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