

Press Release

G U Financial Services Limited

July 17, 2020



Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs. 90.00 crore
Long Term Rating	ACUITE BBB-/ Negative (Reaffirmed & Assigned; Outlook revised from Stable)

*Refer annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs. 80.00 crore bank facilities of G U Financial Services Private Limited (GUFS). The outlook is revised from '**Stable**' to '**Negative**'.

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs. 10.00 crore bank facilities of G U Financial Services Private Limited (GUFS). The outlook is '**Negative**'.

Reasons for revision of Outlook

The outbreak of the COVID-19 virus and the continued lockdowns have significantly impacted the operations of MFIs like GUFS. GUFS is engaged in extending micro-credit to women borrowers through the Joint Liability Group (JLG) model. The borrowers of MFIs typically comprise the economically challenged sections of society whose income streams are linked to their day to day activities. The continued lockdowns have impacted the ability of most of the borrowers to carry on their income generating activities, affecting their cashflows. Besides the impact on the cashflows of the borrowers, the collection efficiency is also impacted due to logistical challenges on the part of MFIs in reaching out to the borrowers and engaging with them on a periodic basis. Resultantly, the collections have drastically declined and there is considerable uncertainty as of now, on the resumption of normal operations. It is difficult to ascertain at the current juncture the impact on the overall asset quality as the credit profiles of some of the borrowers could be impaired for a much longer time. Acuité believes that the impact of the lockdown on the asset quality will be clear only after the moratorium i.e. around the third quarter of FY 2021.

Besides the asset side challenges mentioned above, GUFS also faces pressures on the liability side. GUFS's gearing as on March 31, 2020 (provisional) stood at 6.06 times. GUFS's total borrowings of Rs. 87.88 crore is from various Banks and NBFCs/FIs. As on March 31, 2020, the outstanding borrowings from banks stood at Rs. 29.55 crore (~34 percent) and from NBFCs/FIs stood at Rs. 58.33 crore (~66 percent). In view of the ongoing crisis, GUFS had extended the moratorium to all its borrowers which were in line with general practice followed by other MFIs. GUFS was expecting a similar relief from its lenders and had sought moratorium from all its lenders. GUFS received explicit approval for moratorium till May 2020 from all of its 15 lenders. For the second moratorium till August, 2020 the company received explicit approval from only 1 lender while the rest of the lenders either denied extension or are yet to communicate their stance.

GUFS's on-book collections during April, May and June 2020 were Rs. 0.04 crore, Rs. 0.83 crore and Rs. 2.92 crore respectively, i.e. ~1 percent of the scheduled collection for April, ~11 percent of the scheduled collection for May and ~39 percent of the scheduled collection for June. Since GUFS's collections from borrowers have significantly declined, their ability to make payments as per original terms has been impaired. GUFS scheduled collections for its on book portfolio are around Rs. 6.00 – 6.50 crore on a monthly basis against which its scheduled debt servicing obligations (as per regular schedule) are around Rs. 5.0 – 5.50 crore. Acuité believes that the company has been attempting to manage its liquidity by seeking moratorium from its lenders, so as to synchronize with its moratorium to its borrowers. Acuité believes that its near term liquidity pressures will continue to be elevated as most of the lenders, especially the NBFC's, may find it difficult to extend a complete moratorium till August, 2020. Hence, the liquidity challenges for players like GUFS are expected to accentuate over the near term till they pump in additional long term funding

through equity or long term debt. Acuité believes that GUFS's collection efficiency is likely to improve only in a gradual basis. GUFS is currently in discussion with its lenders to arrange for long term funds under TLTRO and another special liquidity facility.

Against the above backdrop, there will be three key rating monitorable: Firstly, the ability to contain the asset quality pressures and achieve optimal collection efficiency commensurate with the monthly obligations (both debt servicing obligations and operating expenses). Secondly, the management of the liquidity buffers since, the stance of the lenders to extend further moratorium will be critical till collection efficiency sufficiently improves. Thirdly, the ability of the promoters to arrange for long term funding support either through equity or through long term debt.

About G U Financial Services Private Limited

Odisha based, G U Financial Services Private Limited (GUFS) is a non-deposit taking NBFC-MFI. GUFS is engaged in extending micro credit primarily to women borrowers through (JLG) model since 2008. The company is promoted by Mr. Govind Chandra Dash (Founder & Chairman) who has over three decades of experience in development and financial inclusion of rural areas in Odisha through his NGO Gram Utthan, which he established in 1990. In 2008, Mr. Govind Chandra Dash acquired an existing NBFC Visudha Investment Private Limited and renamed it as G U Financial Services Private Limited.

GUFS also provides Micro Housing loans, Integrated Fish Farming loans and Water, Sanitation and Hygiene loans. The company operates in 15 districts of Odisha and Chhattisgarh with a network of 42 branches as on March 31, 2020.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of GUFS to arrive at the rating.

Acuité has been guided by recent SEBI circular dated 30th March, 2020 (Circular No: SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/53) while arriving at the rating. Acuite has also relied on the recent RBI circular dated 27th March, 2020 (Circular No: RBI/2019-20/186 in this regard. Acuité observes that the company did not receive moratorium from some of its lenders. The company has skipped payments to these lenders for April and May 2020. Acuité believes that this slippage is attributable to the ongoing crisis and hence has not construed these slippages as a credit event while arriving at the rating decision. Acuité policy regarding this "Transitory relaxation from compliance with certain provisions under SEBI (Credit Rating Agencies) Regulations, 1999" is as follows: <https://www.acuite.in/transitory-relaxation-from-compliance-with-certain-provisions-under-SEBI.htm>

Key Rating Drivers

Strengths

- Experienced management in micro-finance segment**

GUFS commenced its operations in 2008 extending micro-credit to women engaged in income generating activities under the Joint Liability Group (JLG) model. The company also extends Micro Housing loans, Integrated Fish Farming loans and Water, Sanitation and Hygiene loans. GUFS cater to rural and semi-urban areas of Odisha and Chhattisgarh with its network of 42 branches across 15 districts with an AUM of Rs. 131.79 crore as on March 31, 2020.

GUFS is promoted by Mr. Govind Chandra Dash who has been engaged in microfinance and rural development in Odisha through his NGO Gram Utthan. In 1990, Mr. Govind Chandra Dash established an NGO Gram Utthan which worked towards the development and financial inclusion of the rural population of Odisha. In 2008, he acquired an existing NBFC Visudha Investment Private Limited and re-named it as G U Financial Services Private Limited to provide an exclusive platform for financial inclusion efforts of his NGO Gram Utthan. Mr. Govind Chandra Dash is adequately supported by other members on the Board of Directors comprising Mr. Sasibhusan Dash (Managing Director), who has over three decades of experience in banking with State Bank of India in retail banking, international trade, forex, credit delivery, compliance and risk management. He has also led SBI's foreign operations. Other board members include Mr. Gobinda

Chandra Nayak (Director), having over two decades of experience in social development and legalities and Mr. Prasad Kuchibhatla (Independent Director), ex-CGM Reserve Bank of India.

Over the years, GUFS has expanded its operations to build an AUM of Rs. 131.79 crore as on March 31, 2020 as compared to Rs. 51.85 crore as on March 31, 2017. The AUM of Rs. 131.79 crore comprised owned portfolio of Rs. 85.12 crore and off-book exposure of Rs. 46.66 crore as on March 31, 2020. The company takes off-book exposure through Business Correspondence ~35 percent of its overall AUM as on March 31, 2020. It is a business correspondence partner for Arohan Financial Services, Belstar Microfinance and Samunnati Financial Intermediation and Services.

Acuité believes that experience of the management and promoters will be central to support the business risk profile of the company.

Weaknesses

- **Leveraged Capital Structure impacting financial flexibility; significant near term obligations adding to liquidity pressures**

GUFS is engaged in microfinance lending providing short term loans up to 12 - 36 months. The company extends micro-credit through the Joint Liability Group (JLG) model. The company's networth stood at Rs. 14.49 crore and total debt stood at Rs. 87.88 crore as on March 31, 2020 (provisional). GUFS's AUM stood at Rs. 131.79 crore as on March 31, 2020 as against Rs. 112.03 crore as on March 31, 2019. The company's gearing stood at 6.06 times as on March 31, 2020 (provisional) as against 6.04 times as on March 31, 2019. The debt comprises of term loans from Banks/NBFCs/FIs. The borrowings from Banks accounted for ~34 percent, NBFC/FI's for ~66 percent of the total borrowings of Rs. 87.88 crore as on March 31, 2020 (provisional). In a relatively steady operating environment, the company has demonstrated fundraising ability from various Banks and NBFCs/FIs. However, the recent COVID-19 outbreak in the last quarter of FY2020 resulted in a nationwide lockdown which has led to significant deterioration in the collection efficiency and cashflows of GUFS's borrowers. The MFIs like GUFS were required to extend a moratorium to their borrowers and they, in turn, were expecting similar support from their lenders. GUFS has also sought a similar moratorium from its lenders. The liquidity buffers will depend on the ability to scale up its collections at a level commensurate with its debt service obligation and disbursements. Any challenges in getting additional moratorium from its lenders and/or arranging for long term funding to bridge the near term mismatches will also impact the liquidity profile. GUFS is in talks to raise funding with various existing lenders to support its liquidity profile. However, the stance of these lenders like banks who have been adopting a very selective and cautious approach to NBFC sector will make it difficult to assess.

Acuité believes that leveraged companies like GUFS could face challenges in raising additional debt due to a very selective and cautious approach adopted by Banks and FIs.

- **Risk inherent to microfinance segment and elevated stress in asset quality**

The activities of microfinance companies like GUFS are exposed to concentration risks. GUFS has a presence in 2 states with a concentration in Odisha (98.86 percent of total AUM) and Chhattisgarh (1.14 percent of total AUM as on March 31, 2020. This exposes the company to high geographical concentration risk. Thus, the company's performance is expected to remain exposed to the competitive landscape in these regions and the occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework, thereby impacting the credit profile of GUFS.

GUFS's AUM majorly comprised from its 4 traditional districts of Kendrapara, Jajpur, Bhadrak and Balasore with ~78 percent contribution to the total AUM of Rs. 131.79 crore as on March 31, 2020 as compared to ~84 percent contribution to the total AUM of Rs. 112.03 crore as on March 31, 2019. GNPA levels rose to 1.21 percent as on March 31, 2020 as against 0.13 percent as on March 31, 2019. Although the contribution from these 4 major districts has come down as the company is diversifying into new geographies, the other markets contribution to the GNPA has increased. The contribution of other districts towards GNPA was ~61 percent at Rs. 0.63 crore of the total GNPA of Rs. 1.03 crore as on March 31, 2020.

Acuité believes, going forward, the ability of the company to mobilize additional funding through debt /sub-debt and its ability to deploy the funds profitably while maintaining its asset quality will be key rating sensitivity.

Rating Sensitivity

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metrics
- Changes in the regulatory environment

Material Covenants

GUFS is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others. As per confirmation received from client vide mail 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity: Stretched

GUFS maintained cash and cash equivalents of Rs. 8.86 crore as on March 31, 2020. The company has not made any disbursements for the month of April, May and June 2020 and sought moratorium from its lender under which only the interest payments are being made. While the company has maintained liquidity to take care of its day to day operation costs and interest payments. GUFS's total collections during April, May and June 2020 were Rs. 0.06 crore, Rs. 1.07 crore and Rs. 2.92 crore respectively, i.e. ~1 percent of the scheduled collection for April, ~11 percent of the scheduled collection for May and ~31 percent of the scheduled collection for June. The collections are currently subdued and any improvement in collections are expected to be gradual. Considering the scale of operations and expected debt servicing commitments, the liquidity will continue to be under stress.

GUFS's borrowings have maturity upto 36 months. As per GUFS's ALM statement as on March 31, 2020, ~51 percent of its borrowings had maturity within a year. Subsequent to COVID outbreak, the liquidity crisis has been triggered. GUFS had extended the moratorium to most of its borrowers till May 2020 and is considering further moratorium till August 2020 for its borrowers on case to case basis. On the liabilities side it has received similar moratorium till August 31, 2020 from 1 out of 15 lenders. The company's ability to maintain a stable liquidity profile will hinge on its ability to improve its collection efficiency commensurate with its debt servicing obligation and other business requirements. The company is in talks with various lenders to raise long term debt.

Acuité believes that GUFS may require additional moratorium from its lenders until its collection efficiency reaches optimal levels. The stance of existing lenders and the ability of GUFS to raise long term funding (equity/debt) commensurate with its near term obligations will be critical to the maintenance of a stable liquidity profile.

Outlook: Negative

Acuité believes that GUFS credit profile is likely to be impacted over the near term on account of an increased possibility of elevated asset quality pressure and the consequent impact on profitability. The outlook may be revised to 'Stable' in case GUFS is able to demonstrate significantly lower than expected deterioration in asset quality while improving its liquidity buffers. Conversely, if the company faces challenges in managing its liquidity buffers due to slower than expected improvement in collection efficiency or if the asset quality challenges are higher than expected and impacting profitability, it could impart a negative bias to the rating.

About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Provisional)	FY19 (Actual)
Total Assets	Rs. Cr.	105.33	82.39
Total Income*	Rs. Cr.	10.10	8.69
PAT	Rs. Cr.	1.93	1.56
Networth	Rs. Cr.	14.49	11.42
Return on Average Assets (RoAA)	(%)	2.06	2.37
Return on Net Worth (RoNW)	(%)	14.93	15.36
Total Debt/Tangible Net Worth (Gearing)	Times	6.06	6.04
Gross NPA's	(%)	1.21	0.13
Net NPA's	(%)	0.21	-

* Total income equals to Net interest income plus other income

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.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
09-May-2019	Proposed Bank facility	Long Term	70.00	ACUITE 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/Outlook
Term Loan	Not Available	Not Applicable	Not Available	10.00	ACUITE BBB-/ Negative (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	80.00 (Enhanced from Rs. 70.00 crore)	ACUITE BBB-/ Negative (Reaffirmed; Outlook revised from Stable)

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About Acuité Ratings & Research:

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