

Press Release

Grameen Shakti Microfinance Private Limited

July 10, 2019

Rating Assigned



Total Bank facilities rated	Rs. 15.00 Cr.
Long Term Rating	ACUITE BB/Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) to the Rs. 15.00 Cr. bank facilities of Grameen Shakti Microfinance Private Limited (GSMPL). The outlook is '**Stable**'.

Grameen Shakti Microfinance Private Limited (GSMPL) commenced operation in September 2017 and is engaged in microfinance lending to woman borrowers through Joint Liability Group Model.

GSMPL is promoted by Mr. Ganesh Chandra Modak (Managing Director), who has over two decades of expertise in the microfinance industry. Mr. Modak promotes an NGO Society for Model Gram Bikash Kendra (SMGBK) since 1992. In order to operate as an NBFC-MFI, the promoter and a few individuals in 2015 acquired Srija Chemo Private Limited (SCPL), a registered NBFC with RBI. SCPL was renamed to GSMPL and received NBFC-MFI license in September 2017.

GSMPL operates through a branch network of 14 branches as on March 31, 2019 across two states i.e. West Bengal and Bihar.

Analytical approach:

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

Key Rating Drivers

Strengths

- Experienced management:**

GSMPL's promoters have over two decades of expertise in micro finance industry and have been associated with societies and various other Micro-Finance Institutions over these years. Mr. Ganesh Chandra Modak, the Managing Director of GSMPL, has operated in the Microfinance Industry for over two decades. He is also the CEO of Society for Model Gram Bikash Kendra (SMGBK) for last 13 years apart from being a Task Force Member of Sa-Dhan (SRO) and Central Association of MFI. Apart from Mr. Modak, the team comprises members who are highly qualified and have experience in the Banking and financial services industry.

Acuité believes that GSMPL's business profile will be supported by its experienced promoter base and will be able to leverage their expertise to raise funding and grow its loan book.

- Sound asset quality and profitability metrics:**

GSMPL lends 100% to women borrowers and has put in place processes of cashless disbursement system by transferring the loan amount directly to the borrower's bank account. The collections are, however, made in cash. The company's loan portfolio has performed well in FY2019 with no delinquency, as reflected by 100 percent on time portfolio as on 31 March, 2019 as against 98.17% as on March 31, 2018. The company's ability to maintain its asset quality while expanding its loan portfolio would remain key monitorable.

GSMPL's operations till 2018 have mainly been supported by equity, however with an objective to grow, the company's capital structure has been geared resulting Net Interest Margins (NIM) of 8.31 percent in FY2019

(Provisional) as against 20.29 percent in FY2018. The company lends at an average interest rate of 24% and charges 1% loan processing fees. On the other hand, the company obtains funds from various non-banking financial institutions and banks at an average interest rate of 15%.

Acuité believes that on the back of the systems and processes in place, GSMPL will maintain its asset quality and profitability metrics at healthy levels while scaling up its operations.

Weaknesses

- Ability to scale up operations:**

GSMPL commenced its microfinance operations in September 2017. The promoters on the back of their expertise in the microfinance industry through Society for Model Gram Bikash Kendra (SMGBK), have scaled up operations to Rs. 35.12 Cr. as on March 31, 2019 (Provisional) as against Rs.9.33 Cr. as on March 31, 2018. The growth in 2019 is largely in second half i.e. H2 of FY2019 resulting in low seasoned portfolio.

The growth is largely funded through external borrowings resulting in a gearing of 4.11 times as on March 31, 2019 (Provisional) as against 0.60 times as on March 31, 2018. The company's Capitalization levels stood at 20.54 percent as on March 31, 2019 (Provisional) as against 62.65 per cent as on March 31, 2018.

Acuité believes that the company's credit profile will remain susceptible to its ability to raise capital and external funding at competitive rates in order to support its growth objective.

- Geographic concentration risk:**

GSMPL is engaged in unsecured lending to marginal borrower with limited ability to absorb income shocks. The microfinance sector operates in economically backward areas; wherein regulatory intervention is of importance. This exposes the segment to regulatory risks. Further, these loans are extended in clusters. Any natural calamity or adverse manmade event in the region can impact the cash flows of the borrowers which in turn will have an adverse impact on the overall credit profile of players such as GSMPL. Certain events in the past are reflective of the vulnerability of microfinance sector to regulatory and legislative risk.

Acuité believes that any adverse impact on the cash flows of the borrowers of players such as GSMPL is likely to impinge upon the overall operating profile of such players.

Liquidity Position:

GSMPL's overall liquidity profile remains comfortable, given that advances comprise relatively shorter-tenure microfinance loans compared to the tenure of borrowed funds. There are no cumulative negative mismatches in the near to medium term.

Outlook: Stable

Acuité believes that GSMPL will maintain a 'Stable' risk profile over the medium term on account of its experienced management and sound asset quality. The outlook may be revised to 'Positive' in case of significant growth in loan book, while maintaining asset quality and profitability metrics at healthy levels. The outlook may be revised to 'Negative' in case of substantial increase in delinquency levels and significant deterioration in profitability metrics or in case of significant deterioration in capital structure.

About the Rated Entity - Key Financials

Parameters	Unit	FY19 (Provisional)	FY18 (Audited)	FY17 (Audited)
Total Assets	Rs. Cr.	38.95	10.62	6.69
Total Income*	Rs. Cr.	2.93	1.61	1.08
PAT	Rs. Cr.	1.03	0.69	0.40
Net Worth	Rs. Cr.	7.43	6.21	5.39
Return on Average Assets (RoAA)	(%)	4.17	7.97	8.87
Return on Average Net Worth(RoNW)	(%)	15.14	11.90	10.42

Total Debt/Tangible Net Worth (Gearing)	Times	4.11	0.60	0.19
Gross NPA	(%)	0.00%	0.13%	0.06%
Net NPA	(%)	0.00%	0.06%	0.00%

* 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

- Non-Banking Financing Entities - <https://acuite.in/view-rating-criteria-10.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)-

None

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	NA	NA	NA	5.00	ACUITE BB/Stable (Assigned)
Proposed Bank Facility	NA	NA	NA	10.00	ACUITE BB/Stable (Assigned)

Contacts

Analytical	Rating Desk
Vinayak Nayak Vice President - Rating Operations Ratings Tel: 022-49294071 vinayak.nayak@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Leena Gupta Senior Rating Analyst - Rating Operations Tel: 02249294061 leena.gupta@acuite.in	

About Acuité Ratings & Research:

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