

Press Release

Grameen Shakti Microfinance Private Limited

September 15, 2020



Rating Upgraded

Total Bank Facilities Rated*	Rs. 15.00 crore
Long Term Rating	ACUITE BB+/ Stable (Upgraded from ACUITE BB)

*Refer annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB+**' (**read as ACUITE double B plus**) from '**ACUITE BB**' **read as (ACUITE double B)** on the Rs. 15.00 crore bank facilities of Grameen Shakti Microfinance Private Limited (GSMPL). The outlook is '**Stable**'.

Reason for upgrade

The upgrade in rating reflects the improvement in key operating metrics such as asset quality and earning profile which is expected to sustain over the near to medium term. The rating also reflects the company's ability to scale up its operations while maintaining its asset quality. The company's Asset Under Management (AUM) increased to Rs. 55.47 crore as on March 31, 2020 from Rs. 35.12 crore as on March 31, 2019. The company also showed significant improvement in Return on Average Assets (RoAA) at 7.48 percent as on March 31, 2020 as compared to 3.81 percent as on March 31, 2019 while maintaining its asset quality with Gross Non Performing Asset (GNPA) at 0.02 percent as on March 31, 2020.

About GSMPL

West Bengal based Grameen Shakti Microfinance Private Limited (GSMPL) is a non-deposit taking Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI). The company is promoted by Mr. Ganesh Chandra Modak. Mr. Modak has been engaged in micro financing activities since 2004 when he established a society named Society for Model Grambikash Kendra for the social welfare and development along with microfinancing activities. In 2016, he then acquired an existing NBFC Srika Chemo Private Limited and renamed it to Grameen Shakti Microfinance Private Limited. GSMPL extends micro-credit primarily to women borrowers through Joint Liability Group (JLG) model. The company operates in the states of West Bengal, Bihar and Jharkhand through a network of 20 branches across 9 districts as on March 31, 2020.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established presence in micro-finance segment**

GSMPL commenced its micro-finance operations in 2017, extending micro-credit to women borrowers engaged in income-generating activities under Joint Liability Group (JLG) model. The company caters to the rural and semi-urban areas of West Bengal, Bihar and Jharkhand. GSMPL focuses on providing financial assistance by way of providing micro-credit to the poor and underprivileged women in the society who are engaged in some income-generating activities. The company commenced its operations in West Bengal and has expanded its presence in the states of Bihar and Jharkhand with a network of 20 branches across 9 districts with a loan portfolio of Rs. 55.47 crore as on March 31, 2020.

GSMPL is promoted by Mr. Ganesh Chandra Modak who has around two decades of experience in micro-finance segment. He has been previously engaged with South Asia Research Society (NGO-MFI) since 1992

before establishing Society for Model Grambikash Kendra in 2004. Mr. Modak is well supported by his management team having experience in microfinance segment.

GSMPL's loan portfolio stood at Rs. 55.47 crore as on March 31, 2020 (Rs. 35.12 crore as on March 31, 2019). The prudent underwriting policies adopted by the management has enabled the company to maintain a sound asset quality with on-time portfolio at 99.26 percent as on March 31, 2020 and gross non-performing assets (GNPA) at 0.02 percent. The sound asset quality was further reflected with an average collection efficiency of 97.34 percent for 12 months ended March 31, 2020.

Acuité believes that GSMPL will continue to benefit from its established presence and experience of the promoters in the microfinance segment.

Weaknesses

- **Modest scale of operations**

GSMPL's loan portfolio increased to Rs. 55.47 crore as on March 31, 2020 as compared to Rs. 35.12 crore as on March 31, 2019. Further, the company expanded its branch network to 20 branches as on March 31, 2020 from 14 branches as on March 31, 2019. While GSMPL is in the process of scaling up its operations, going forward the ability of the company to access timely capital infusion and its ability to mobilize low-cost debt, will be a key factor in the scalability of a business. Further, the impact of Covid-19 may also impair the scalability of business operations, which has currently disrupted access to funds, collections and disbursement processes for most of the NBFCs.

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

- **Risk inherent to microfinance segment; challenging operating environment may result in elevated stress in asset quality**

The activities of microfinance companies like GSMPL are exposed to concentration risks. GSMPL has presence in 3 states with a concentration in West Bengal (~69 percent), Bihar (~30 percent) and Jharkhand (~1 percent) of total portfolio 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 GSMPL.

The impact of Covid-19 may also impair the scalability of business operations, which has currently disrupted collections and disbursement processes. Although GSMPL has demonstrated healthy asset quality in the past with low Gross Non-Performing Assets (GNPA) at 0.02 percent as on March 31, 2020, rise in delinquency is expected due to impact of Covid-19 as the credit profiles of some of the borrowers could be impaired for a much longer time.

Acuité believes that containing additional slippages while maintaining the growth in the loan portfolio will be crucial.

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 regulatory environment

Material Covenants

GSMPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

Liquidity: Adequate

GSMPL's overall liquidity profile remains adequate in near to medium term. GSMPL's borrowings stood at ~Rs. 49.34 crore with a gearing of ~4.3 times as on March 31, 2020 (provisional). The borrowings of GSMPL have an average maturity of 18 to 36 months against average lending tenure of ~12 to 24 months. The company also avails a cash credit facility almost fully utilized. The company has maintained cash and bank balance of ~Rs. 0.23 crore as on March 31, 2020. GSMPL was able to recover ~Rs. 2.18 crore and Rs. 2.1 crore in collections for the month of July and August 2020 respectively.

Outlook: Stable

Acuité believes that GSMPL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to maintain asset quality. The outlook may be revised to 'Positive' in case of higher than expected growth in the loan portfolio while maintaining asset quality and capital structure. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality, thereby impacting profitability metrics.

About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	63.23	38.96
Total Income*	Rs. Cr.	7.40	2.94
PAT	Rs. Cr.	3.82	0.95
Networth	Rs. Cr.	11.44	7.34
Return on Average Assets (RoAA)	(%)	7.48	3.81
Return on Net Worth (RoNW)	(%)	40.70	13.95
Total Debt/Tangible Net Worth (Gearing)	Times	4.31	4.16
Gross NPA's	(%)	0.02	-
Net NPA's	(%)	-	-

* 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
10-July-2019	Term Loan	Long Term	5.00	ACUITE BB/ Stable (Assigned)
	Proposed Bank Facility	Long Term	10.00	ACUITE BB/ 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	5.00	ACUITE BB+/ Stable (Upgraded from ACUITE BB)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+/ Stable (Upgraded from ACUITE BB)

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About Acuité Ratings & Research:

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