

Press Release

Grameen Shakti Microfinance Private Limited

December 15, 2021



Rating Reaffirmed

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	15.00	ACUITE BB+ Stable Reaffirmed	
Total	-	15.00	-	-

Rating Rationale

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

The rating factors in experienced management, established presence in its areas of operation and moderate capitalization level. GSMPL's Capital Adequacy Ratio (CAR) stood at 30.09 percent as on March 31, 2021 which improveded from 20.65 percent as on March 31, 2020, the improvement is mainly on account of moderation in AUM. The rating is however constrained by modest scale of operations coupled with decline in AUM, modest financial performance, geographic concentration and risks inherent to microfinance sector. Given the asset quality challenges in the micro finance sector, the company's on time portfolio stood at 66.60 percent [March 31, 21: 65.70%] with a GNPA of 4.29 percent as of September 30, 2021 [March 31, 21: nil]. GSMPL's average collection efficiency for 6 months ended October 31, 2021 for scheduled demand stood at ~61 percent. While the company's monthly collection efficiency has been improving since September 21, it continues to remain low. Further, GSMPL's restructured book stood at Rs. 9.96 Cr. as on September 30, 2021 comprising roughly 25 percent of its total portfolio. Going forward, the ability of the company to scale up its operations, raise capital, movement of delinquencies across different time buckets and resultant impact on profitability would remain key monitorable.

About the company

West Bengal based Grameen Shakti Microfinance Private Limited (GSMPL) is a non-deposit taking NonBanking 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 Srija 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 11 districts as on March 31, 2021.

Analytical Approach

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

Key Rating Drivers

Strength

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 11 districts with a loan portfolio of Rs. 44.43 Cr. as on March 31, 2021 (P.Y. 55.47Cr.). GSMPL is promoted by Mr. Ganesh Chandra Modak who has around two decades of experience in microfinance 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. As on FY2021, GSMPL has reported capital adequacy ratio (CAR) and leverage of 30.09 percent [March 31, 20: 20.65 percent and 2.86 times [March 31, 20: 4.31 times]. As on September 30, 2021, CAR and leverage stood at 34.89 percent and 3.58 times respectively, the improvement is mainly on account of moderation in AUM. The company has Rs. 40 Cr. of funds in pipeline from various banks like SBI, South Indian Bank, Indian Bank, Bank of Baroda, amongst others.

Acuité believes that established presence of the promoters in the microfinance segment will be central to support the business risk profile of the company in the near to medium term.

Weakness

· Modest scale of operations and Financial Risk profile

GSMPL has been in the micro-finance lending segment since 2017. The company has been able to build a portfolio of Rs. 40.21 Cr. as on September 30, 2021. GSMPL's loan portfolio declined to Rs. 44.43 crore as on March 31, 2021 as compared to Rs. 55.47 crore as on March 31, 2020. The company had given moratorium along with rescheduling of the loans to some of the borrowers during FY2021 and FY2022. GSMPL restructured around 43 percent of its total outstanding portfolio as on FY2021 and has provided 10 percent provisioning on its restructured portfolio. GSMPL reported ROAA of 0.33 percent during FY2021 as compared to 7.48 percent in FY2020. This decline in ROAA was on account of high provisioning and write offs during FY2021. Similarly, PAT also declined to Rs. 0.19 Cr. in FY2021 from Rs. 3.82 Cr. in FY2020 on account of overall decline in operating income. However, as on September 30 2021, GSMPL's ROAA stood at 1.74 percent (annualised) and the company reported a PAT of Rs. 0.48 Cr. 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.

· 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 (~70 percent), Bihar (~29 percent) and Jharkhand (~1 percent) of total portfolio as on March 31, 2021. This exposes the company to high geographical concentration risk. While the company reported 65.70 percent of portfolio as on-time as on FY2021 (P.Y.: 99.2 percent), its GNPA (90+dpd) weakened from nil as on March 31, 2021 [P.Y.: 0.02 percent] to 4.29 percent as on September 30, 2021. Similarly, standard assets stood at 100 percent as on FY21 [P.Y.:99.99 percent] declining to 95.71 percent as on September 30, 2021. During Covid times NPA has gone up due to no improvement in weavers and handloom manufacturer business in south Bengal which has restricted borrower's liquidity. 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. Rise in delinquency has been there due to impact of second wave of Covid-19.

Acuité believes that constraining 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 profitability metrics
- Ability to raise funds

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 Position : Adequate

GSMPL's overall liquidity profile remains moderate in near to medium term. GSMPL's borrowings stood at ~Rs. 44.96 crore with a gearing of ~3.58 times as on September 30, 2021 (provisional). The company also avails a cash credit facility almost fully utilized. It has maintained cash and bank balance of ~Rs. 0.35 crore as on March 31, 2021. As per ALM statement dated September 30, 2021, the company's assets and liabilities are well matched with no deficit in any of the time buckets upto 5 years. As per ALM statement, the company has debt obligations of Rs.15.73 Cr due within one year.

Outlook : Stable

Acuité believes that GSMPL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment. 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.

Key Financials - Standalone / Originator

About the Rated Entity Financials

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	49.58	63.23
Total Income*	Rs. Cr.	5.51	7.40
PAT	Rs. Cr.	0.19	3.82
Networth	Rs. Cr.	12.08	11.44
Return on Average Assets (RoAA)	(%)	0.33	7.48
Return on Net Worth (RoNW)	(%)	1.61	40.70
Total Debt/Tangible Net Worth (Gearing)	Times	2.86	4.31
Gross NPA's	(%)	0.00	0.02
Net NPA's	(%)	0.00	0.01

* 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

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.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
15 Sep 2020	Proposed Bank Facility	Long Term	10.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Term Loan	Long Term	5.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
10 Jul 2019	Proposed Bank Facility	Long Term	10.00	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	5.00	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	15	15.00	ACUITE BB+ Stable Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294041 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Gayatri Kulkarni Analyst-Rating Operations Tel: 022-49294065 gayatri.kulkarni@acuite.in	

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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