

Press Release

Jagaran Microfin Private Limited

March 26, 2020



Rating Reaffirmed & Assigned

| | |
|-------------------------------------|------------------------------|
| Total Bank Facilities Rated* | Rs. 250.00 Cr. |
| Long Term Rating | ACUITE BBB+/ Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) to the bank facilities of Rs. 250.00 Cr. bank facilities of JAGARAN MICROFIN LIMITED (JMPL). The outlook is '**Stable**'.

Jagaran Microfin Private Limited (JMPL) (erstwhile SBT Consultants Private Limited) is promoted by GTFS Multi Services Limited, holding company with 72.09% shareholding. The company commenced its operations in micro finance lending in 2010 in West Bengal to provide microloans to low-income active entrepreneurs, urban and rural producers, traders and small scale farmers, and self-employed persons under the joint lending group (JLG) model to women. Over the past decade they have built a borrower base of 231,142 individuals spread across 126 branches in 32 districts of West Bengal, Bihar, Jharkhand, Orissa and Assam.

Analytical Approach

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

Key Rating Drivers

Strengths

Established presence in microfinance sector

Established in 2010, JMPL has an established presence of around a decade in the microfinance sector. It has a board with reputed members who maintain strong oversight on the business. The Board of Directors of the company comprises three whole time directors and six independent directors. Its Chairman, Mr. Indrajit Gupta is ex-Deputy Managing Director of State Bank of India and has been a member of various committees of SEBI with more than 37 years of experience in the banking sector. The other board members include Mr. Pratip Chaudhury, ex-Chairman of State Bank of India and Mr. Sandip Ghose, former Principal Chief General Manager, RBI.

The board is adequately supported by an experienced management team, headed by Director and CEO, Mr. Jaydeep Gosh, who has over two decades of experience in the BFSI segment. He has been with JMPL since its inception and was previously the Zonal Manager (Eastern India) for Agency Development and Distribution with ICICI Prudential Life Insurance and was in charge of retail banking in the Eastern Zone at Axis Bank. The management along with the board has instituted good governance and control mechanisms with the separate presence of both audit and inspection departments who submit reports to the board on a regular basis.

The company operates through 126 branches, spread across 32 districts in the five states of West Bengal, Bihar, Jharkhand, Odisha and Assam. JMPL has steadily grown its business volumes over the years and its AUM has increased to Rs. 398.54 Cr. in FY2019 from Rs. 260.36 Cr. in FY2018. It is looking to expand further in the eastern and the north eastern states where the microfinance penetration is relatively low.

Acuité believes that JMPL will continue to benefit from its well devised governance structures, experienced management and its significant track record in the microfinance sector.

Modest scale of operations and healthy asset quality

JMPL began its operations in MFI sector in FY2010. Its overall loan portfolio stood at Rs.398.54 Cr as on March 31, 2019 which grew from Rs.260.37 Cr as on March 31, 2018 and Rs.148.06 Cr as on March 31, 2017, its loan portfolio stood at Rs. 399.51 Cr. as on December 31, 2019. The growth in loan portfolio was mainly on account of an increase in network of branches to 126 as on December 31, 2019 from 88 branches as on March 31, 2017. The company benefits from its non-aggressive and planned expansion strategy resulting in a steady growth in its loan portfolio while maintaining a healthy asset quality.

JMPL primarily focuses on lending to Joint Liability Group's (JLG) of women. The stringent credit assessment and monitoring processes in place have enabled the company to maintain healthy asset quality, reflected in low GNPA and comfortable collection efficiency. While JMPL witnessed increased delinquencies post demonetization, it has entirely written off the old dues amounting to Rs.2.09 Cr. The company reported Gross NPA of 0.34 percent as on December 31, 2019 against 0.86 percent as on March 31, 2018. It has demonstrated a healthy collection efficiency with a track record of over 99.60 percent collection on an average for the twelve months ended December 31, 2019. Further, healthy financial position of JMPL is reflected in the comfortable Return on Average Asset of 2.80 percent as on 31 March, 2019 as against 2.49 per cent as on 31 March, 2018, RoAA stood at 3.43 percent (annualised) as on December 31, 2019. Low operating expenses have been partly driving the improvement in RoAA.

Going ahead, Acuité believes that the ability of the company to demonstrate growth in its loan assets while maintain healthy asset quality will be crucial to the credit profile of the company.

Adequate financial position with diversified funding mix

The company's capital adequacy ratio (CAR) remained adequate albeit its decline to 18.78 percent in FY2019 as against 27.49 percent in FY2018. The CRAR comprises 100 percent Tier I capital, thereby giving the company the flexibility to raise additional capital in the form of Tier 2 capital. As on December 31, 2019 CAR improved to 22.38 percent on account of capital infusion of Rs. 9 Cr and Rs. 5 Cr. raised in the form of sub debt. JMPL is promoted by GTFS Multi Services Limited, which has been in insurance brokerage for more around three decades. The promoter group plans to infuse additional equity in FY2020 which is likely to strengthen the company's capital position. The company has a diversified funding mix, its funding sources include sixteen banks and nineteen financial institutions. Further, the company has raised Rs.77.00 Cr in the form of non-convertible debentures from Blue Orchard Microfinance and Japan Asean Women Empowerment Fund in FY19 and FY20.

The ability to raise funds from the banking system continues to be, nevertheless, challenging due to the recent NBFC crisis and the stringent norms adopted by banks in lending to NBFC's. However, JMPL has been to access funds from both banks and large NBFCs on a regular basis. Further, it has a comfortable liquidity position due to well matched maturity of assets and liabilities; the tenure for loans issued is ~12-24 months, whereas the bank funding typically has tenure of about ~24-48 months.

Acuité believes, going forward, the ability of the company to mobilise additional lower cost funding through debt /sub debt and its ability to deploy the funds profitably will be a key rating monitorable.

Weaknesses

Moderate geographic concentration

JMPL's operations are moderately concentrated at West Bengal accounting for 55 per cent of its total portfolio as on December 31, 2019 followed by Bihar at 32 percent. While the company is gradually expanding into three other states, there is an overall concentration of the lending business in the eastern and the north eastern part of the country. Generally, the risk profile of a microfinance company with a geographically diversified portfolio is more resilient compared to

that of an entity with a geographically concentrated portfolio.

Acuité believes that the moderate geographical concentration of its portfolio will continue to weigh on its credit profile over the near to medium term.

Liquidity Position: Adequate

JMPL has adequately matched cash flow as on December 31, 2019, with cumulative surplus in all maturity buckets. Most of the loans are of up to two-year tenure, while the borrowings are up to tenure of three to four years, leading to positive mismatches over the near to medium term. Currently, the company has unutilised sanctions from United Bank of India, ICICI Bank Limited, MUDRA and SIDBI.

Outlook: Stable

Acuité believes that JMPL will maintain a 'Stable' outlook over the medium term supported by its management experience and prudent growth philosophy along with demonstrated ability to maintain asset quality and liquidity levels. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio while maintaining asset quality and improving 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 and profitability metrics. Also, the outlook may be revised to 'Negative' in case of any deterioration in the capital structure.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) | FY17 (Actual) |
|---|---------|---------------|---------------|---------------|
| Total Assets | Rs. Cr. | 458.75 | 293.32 | 226.45 |
| Total Income (Net of Interest Expense) | Rs. Cr. | 36.48 | 24.26 | 19.46 |
| PAT | Rs. Cr. | 10.51 | 6.48 | 5.73 |
| Net Worth | Rs. Cr. | 81.92 | 74.18 | 79.68 |
| Return on Average Assets (RoAA) | (%) | 2.80 | 2.49 | 2.70 |
| Return on Average Net Worth (RoNW) | (%) | 13.47 | 8.43 | 8.72 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 4.47 | 2.88 | 1.80 |
| Gross NPAs | (%) | 0.23 | 0.86 | 0.94 |
| Net NPAs | (%) | 0.04 | 0.08 | 0.32 |

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|--------------|---------------------------------|-----------|------------------|-------------------------------|
| 16-July-2019 | Term Loan | Long Term | 15.00 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 15.00 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 9.55 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 5.00 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 2.95 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 2.24 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 2.66 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 4.05 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 6.86 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 3.00 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 5.56 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 2.68 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 8.06 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 14.17 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 5.50 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 1.21 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 0.67 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 4.17 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 17.70 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 3.33 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 5.39 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 5.00 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 14.40 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long Term | 2.73 | ACUITE BBB+/Stable |

| | | | | |
|-----------|-----------|-------|----------------------------------|------------|
| | | | | (Assigned) |
| Term Loan | Long Term | 1.86 | ACUITE BBB+/Stable (Assigned) | |
| Term Loan | Long Term | 91.26 | 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. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|---------------------------------|
| Term loan | Not Applicable | Not Applicable | Not Applicable | 11.25 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 10.93 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 6.82 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 3.41 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 2.65 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 1.90 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 2.35 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 2.86 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 5.46 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 17.81 | ACUITE BBB+/Stable (Assigned) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 2.34 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 3.89 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 0.89 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 6.39 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 11.67 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 2.84 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 0.30 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 0.17 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 4.17 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 14.10 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not | Not | Not | 2.22 | ACUITE BBB+/Stable |

| | | | | | |
|--------------------------|----------------|----------------|----------------|-------|---------------------------------|
| | Applicable | Applicable | Applicable | | (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 3.69 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 2.50 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 10.23 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 1.82 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 0.96 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE BBB+/Stable (Assigned) |
| Proposed Bank Facilities | Not Applicable | Not Applicable | Not Applicable | 96.38 | ACUITE BBB+/Stable (Reaffirmed) |

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About Acuité Ratings & Research:

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