

Press Release

Jagaran Microfin Private Limited

December 14, 2020



Rating Reaffirmed, Assigned & Withdrawn

Total Bank Facilities Rated*	Rs. 250.00 Cr.
Long Term Rating	ACUITE BBB+ / Stable (Reaffirmed)

* Refer Annexure for details.

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) on the Rs. 250.00 Crore bank facilities of Jagaran Microfin Private Limited (JMPL). The outlook is '**Stable**'.

The rating continues to factor in the experienced management team, good governance framework and established presence in microfinance lending of over a decade. Rating also factors in company's healthy capitalization metrics marked by CAR which stood at 22.70% as on September 30,2020 as against 19.87% as on March 31,2020. The gearing levels remain moderate and have improved to 4.32 times as on September 30,2020 from 4.77 times as on March, 31, 2020. Acuité notes that improvement in capitalization buffers is aided by healthy internal accruals coupled with moderation in AUM.

These strengths are partially offset by relatively moderate scale of operations and geographical concentration in West Bengal and Bihar (~87% of the total portfolio as on March 31, 2020) and the risks inherent to the nature of the business which renders the portfolios vulnerable to event risks such as natural calamities in the area of operations.

JMPL granted blanket moratorium granted to its borrowers from April to August 2020. While Acuité observes that the collection efficiency (~71% for October 2020) and disbursements (~58% for October 2020, based on average monthly disbursements for FY2020) of the company has been showing an improving trend, it is still below the optimal levels. Further, Acuité notes that put option on NCDs was exercised by an Investor in November 2020, resulting an outflow of Rs.16.5 Cr.

About the Company

Jagaran Microfin Private Limited (JMPL) (erstwhile SBT Consultants Private Limited) is promoted by GTFS Multi Services Limited, holding company with 80% shareholding. The company commenced its operations in microfinance lending in 2010. It commenced its operations 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.

JMPL operates through a network of 134 branches in 34 districts across the states 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 segment

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 of three executive directors and six independent directors. Its

Chairman, Mr. Dipankar Chatterji who has over three decades of diverse experience in the financial sector and has been associated with various public sector banks, Institutions and Chambers of Commerce in various capacities. 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 CEO, Mr. Jaydeep Ghosh, 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 presence.

The company operates in 134 branches (PY: 117), spread across 34 districts in the five states of West Bengal, Bihar, Jharkhand, Odisha and Assam. Of total branches, 75 branches are located in West Bengal, 38 in Bihar, 8 in Assam, 7 in Jharkhand and 6 in Odisha. JMPL has steadily grown its business volumes over the years and its AUM has increased to Rs.474.95 Cr. in FY2020 from Rs.398.54 Cr. in FY2019.

Acuité believes that the presence of devised governance structure, established and experienced professionals and demonstrated track record in the microfinance sector will support and strengthen its business risk profile.

Demonstrated ability to maintain healthy asset quality

JMPL began its operations in MFI sector in FY2010 with a focus primarily on lending to Joint Liability Group's (JLG) of women. Presently the operations of JMPL are spread across 134 branches in 34 districts (as on March 31, 2020) in West Bengal, Bihar, Jharkhand, Odisha and Assam. Its overall loan portfolio stood at Rs.474.95 Cr as on March 31,2020 which grew from Rs.398.54 Cr as on March 31, 2019 , Rs.260.37 Cr as on March 31, 2018 and Rs.148.06 Cr as on March 31, 2017. The growth in loan portfolio was mainly on account of an expansion of geographical presence as reflected in an increase in branch network to 134 branches as on March 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 healthy asset quality. The stringent credit assessment and monitoring processes in place have enabled the company to maintain healthy asset quality despite disruption in economic activity due to Covid-19 induced lockdowns and expansion to newer geographies. JMPL mainly operates in rural and semi urban areas with agriculture and allied activities accounting for ~41% of its AUM as on March 31,2020. Further, JMPL also introduced a scheme to help borrowers kick-start their business activities by introducing emergency loans up to Rs.20000. This has aided in improvement in collection efficiency (scheduled collections against act from ~2% for April 2020 to ~71% for October 2020 despite blanket moratorium extended to all its borrowers. Nonetheless, Acuité observes that collection efficiency remains below optimal levels.

The company reported Gross NPA of 0.51% as on March 31,2020 as against 0.23% as on March 31, 2019. It has demonstrated comfortable collection efficiency with a track record of ~97% collection on an average for twelve months ended March 31, 2020.

Acuité believes, going forward, the ability of the company to demonstrate growth in its loan assets while maintaining 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) stood at 19.87 percent in FY2020 as against 18.78 percent in FY2019. This improvement is 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 company has a diversified funding mix, its funding sources include fourteen banks and eighteen financial institutions. Further, the company has raised Rs.55 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 debt by microfinance companies remains challenging due to a very selective and cautious approach adopted by Banks and FIs. However, JMPL has been able to access funds from both banks and large NBFCs on a regular basis.

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; susceptible to risks inherent in microfinance segment

JMPL's operations are moderately concentrated with West Bengal accounting for 55 per cent of its total portfolio as on March 31, 2020 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.

The MFI lending segment entails providing loans to the lower economic strata of the society. COVID-19 pandemic and consequent lockdowns have resulted in significant logistical challenges, which has impacted the operations of microfinance institutions as a whole, as the activities of microfinance institutions are linked to the movement of men and goods and linked to holding of frequent centre meetings. Gradually, the policies regarding restrictions and implementation of the lockdowns are being handled at the level of state government and local government levels. Hence, the policies of the state and local government bodies will be critical from a business continuity standpoint. This will also have an impact on the trajectory of collection efficiency. Furthermore, the inherent nature of the business renders the portfolios vulnerable to event risks such as natural calamities in the area of operations.

Acuité believes that while some of the impacts on collection efficiency are temporary, a portion of the borrowers could suffer a permanent impairment in their livelihood and this, in turn, could impact the portfolio of lenders like JMPL. Additionally, moderate geographical concentration of its portfolio will continue to weigh on its credit profile over the near to medium term.

Rating Sensitivity

- Adverse movement in profitability and asset quality
- Adverse movement in Capital adequacy levels
- Increase in geographic concentration
- Changes in regulatory environment governing microfinance activities

Material Covenants:

JMPL is subject to covenants stipulated by lenders in respect of various parameters like capitalisation levels, leverage and asset quality metrics. As per confirmation received from client vide mail dated December 08,2020. 'JMPL is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity Position: Adequate

JMPL's unencumbered cash and cash equivalents stood at ~Rs.12 Cr. as on September 30,2020. Its liquidity buffers primarily depend on its cash inflows (collections from clients and loans from banks) vis. a vis. the cash outflows (disbursements, debt servicing commitments, operating expenses). The cash collections of JMPL were impacted by the lockdowns in its area of operations, however, has been improving. Despite blanket moratorium to all of its borrowers, the collection efficiency of JMPL for April to October 2020 range between 0% to ~71% (amount collected as against estimated scheduled collections). While Acuité observes that the collection efficiency of the company has been showing an improving trend, it is still below the optimal levels considering the debt servicing commitments. JMPL itself had availed moratorium from some of its lenders up to the month of August, 2020 and continued repayments to lenders who had not granted a moratorium. Further, the company is in talks with various lenders to raise long term debt.

Acuité believes that the ability to raise long term funding and ability to raise collection efficiency to optimal levels will be critical to maintaining a stable liquidity profile.

Outlook: Stable

Acuité believes that the JMPL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment and capital structure. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability, asset quality and capitalisation indicators. Conversely, the outlook may be revised to 'Negative' in case of challenges in attaining optimal collection efficiency or significantly higher than expected pressure on asset quality or profitability margins.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	570.36	470.90
Total Income (Net of Interest Expense)	Rs. Cr.	48.44	35.96
PAT	Rs. Cr.	14.86	9.94
Net Worth	Rs. Cr.	98.77	81.34
Return on Average Assets (RoAA)	(%)	2.86	2.62
Return on Average Net Worth (RoNW)	(%)	16.51	15.93
Total Debt/Tangible Net Worth (Gearing)	Times	4.77	4.76
Gross NPAs	(%)	0.50	0.23
Net NPAs	(%)	0.03	0.04

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

CARE, vide its press release dated March 24, 2020, placed the rating of Jagaran Microfin Private Limited under the 'issuer non-cooperating' category.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating of 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
26-Mar-20	Term Loan	Long Term	11.25	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	10.93	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	6.82	ACUITE BBB+/Stable (Reaffirmed)

	Term Loan	Long Term	3.41	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.65	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	1.9	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.35	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.86	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	5.46	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	17.81	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	2.34	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	3.89	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.89	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	6.39	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	11.67	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.84	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.3	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.17	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	4.17	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	14.1	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.22	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	3.69	ACUITE BBB+/Stable (Reaffirmed)

	Term Loan	Long Term	2.5	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	10.23	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	1.82	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.96	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	20	ACUITE BBB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	96.38	ACUITE BBB+/Stable (Reaffirmed)
16-Jul-19	Term Loan	Long Term	15	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	15	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	9.55	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	5	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	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	5.5	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	17.7	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	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	14.4	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	2.73	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	1.86	ACUITE BBB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	91.26	ACUITE BBB+/Stable (Assigned)

***Annexure – Details of instruments rated**

Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs Cr.)	Ratings/Outlook
Term Loan	02-04-2019	Not Applicable	01-04-2021	7.48	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	30-12-2017	Not Applicable	29-12-2020	1.51	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	21-12-2017	Not Applicable	20-03-2021	2.51	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	13-03-2018	Not Applicable	12-06-2020	2.84	ACUITE BBB+ (Withdrawn)
Term Loan	30-10-2019	Not Applicable	29-01-2023	4.31	ACUITE BBB+/Stable (Assigned)
Term Loan	06-03-2017	Not Applicable	05-12-2019	0.3	ACUITE BBB+ (Withdrawn)

Term Loan	30-03-2019	Not Applicable	29-03-2021	4.02	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	11-12-2017	Not Applicable	10-03-2022	1.36	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	09-08-2018	Not Applicable	08-08-2022	1.88	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	28-02-2019	Not Applicable	27-02-2023	2.23	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	31-01-2018	Not Applicable	30-01-2021	0.93	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	31-08-2018	Not Applicable	30-08-2021	3.16	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	30-09-2019	Not Applicable	29-09-2021	10.73	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	30-03-2019	Not Applicable	29-03-2021	2.73	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	29-01-2019	Not Applicable	28-07-2021	2.71	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	01-03-2017	Not Applicable	29-02-2020	0.89	ACUITE BBB+ (Withdrawn)
Term Loan	21-05-2018	Not Applicable	20-05-2021	4.44	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	31-10-2018	Not Applicable	30-10-2021	8.75	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	12-02-2020	Not Applicable	11-02-2022	8.92	ACUITE BBB+/Stable (Assigned)
Term Loan	20-03-2020	Not Applicable	19-03-2023	9	ACUITE BBB+/Stable (Assigned)
Term Loan	08-07-2020	Not Applicable	10-01-2023	19.25	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	17-12-2019	Not Applicable	16-06-2024	14.06	ACUITE BBB+/Stable (Assigned)
Term Loan	27-12-2017	Not Applicable	26-12-2020	1.06	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	28-08-2020	Not Applicable	30-04-2021	28.56	ACUITE BBB+/Stable (Assigned)
Term Loan	20-02-2017	Not Applicable	19-02-2020	0.17	ACUITE BBB+ (Withdrawn)
Term Loan	21-09-2017	Not Applicable	20-12-2019	4.17	ACUITE BBB+(Withdrawn)
Term Loan	29-12-2018	Not Applicable	28-12-2021	10.5	ACUITE BBB+/Stable (Reaffirmed)

Term Loan	29-01-2020	Not Applicable	28-01-2023	26.44	ACUITE BBB+/Stable (Assigned)
Term Loan	17-02-2018	Not Applicable	16-05-2020	2.22	ACUITE BBB+ (Withdrawn)
Term Loan	26-09-2017	Not Applicable	25-12-2020	2.16	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	06-02-2020	Not Applicable	05-02-2023	9.21	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	31-03-2017	Not Applicable	30-03-2020	0.96	ACUITE BBB+ (Withdrawn)
Term Loan	03-06-2019	Not Applicable	02-06-2021	5.62	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	20-03-2018	Not Applicable	19-03-2020	2.5	ACUITE BBB+ (Withdrawn)
Proposed Bank Facility	Not available	Not Applicable	Not available	56.47	ACUITE BBB+/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President- Rating Operations Tel: 022-49294029 mohit.jain@acuite.in Shrey Khandelwal Analyst - Rating Operations Tel: 022-49294072 shrey.khandelwal@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 - 49294011 rating.desk@acuite.in

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