

Press Release

YVU Financial Services Private Limited

February 04, 2020



Rating Assigned

| | |
|---------------------------|--|
| Instruments Rated* | Rs. 15.00 Cr. |
| Long Term Rating | ACUITE BB+ / Outlook: Stable (Assigned) |

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs.15.00 crore bank facilities of YVU Financial Services Private Limited (YVUFL). The outlook is '**stable**'.

Manipur based YVUFL is a Non-Banking Finance Company – Micro Financial Institution (NBFC-MFI) registered with RBI. The company is promoted by Mr. Tikendrajit Singh Akojam, Mr. Bikendrajit Singh Akojam, YVU Microfin and YVU Staff Mutual Benefit Trust, with an aim to extend income generating loans to women borrowers, through joint liability group (JLG) and Non JLG Individuals lending model. The operations of YVUFL is spread across nine districts of three states namely, Manipur, Assam and Tripura through a network of 15 branches as on December 31, 2019.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of YVU Financial Services Private Limited to arrive at the rating.

Key Rating Drivers:

Strengths

- **Experienced promoters:**

YVUFL was promoted by Mr. Tikendrajit Singh Akojam, Mr. Bikendrajit Singh Akojam, YVU Microfin and YVU Staff Mutual Benefit Trust. Mr. Tikendrajit and Mr. Bikendrajit have more than a decade of experience in microfinance sector. Mr. Tikendrajit, Chairman has over five decades of experience in social work, microfinance activities, he is the founding member of Youth Volunteer's Union – a NGO. YVU Microfin is a trust registered under Indian Trust Act 1882. The board comprises of other members who have vast experience in the BFSI segment. The strong understanding and vast experience of promoters in microfinance segment has enabled YVUFL improve its loan portfolio to Rs. 43.50 crore as on December 31, 2019 as compared to Rs 10.28 crore as on March 31, 2017.

Acuité believes, that YVUFL will continue to benefit from extensive experience of its directors and management team as it scales up its operations.

- **Healthy Asset Quality:**

YVUFL has demonstrated its ability to maintain a healthy asset quality backed by its stringent credit underwriting and monitoring policy. It reported Gross Non-Performing Assets (GNPAs) of 0.08 percent as on December 31, 2019 and NIL as on March 31, 2019. Further, it has demonstrated healthy collection efficiency of over ~99 per cent on an average for the ten months ending December 31, 2019.

Acuité expects YVUFL to maintain sound asset quality backed by stringent credit monitoring and underwriting policies.

Weaknesses

- **Challenging operating environment:**

YVUFL's overall portfolio grew to Rs. 43.50 crore as on December 31, 2019 from Rs. 37.07 as on March 31, 2019 and Rs. 18.81 crore as on March 31, 2018. The growth in loan portfolio is supported by the fresh funds raised from banks and financial institutions resulting in an increase in gearing from 3.44 times as on March 31, 2018 to 5.96 times as on March 31, 2019. The operating performance of players like YVUFL is susceptible to access to funding at competitive prices. Recent NBFC crisis, coupled with cautious and selective approach adopted by banks and financial institutions has resulted in difficulties faced by players like YVUFL to raise funding at competitive rates thereby pressurising profitability. This has resulted in declining net interest margins (NIM) and Return on Average Assets (RoAA), in spite of lowering operating expenses for YVUFL. YVUFL reported ROAA of 1.36 percent in FY2019 as compared to 1.78 percent in FY2018 and NIMs of 9.58 percent in FY2019 as compared to 11.04 percent in FY2018.

Acuité believes that the ability of YVUFL to grow its loan book, while maintaining its profitability, will be a key monitorable.

- **Risk inherent to microfinance segment:**

The activities of microfinance companies, like YVUFL are exposed to risk inherent to microfinance segment. The company has presence in three states, namely, Manipur, Tripura and Assam. As on December 31, 2019, Manipur constitutes ~78 percent of its AUM. This exposes the company to high geographical concentration risk. Thus, the company's performance is expected to remain exposed to competitive landscape in these regions and occurrence of events such as natural calamities, 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.

Rating Sensitivity

- Scaling up of operations, while maintaining asset quality.
- Deterioration in financial risk profile and liquidity position.

Material Covenants

None

Liquidity Position: Adequate

YVU has adequately matched cash flow as on March 31, 2019, with cumulative surplus in all maturity buckets. Most of the loans are of upto two years while the borrowings are upto tenure of three years, leading to a positive mismatches over the near to medium term.

Outlook: Stable

Acuité believes that YVU will maintain a 'Stable' outlook over the medium term supported by its experienced management. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio while maintaining asset quality. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of asset quality pressures and deterioration in profitability metrics.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) | FY17 (Actual) |
|--|---------|---------------|---------------|---------------|
| Total Assets | Rs. Cr. | 45.28 | 22.91 | 12.16 |
| Total Income (Net of Interest Expense) | Rs. Cr. | 3.43 | 1.99 | 1.59 |
| PAT | Rs. Cr. | 0.46 | 0.31 | 0.28 |
| Net Worth | Rs. Cr. | 6.35 | 5.05 | 4.74 |
| Return on Average Assets (RoAA) | (%) | 1.36 | 1.78 | 4.64 |

| | | | | |
|---|-------|------|------|-------|
| Return on Average Net Worth (RoNW) | (%) | 8.14 | 6.37 | 11.89 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 5.96 | 3.44 | 1.49 |
| Gross NPAs | (%) | 0.00 | 0.03 | 0.16 |
| Net NPAs | (%) | 0.00 | 0.00 | 0.00 |

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)

Not Applicable

***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 | 3.00 | ACUITE BB+ / Stable (Assigned) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE BB+ / Stable (Assigned) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE BB+ / Stable (Assigned) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE BB+ / Stable (Assigned) |

Contacts

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings 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 6,000 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 Mumbai.

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