

Press Release

G U Financial Services Private Limited

January 20, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	90.00	ACUITE BB Negative Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	90.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed the long term rating of 'ACUITE BB' (read as ACUITE double B) on the Rs. 90.00 crore bank facilities of G U Financial Services Private Limited (GUFS). The Outlook is 'Negative'.

The negative Outlook takes into account decline in asset quality, decline in on-time portfolio, rise in delinquencies; GNPA and NNPA increased to 2.48 percent and 1.11 percent as on March 31, 2021 from 1.04 percent and 0.04 percent as on March 31, 2020, respectively. GNPA and NNPA stood at 4.40 percent and 0.37 percent as on October 31, 2021. The rating further takes into account, decline in AUM from Rs.102.55 Crores as on FY21 to Rs.90.64 as on October 30, 2021 as a result of decline in on book portfolio from Rs.54.64 Crore in FY21 to Rs.34.78 Crore in October, 2021.

The rating Reaffirmation takes into account, experienced management team and CAR levels as on September 30, 2021. Net worth of GUFS stood at Rs.15.61 Crore as on September, 2021 and Rs.14.94 Crore as on FY21. CAR stood at 31.28 percent as on March 31, 2021 [FY 20: 21.94 percent] and at 49.23 percent as on 30th September, 2021 mainly on account of reduction in Risk Weighted Assets. The rating further takes into account decline in PAT and operating profit as on FY21 Rs.0.66 Crores [FY20: Rs.1.79 Crore] and Rs.8.31 Crores [FY20: Rs.10.30 Crore] respectively. The rating however is constrained by moderate financial risk Profile levels as marked by PAT and Operating profit stood at Rs.0.26 Crore and Rs.3.31 Crore as on September 30, 2021 respectively.

Acuite takes cognizance of the fact that asset quality stress in the sector has been on account of Covid-19 induced slowdown, clearly some MFIs have been more affected on account of their geographic distribution. The inherent risks of microfinance industry including exposure to marginalized borrowers have been exacerbated by localized lockdowns and economic disruptions in the wake of Covid19. Going forward company's resource raising ability, movement of delinquencies across different time buckets and its resultant impact on profitability metrics due to decline in operating income would be key rating sensitivities.

About the company

Odisha based, G U Financial Services Private Limited (GUFS) is a non-deposit taking NBFC-MFI. GUFS is engaged in extending micro credit primarily to women borrowers through (JLG) model since 2008. The company is promoted by Mr. Govind Chandra Dash (Founder & Chairman) who has over three decades of experience in development and financial inclusion

of rural areas in Odisha through his NGO Gram Utthan, which he established in 1990. In 2008, Mr. Govind Chandra Dash acquired an existing NBFC Visudha Investment Private Limited and renamed it as G U Financial Services Private Limited. G UFS also provides Micro Housing loans, Integrated Fish Farming loans and Water, Sanitation and Hygiene loans. The company operates in 15 districts of Odisha and Chhattisgarh with a network of 41 branches as on March 31, 2021.

Analytical Approach

Acuité has adopted the standalone approach while assessing the business and financial risk profile of the G U Financial Services Private Limited.

Key Rating Drivers

Strength

Experienced management in micro-finance segment

G UFS commenced its operations in 2008 extending micro-credit to women engaged in income generating activities under the Joint Liability Group (JLG) model. The company also extends Micro Housing loans, Integrated Fish Farming loans and Water, Sanitation and Hygiene loans. G UFS cater to rural and semi-urban areas of Odisha and Chhattisgarh with its network of 41 branches across 15 districts with an AUM of Rs. 102.55 crore as on March 31, 2021. G UFS is promoted by Mr. Govind Chandra Dash (Managing Director) who has been engaged in microfinance and rural development in Odisha through his NGO Gram Utthan. In 1990, Mr. Govind Chandra Dash established an NGO Gram Utthan which worked towards the development and financial inclusion of the rural population of Odisha. In 2008, he acquired an existing NBFC Visudha Investment Private Limited and re-named it as G U Financial Services Private Limited to provide an exclusive platform for financial inclusion efforts of his NGO Gram Utthan. Mr. Govind Chandra Dash is adequately supported by other members on the Board of Directors comprising Mr. Santosh Mishra (Director), who has over a decades of experience in Micro Finance, Micro Enterprise promotion, Entrepreneurship Development, Sustainable Livelihood Promotion, Skill Development Initiative. He has also worked for 6 years as Programme Officer in Xavier Institute of Management, Bhubaneswar. Other board members include Mr. Gobinda Chandra Nayak (Director), having over two decades of experience in social development and legalities and Mr. Biswananda Tripathi (Independent Director) who is a Banking Professional with three decades of experience in the banking functions in various capacities in multiple areas of Administration and Management of Human Resources Management including Account Management, Customer Service, Staff Coordination, Training and Development. He also has experience in the functioning of Exchange Control Regulation, Management of Currency in the Issue Department and Maintenance of Estate in the Estate Department of Reserve Bank of India. Mr. Nandan Singh Bisht (Independent Director) is a Chartered Accountant by profession with more than 20 years of post qualification experience of working with leading Microfinance Institutions, Development Institutions and Technical Service Providers. Over the years, G UFS has expanded its operations to build an AUM of Rs. 102.55 crore as on March 31, 2021 as compared to Rs. 72.14 crore as on March 31, 2018. The AUM of Rs. 102.55 crore comprised owned portfolio of Rs. 54.64 crore and off-book exposure of Rs. 47.91 crore as on March 31, 2020. The company takes off-book exposure through Business Correspondence ~47 percent of its overall AUM as on March 31, 2021. It is a business correspondence partner for Arohan Financial Services, Belstar Microfinance and Samunnati Financial Intermediation and Services, Avanti Finance Private Limited, Jana Small Finance Bank. Acuité believes that experience of the management and promoters will be central to support the business risk profile of the company.

Weakness

· Moderation in Financial Risk Profile.

Financial risk profile of G UFS has been gradually declining over the period of past two years. While Acuité takes cognizance of the fact that many other NBFC-MFI have seen deterioration in their performance with rise in credit costs the decline is majorly on account of weakening of its on-book loan portfolio due to lower disbursement levels. On book Disbursement for FY21 stood at Rs.30.11 Crores [FY20: Rs.82.59 Crore] and Rs.0.42 Crore as on

September 30, 2021. On book Portfolio GUFs has declined from Rs. 54.64 crore as on March 31, 2021 [FY20: Rs. 84.97 crore] to Rs.34.78 Crores as on October 31, 2021. GUFs has expanded its off balance sheet exposure which has lower yields resulting in decline in Return on Average Assets (RoAA) which stood at 0.78 percent and Net Interest Margin (NIM) at 8.43 percent as on March 31, 2021 (P.Y 1.92 percent and 8.94 percent respectively). As a result GUFs's PAT has declined to Rs.0.66 Crores in FY21 [FY20: Rs. 1.79 Crore] to Rs.0.26 Crore as on September 30, 2021. 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 to improve its financial performance will be a key rating monitorable.

· **Risk inherent to microfinance segment and elevated stress in asset quality**

The activities of microfinance companies like GUFs are exposed to concentration risks. GUFs has a presence in 2 states with a concentration in Odisha (98.98 percent of total AUM) and Chhattisgarh (1.02 percent of total AUM as on March 31, 2021). 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 GUFs. GUFs's AUM majorly comprised from its 4 traditional districts of Kendrapra, Jajpur, Bhadrak and Balasore with ~66 percent contribution to the total AUM of Rs. 90.64 crore as on September 30, 2021 as compared to ~74 percent contribution to the total AUM of Rs. 102.55 crore as on March 31, 2021. GNPA levels rose to 4.65 percent as on March 31, 2021 as against 1.04 percent as on March 31, 2020. GNPA rose to 4.40 percent and NNPA reduced 0.37 percent as on October 31, 2021. Although the contribution from these 4 major districts has come down as the company is diversifying into new geographies, the other markets contribution to the GNPA has increased. The contribution of other districts towards GNPA was ~61 percent in FY20 (Rs. 0.63 Crore) and ~50 percent as on FY21 (Rs.1.26 Crore). Acuité believes, going forward, the ability of the company to mobilize additional funding through debt /sub-debt and its ability to deploy the funds profitably while maintaining its asset quality will be key rating sensitivity.

Rating Sensitivity

- Movement in collection efficiency and asset quality
- Movement in On-book portfolio.
- Movement in liquidity buffers
- Movement in profitability metrics
- Changes in the regulatory environment

Material Covenants

Not Applicable

Liquidity: Stretched

GUFs maintained cash and cash equivalents of Rs. 2.64 crore as on March 31, 2021. The company has made disbursements for the month of November 21 and December 21 for Rs. 7.34 Crore and Rs. 9.38 Crore. While the company has maintained liquidity to take care of its day to day operation costs and interest payments. GUFs's total collections during Q1 and Q2 for FY21 were Rs. 23.45 crore, Rs. 22.22 crore respectively against the total commitments of Rs.29.50 Crore and Rs.21.66 Crores respectively. Even though GUFs Considering the scale of operations and expected debt servicing commitments, the liquidity will continue to be under stress. GUFs's borrowings have maturity upto 36 months. As per GUFs's ALM statement as on September 30, 2021, ~73 percent of its borrowings had maturity within a year. The company's ability to maintain a stable liquidity profile will hinge on its ability to improve its collection efficiency commensurate with its debt servicing obligation and other business requirements. The company is in talks with various lenders to raise long term debt. Acuité believes that GUFs may require additional funds from its lenders until its collection efficiency reaches optimal levels. The ability of GUFs to raise long term funding (equity/debt) commensurate with its near

term obligations will be critical to the maintenance of a stable liquidity profile.

Outlook: Negative

Acuité believes that GUFs credit profile is likely to be impacted over the near term on account of an increased possibility of elevated asset quality pressure and the consequent impact on profitability. The outlook may be revised to 'Stable' in case GUFs is able to demonstrate significantly lower than expected deterioration in asset quality while improving its liquidity buffers. Conversely, if the company faces challenges in managing its liquidity buffers due to slower than expected improvement in collection efficiency or if the asset quality challenges are higher than expected and impacting profitability, it could impart a negative bias to the rating.

Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	65.18	104.68
Total Income*	Rs. Cr.	8.31	10.30
PAT	Rs. Cr.	0.59	1.79
Networth	Rs. Cr.	14.94	14.36
Return on Average Assets (RoAA)	(%)	0.69	1.92
Return on Net Worth (RoNW)	(%)	4.02	13.92
Total Debt/Tangible Net Worth (Gearing)	Times	3.13	6.12
Gross NPA's	(%)	4.65	1.04
Net NPA's	(%)	2.08	0.04

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

None

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
23 Aug 2021	Proposed Bank Facility	Long Term	80.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	10.00	ACUITE BB (Downgraded and Issuer not co-operating*)
17 Jul 2020	Term Loan	Long Term	10.00	ACUITE BBB- Negative (Assigned)
	Proposed Bank Facility	Long Term	80.00	ACUITE BBB- Negative (Reaffirmed)
09 May 2019	Proposed Term Loan	Long Term	70.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE BB Negative Reaffirmed

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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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