

Press Release

G U Financial Services Private Limited

April 20, 2023



Rating Downgraded and Downgraded & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	70.00	ACUITE BB- Downgraded & Withdrawn	-
Bank Loan Ratings	20.00	ACUITE BB- Stable Downgraded Negative to Stable	-
Total Outstanding Quantum (Rs. Cr)	20.00	-	-
Total Withdrawn Quantum (Rs. Cr)	70.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to **ACUITE BB- (read as ACUITE Double B minus)** from **ACUITE BB (read as Acuite Double B)** on the Rs. 20.00 Cr bank facilities of G U Financial Services Private Limited (GUFS). The outlook has been revised from 'Negative' to 'Stable'.

Acuite has further downgraded and withdrawn its long-term rating of **ACUITE BB- (read as ACUITE Double B minus)** from **ACUITE BB (read as ACUITE Double B)** on the Rs. 70.00 Cr proposed bank facilities of G U Financial Services Private Limited (GUFS). The rating has been withdrawn as per Acuite's policy of withdrawal of ratings, and on account of the request received company.

The rating downgrade takes into account decline in on-book portfolio and asset quality (on-book portfolio). GNPA and NNPA has declined to 8.17 percent and 1.71 percent as on February 28, 2023 from 5.58 percent and 0.66 percent as on March 31, 2022 respectively. The company's on book portfolio reduced to Rs 28.49 Cr. as on March 31, 2022 from Rs 54.64 Cr. as on March 31, 2021. The company has reported further decline in an on-book portfolio to Rs 21.71 Cr. as on February 28, 2023. The rating is further offset by decline in profitability metrics with PAT reducing to Rs.0.30 Crores as on FY 2021-22 from Rs 0.59 Crores on FY 2020-21 respectively. The company has reported a PAT of Rs 0.39 Cr. during 9MFY2023. The operating Income has further reduced to Rs 4.93 Cr. as on December 31, 2022. The rating is also constrained by geographic concentration and risks inherent to micro finance sector. The rating continues to derive strength from its experienced management team and adequate capitalization levels as on February 28, 2023. The company's capital Adequacy Ratio has improved to 55.55 percent as on March 31, 2022, from 31.28 percent as on March 31, 2021 due to decrease in risk weighted assets. The company has reported further improvement in Capital Adequacy Ratio to 68.58 percent as on February 28, 2023. The rating factors growth in AUM to Rs 112.06 Cr as on March 31, 2022 from Rs 102.55 Cr as on March 31, 2021 mainly due to improvement in off-book portfolio. The company has further reported growth in AUM to Rs 127.85 Cr. as on February 28, 2023.

Going forward company's resource raising ability, improvement in asset quality across different time buckets, improvement in profitability metrics and AUM while maintaining healthy Capitalization levels would be key rating sensitivities.

About the company

Odisha based, G U Financial Services Private Limited (GUFS) is a non-deposit taking NBFCMFI. 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. GUFS 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 44 branches as on March 31, 2022.

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:

GUFS 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. GUFS cater to rural and semi-urban areas of Odisha and Chhattisgarh with its network of 44 branches across 15 districts with an AUM of Rs. 127.85 Cr. as on February 28, 2023. GUFS 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 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. 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. Over the years, GUFS has expanded its operations to build an AUM of Rs. 112.06 Cr. as on March 31, 2022 as compared to Rs. 102.55 crore as on March 31, 2021. The AUM has further improved to Rs. 127.85 Cr. as on February 28, 2023 with on-book portfolio of Rs. 21.71 Cr and off-book portfolio of Rs. 106.15 Cr. GUFS has expanded its off-book exposure with with ~83.02 percent of its overall AUM as on February 28, 2023. The company takes off-book exposure through Business Correspondence. It is a business correspondence partner for Arohan Financial Services Pvt Ltd, Belstar Microfinance and Avanti Finance Private Limited and 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

Moderate Financial performance:

The company's Financial performance has declined over the past two years due to reduction in on-book portfolio. The company's on-book portfolio has declined to Rs.28.49 crore as on March 31, 2022 from Rs. 54.64 crore as on March 31, 2021. The company's on-book portfolio has further declined to Rs.21.71 Crores as on February 28, 2023. GUFs has expanded its off-book exposure which has lower yields resulting in decline in Return on Average Assets (RoAA), Net Interest Margin and PAT. The company's RoAA stood at 0.59 percent and Net Interest Margin (NIM) at 5.75 percent as on March 31, 2022 (P.Y 1.50 percent and 8.45 percent respectively). The company's PAT has declined to Rs.0.30 Crores during FY 2021-22 from Rs 0.59 Cr. during FY 2020-21.

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

The activities of microfinance companies like GUFs are exposed to concentration risks. GUFs has a presence in 2 states with a concentration in Odisha (98.92 percent of total AUM) and Chhattisgarh (1.08 percent of total AUM as on February 28, 2023. 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.

Acuité believes that the company's modest scale of operations coupled with geographic concentration in the will continue to weigh on the company's credit profile over the near to medium term.

Modest asset quality:

The company's GNPA and NNPA (on-book portfolio) has declined to 8.17 percent and 1.71 percent as on February 28, 2023 from 5.58 percent and 0.66 percent as on March 31, 2022 respectively. The company reported an on time portfolio (on-book portfolio) of 82.52 percent as on February 28, 2023 and 86.83 percent as on March 31, 2022. The company has reported a 12 month average collection efficiency of 79.91 percent till February 28, 2023. However, the company's GNPA (off-book portfolio) stood at 0.57 percent as on February 28, 2023, 3.91 percent as on March 31, 2022 (PY: 4.10 percent).

Acuité believes that constraining additional slippages while maintaining the growth in the loan portfolio will be crucial.

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

GUFs is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

Liquidity Position

Adequate

GUFs maintained cash and cash equivalents of Rs. 3.54 crore as on March 31, 2022. The company has made disbursements for the month of January 2023 and February 2023 for Rs. 11.93 Crore and Rs. 11.58 Crore. The company has maintained liquidity to take care of its day to day operation costs and interest payments. GUFs's total collections during Q1, Q2 and Q3 for FY23 were Rs 32.54 Cr, Rs 34.65 Cr and 38.48 Cr. respectively. against the total

commitments of Rs.35.04 Cr., Rs.34.56 Cr. and Rs 38.26 Cr. respectively. As per GUFs's ALM statement as on December 31, 2022, ~55 percent of its borrowings had maturity within a year. Acuité believes 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: stable

Acuité believes that the GUFs will maintain a 'Stable' outlook over the medium term supported by its established presence in area of operation. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its on-book portfolio with improvement in profitability metrics and asset quality metrics while maintaining healthy capitalization levels. 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.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs Cr.	38.79	65.18
Total Income*	Rs Cr.	6.53	8.31
PAT	Rs Cr.	0.30	0.59
Networth	Rs Cr.	15.91	14.94
Return on Average Assets (ROAA)	(%)	0.59	0.69
Return on Net Worth (RoNW)	(%)	1.97	4.02
Total Debt/Tangible Net Worth (Gearing)	Times	1.22	3.13
Gross NPA's	(%)	5.58%	4.65%
Net NPA's	(%)	0.66%	2.08%

*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>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Jan 2022	Proposed Bank Facility	Long Term	90.00	ACUITE BB Negative (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	9.82	ACUITE BB- Stable Downgraded Negative to Stable
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	70.00	ACUITE BB- Downgraded & Withdrawn
Samunnati Financial Intermediation & Services Private Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.26	ACUITE BB- Stable Downgraded Negative to Stable
IDFC First Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.00	ACUITE BB- Stable Downgraded Negative to Stable
IDFC First Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.71	ACUITE BB- Stable Downgraded Negative to Stable
Samunnati Financial Intermediation & Services Private Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.00	ACUITE BB- Stable Downgraded Negative to Stable
Friends of WWB	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.17	ACUITE BB- Stable Downgraded Negative to Stable
Friends of WWB	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.04	ACUITE BB- Stable Downgraded Negative to Stable
Friends of WWB	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.00	ACUITE BB- Stable Downgraded Negative to Stable

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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