

Press Release

G U Financial Services Limited

May 09, 2019

Rating Assigned



Total Bank facilities rated	Rs. 70.00 Cr.
Long Term Rating	ACUITE BBB-/Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 70.00 Cr. bank facilities of G U Financial Services Limited (GUFSL). The outlook is '**Stable**'.

GUFSL is an Odisha based NBFC-MFI engaged in extending micro credit since 2008, primarily to women borrowers through JLG model. The company is promoted by Mr. Govind Chandra Dash (Chairman), who has over three decades of experience in development and financial inclusion sector.

GUFSL operates in Odisha and is gradually expanding into Chhattisgarh. The company has a network of 34 branches as on March 31, 2019.

Analytical approach:

Acuite has adopted a standalone approach on GUFSL's business and financial risk profile for arriving at the rating.

Key Rating Drivers

Strengths

- **Established presence in microfinance lending:**

GUFSL was founded by Mr. Govind Chandra Dash, who is the founding member of Gram-Utthan (means 'Village upliftment'), an NGO engaged in holistic development of underprivileged people. He has over three decades of experience in social development and financial inclusion. The company commenced its microfinance operations in 2008 and subsequently, started business correspondence with Yes Bank and Arohan Financial Services Private Limited and gradually started expanding own exposure.

GUFSL's overall Asset under Management stood at Rs.112 Cr. as on March 31, 2019 (Provisional) as against Rs.26 Cr. as on March 31, 2016; wherein the owned to managed ratio improved to 61:39 as on March 31, 2019 (Provisional) as against 21:79 as on March 31, 2016. This has led GUFSL to have a strong foothold in the Odisha.

GUFSL has a 5-member board led by Mr. Govind Chandra Dash (Founder and Chairman). The day to day operations are managed by Mr. Sasibhusan Dash (Managing Director), who has over three decades of experience in BFSI sector with more than 7 years of experience in SBI's foreign operations. Other Board members include Mr. Gobinda Chandra Nayak (Director), having over two decades of experience in social development and legalities, Mr. Prasad Kuchibhatla (Independent Director) is an Ex-CGM of Reserve Bank of India with over 3 decades of experience and Ms. Sanjukta Raiguru (Independent Director), an Ex-GM of SBI and has held leadership positions in various fields namely retail banking, SME Finance, Training and Corporate Social Responsibility.

Acuite believes that GUFSL's overall business profile will be supported by established presence in the microfinance segment along with strong managerial support.

- **Healthy asset quality and profitability metrics:**

GUFSL primarily operates in the coastal regions of Orissa with a marginal borrower base engaged in Agriculture, Live Stock Rearing and Dairy. The company extends micro credit for income generation, housing, water, sanitation and hygiene needs.

The company's Gross NPA stood at 0.12 percent as on March 31, 2019 (Provisional) as against 0.17 percent as on March 31, 2018 and 0.04 percent as on March 31, 2017. The company's asset quality remained healthy among peers as a lower share of its portfolio was in demonetisation affected areas. The company has demonstrated healthy collection efficiency (excluding prepayments) of 99.8 percent in 12 months ended March 31, 2019. The company's maintained Gross NPA levels are reflective of the prudent underwriting standards and appraisal systems.

The improving asset quality has also augured well to the earning profile of GUFSL. The company maintains healthy Return on Average Assets (ROAA) of 2.66 percent in FY2019 (Provisional) and 2.78 percent in FY2018. Net Interest Margins (NIMs) have also improved to 9.37 percent in FY2019 (Provisional) as against 8.57 percent in FY2018. The improved NIMs are a result of improved interest spreads.

Acuite believes that GUFSL's demonstrated ability to practice prudent underwriting and appraisal standards while achieving its growth objectives will continue to augur well to the overall asset quality and earning profile.

Weaknesses

- **Ability to scale up operations:**

GUFSL's Asset under Management stood at Rs. 112 Cr. as on March 31, 2019 (Provisional) as against Rs. 72 Cr. and Rs. 51.8 Cr. as on March 31, 2018 and 2017. The growth is primarily driven by increased owned exposure. The owned exposure has grown to Rs. 68.4 Cr. as on March 31, 2019 (Provisional) as against Rs. 35.5 Cr. and Rs. 14.8 Cr. as on March 31, 2018 and 2017. The company's operations are concentrated in Odisha which restricts its ability to significantly scale up its operations. The management plans to diversify into Chhattisgarh, West Bengal and Jharkhand in the near to medium term.

GUFSL has received its NBFC-MFI license in August 2018 prior to which it operated as an NBFC. This has limited its resource mobilising ability. GUFSL's net worth stood at Rs. 11.62 Cr. as on March 31, 2019 (Provisional) as against Rs. 8.87 Cr. as on March 31, 2018. The company's gearing stood at 5.7 times as on March 31, 2019 (Provisional) as against 3.82 times as on March 31, 2018. The company's funding profile is dependent on funding from NBFCs which usually entail higher cost of funding. The company's capitalisation levels stood at 20.76 percent as on March 31, 2019 (Provisional); of which, the Tier I Capital contributed 14.5 percent and Tier II capital contributed 6 percent.

Acuite believes that the company's growth strategies are likely to be impinged by the limited resource mobilisation ability and concentrated geographical spread.

- **Exposure to inherent socio-political risk in MFI segment:**

GUFSL is engaged in unsecured lending to marginal borrower with limited ability to absorb income shocks. The microfinance sector operates in economically backward areas, wherein regulatory intervention is of importance. This exposes the segment to regulatory risks. Further, these loans are extended in clusters. Any natural calamity or adverse manmade event in the region can impact the cash flows of the borrowers which in turn will have an adverse impact on the overall credit profile of players such as GUFSL. Certain events in the past are reflective of the vulnerability of microfinance sector to regulatory and legislative risk.

Acuite believes that any adverse impact on the cash flows of the borrowers of players such as GUFSL is likely to impinge upon the overall operating profile of such players.

Liquidity Position:

GUFSL's overall liquidity profile remains comfortable, given that advances comprise relatively shorter-tenure microfinance loans compared to the tenure of borrowed funds. There are no cumulative negative mismatches in any of the time buckets upto 3 years.

Outlook: Stable

Acuite believes that GUFSL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with healthy asset quality and earning profile. The outlook may be revised to 'Positive' in case of significant growth in loan portfolio while maintaining asset quality, profitability, and capitalisation levels. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration of capital structure and asset quality.

About the Rated Entity - Key Financials

Parameters	Unit	FY19 (Provisional)	FY18 (Audited)	FY17 (Audited)
Total Assets	Rs. Cr.	83.14	49.17	19.96
Total Income*	Rs. Cr.	8.68	5.18	4.20
PAT	Rs. Cr.	1.76	0.96	0.67
Net Worth	Rs. Cr.	11.62	8.87	7.91
Return on Average Assets (RoAA)	(%)	2.66	2.78	4.78
Return on Average Net Worth (RoNW)	(%)	17.19	11.45	8.81
Total Debt/Tangible Net Worth (Gearing)	Times	5.72	3.82	1.34
Gross NPA	(%)	0.12	0.17	0.04
Net NPA	(%)	0	0	0

* Total income equals to Net interest income plus other income

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)-

None

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Term Loan	NA	NA	NA	70.00	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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