

March 27, 2017

Disha Microfin Private Limited

Instrument *	Amount (in Rs. Crore)	Rating Action
Bank loan Facilities	75.00	Rating Upgraded from [ICRA]BBB-(positive) to [ICRA]A-(stable)

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has upgraded the ratings assigned to the 75 crore bank loan facilities of Disha Microfin Private Limited from [ICRA]BBB-(pronounced ICRA triple B minus) with a positive outlook to [ICRA]A-(pronounced ICRA A minus). The outlook on the rating is stable.

Rationale

The rating upgrade takes into consideration the consolidation of assets and liabilities of Future Financial Services Private Limited (FFSPL) with Disha and the combined strength of the two entities. The rating also factors in the expected improvement in Disha's business risk profile post its conversion into a small finance bank (SFB) and the recent equity infusion of Rs.142 crore in the company in March 2017. The rating is supported by Disha's good loan origination, internal audit, MIS, risk management and collection mechanisms, its experienced board, management team, geographic diversification and strong investor profile. These positives, coupled with Disha's good financial flexibility arising out of relationships with a large number of lenders as well as its ability to raise equity have helped the company to scale up operations (consolidated portfolio of Rs. 1232 crore as on February 28, 2017) while deepening its footprint and diversifying across 7 states and reporting good profitability indicators. Nevertheless, ICRA has noted Disha's high pace of growth, high attrition rates and relatively high delinquencies in individual loans segment (30+ delinquencies of 16.56% as on February 28, 2017 for the consolidated portfolio). The consolidation happened in the month end of September 2016, due to similar audit processes, IT systems, collection methods and common management working at the helm through the holding company Fincare Business Services, the merger turned out to be positive for the consolidated entity.

Following the recent demonetisation action by the Government of India (GoI), inadequate currency supply, political interference in some states, and disruption in borrower cash flows has led to a decline in collection efficiencies in Disha's portfolio; the company recorded ~85% collections in February 2017 vis-a-vis over 98% prior to demonetisation. Nevertheless, ICRA notes that Disha has a moderate share of portfolio in districts where collections are below 80% which should help contain the extent of delinquency and write-offs. The company's ability to maintain good asset quality and liquidity profile will be a key rating sensitivity going forward. In ICRA's view, the pace of replenishment of adequate currency supply in the system, the medium to long term impact on the livelihoods of the borrowers and the quality of customer engagement by the MFIs will be key determinants of asset quality of MFIs, including Disha.

Key Rating Drivers

Key Strengths

- Good financial flexibility arising out of a diversified funding mix; the company would however have to deepen its liability franchise on conversion to an SFB
- Strong investor profile with investment from True North supporting initial growth; commitment from the investor for future capital support
- Experienced senior management team with a collective experience of more than 25 years
- High collection efficiency and strong portfolio asset quality in last four years of operations. Prudent lending policy, with centralised pre-disbursal credit checks and low borrower penetration at the village level
- Strong tracking and MIS systems adequate to support future growth; strong audit system in place

Key Challenges

- To maintain profitability indicators and ability to improve diversity in product profile and earnings, SFB's return ratios likely to be depressed due to negative carry of CRR/ SLR and increase in operating expenditure on account of new branches
- Ability to build stable deposit base to support lending book as well as reserve requirement. To secure funding from other sources, at competitive rates, till deposits scale-up
- To meet with the regulatory requirements as an SFB
- Recruiting good manpower, training and retaining them as it converts to an SFB

Description of key rating drivers highlighted above:

The rating upgrade takes into account the expected improvement in Disha's business risk profile after it gets converted into a small finance bank (SFB) and the progress made towards this transition, including broad basing the management team, identification of Information Technology partners as well as tying up equity funding. ICRA notes that Disha has been able to bring down its foreign shareholding below the mandated 49%. However, ICRA also notes that post conversion to SFB, Disha's funding requirements would increase by around 20-25% owing to CRR and SLR requirements. In the short term, the company would be dependent on refinance from SIDBI, NABARD, funding through NCDs and securitisation for meeting its funding requirements. In the initial phase of conversion, deposit mobilization is expected to be low and not expected to be a significant funding resource. Thus, Disha's ability to develop a deposit franchise over the medium term would be a critical determinant of its liquidity position going forward. In ICRA's opinion, Disha would be able to offer additional loan products, offer fee based products as well as develop a retail deposit franchise over the medium term given its large active customer base which would support its liability profile and funding costs over the medium term. Overall, the ability of the company to diversify its product mix, develop a good retail deposit franchise and maintain asset quality indicators while managing the high pace of projected growth as well as meet the transition related challenges would be important from a credit perspective.

The company has been able to maintain good capitalisation indicators supported by frequent capital infusions as well as improving internal capital generation. A capital infusion of Rs. 142 crore was done in Disha in March 2017. Based on the track record of Disha's equity raising in the past and its strong investor profile, ICRA expects the company to be able to raise equity in a timely manner going forward as well.



Disha has a diversified funding profile; with 64% (as on Dec-16) of the overall resource mix (consolidated) comprising of lending from banks. Lending from NBFCs has reduced over the past few years (33% as on Dec-2016 vis-à-vis 47% as on FY2013). As the company converts to a Small Finance Bank, its funding requirements would increase in order to maintain regulatory reserve requirements (cash reserve ratio and statutory liquidity ratio), as well as for growth and the company would need to develop a deposit franchise over the medium term to replace the maturing liabilities.

Disha has a strong earning profile which is supported by moderate consolidated operating expenses (5.05% as a percentage of average managed advances for 9MFY17) despite the relatively higher pace of growth. The operating expenses of the company are expected to increase owing to the conversion to a SFB which would affect profitability in near term. Operating expenses will relate to recruitment costs, IT related expenses, marketing expenses and branch expansion costs. Over the long term, ability of the company to raise a stable low cost liability franchise and maintain good asset quality indicators will be important for maintaining good profitability indicators. The gearing levels of the company stood at 4.16 times as on Mar-16 vis-a-vis 3.91 times as on Mar-15. The gearing moderated to 2.83 times as on Dec-16. The asset quality indicators for 30+dpd bucket worsened from 1.34% in Mar-16 to 16.56% in Feb-17 because of the impact of weak collections post demonetisation.

Analytical approach: Not Applicable

Links to applicable Criteria

ICRA's Credit Rating Methodology for Non-Banking Finance Companies

Company Profile

About Disha Microfin Private Limited

Disha Microfin Private Limited (formerly known as Banas Finlease Private Limited) is a Microfinance institution and a Non-deposit accepting NBFC registered with Reserve Bank of India in the state of Gujarat. The company is in existence since 1996 in Gujarat and received RBI license in 1999. In February 2009, the current management led by Mr Sameer Nanavati took over the company and decided to commence micro finance operations of the company based on Grameen Bank Joint Liability Group (JLG) model. In October 2010, True North (erstwhile India Value Fund (IVFA)) - a private equity fund acquired around 47% stake in the company through Indium IV and Rs. 10 crore was infused in the company. The stake was further increased to 67% with equity infusion of Rs 15 crores in Mar-13. As on date, the True North stake through Indium IV stands at 19.99%.

Disha reported a consolidated profit after tax (PAT) of Rs. 29.83 crore in FY2015-16 on consolidated managed assets of Rs. 1042 crore as on Mar-16. Disha, on a consolidated basis, has a capital adequacy of 24.21% as on December 31, 2016.

Recent Results

During 9MFY17, Disha on a consolidated basis reported a net profit of Rs. 24.59 crore on a total income base of Rs. 141.37 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	FY2017	FY2016	FY2015	FY2014	
				March 2017	November 2015	December 2014	October 2013	
1	Bank Loan facilities	Long Term	75.00	[ICRA]A-(stable)	[ICRA]BBB-(positive)	[ICRA]BBB-(stable)	[ICRA]BBB-(stable); upgraded from [ICRA]BB(stable)	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Bank Loan Facilities	Feb-2016	NA	Jun-2019	75.00	[ICRA]A-(stable)

Source: Company Data

Name and Contact Details of the Rating Analysts:

Mr. Rohit Inamdar
(Tel. No. +91 22 4545 847)
rohit.inamdar@icraindia.com

Ms. Supreeta Nijjar
(Tel. No. +91 22 4545 324)
supreetan@icraindia.com

Mr. Saumya Aggarwal
(Tel. No. +91 22 6114 3425)
saumya.aggarwal@icraindia.com

Name and Contact Details of Relationship Contacts:

Mr. L. Shivakumar
(Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com



About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500