

Grama Vidiyal Micro Finance Limited

Instrument	Amount In Rs. crore	Rating Action
Subordinated debt	20.00	[ICRA]BBB(stable); assigned
Subordinated debt	27.00	[ICRA]BBB(stable); reaffirmed
Non Convertible Debentures	18.00	[ICRA]BBB(stable); reaffirmed
Long Term- Bank Loans	922.07	[ICRA]BBB(stable); reaffirmed
Commercial Paper Programme	50.00	[ICRA]A3+; reaffirmed
Cumulative Non-Convertible Compulsorily Redeemable Preference Shares (CNCRPS)	8.50	[ICRA]A3; reaffirmed

ICRA has assigned the **[ICRA]BBB (pronounced ICRA triple B)** rating with stable outlook to the Rs. 20.00 crore Subordinated debt programme of Grama Vidiyal Micro Finance Limited (GVMFL/ the company)[†]. ICRA has reaffirmed the **[ICRA]BBB(pronounced ICRA triple B)** rating with a Stable outlook to the Rs.922.07 crore long term bank facilities and Rs. 27.00 crore Subordinated debt programme and Rs. 18.00 crore Non Convertible Debenture Programme. ICRA also has reaffirmed the **[ICRA]A3+ (pronounced ICRA A three plus)** rating to the Rs. 50.00 crore commercial paper programme and **[ICRA]A3(pronounced ICRA A three)** rating to the Rs.8.50 crore Cumulative Non-Convertible Compulsorily Redeemable Preference Shares (CNCRPS) programme of the company.

The ratings take into consideration the company's long track record in microfinance business, experienced senior management team, improvement in fund availability, its adequate internal controls and monitoring systems leading to good asset quality (0+dpd 0.06% as in November 2015). Overall portfolio size of GVMFL increased to Rs. 1,136 crore in November 2015 (Rs.1,012 crore in March 2015) from Rs. 726 crore as on March 31, 2014, which along with good fund availability during the first half of FY2016 and strict control on asset quality led to an improvement in PBT as proportion of average managed assets to 4.3% (provisional) for the period April 2015-October 2015 (2.2% in FY2015) from 0.5% in FY2014. The rating continues to factor in GVMFL's regionally concentrated nature of operations, high gearing and risks associated with the unsecured lending business like other MFIs and operational risks arising out of cash handling. While increase in ticket sizes as well as the branch expansion and customer base may lead to overleveraging of the end borrowers of MFIs, including GVMFL, mandatory use of credit bureaus and adopting lower ticket sizes (than Rs one lakh) may lower the overleveraging concerns.

ICRA takes notes of the company's exposure in Chennai and the nearby districts (3.4% as in November 2015), which was impacted by the recent floods. ICRA would closely monitor the impact of the same on the company's performance in the near to medium term. The company is expanding to newer geographies in a measured manner. In October 2015, the company expanded their presence to Karnataka, Kerala and Gujarat however the operations are yet to commence in these new states. GVMFL's managed gearing continues to remain relatively high at 8.7 times as on October 31, 2015. However, considering the credit strengths mentioned above and GVMFL's comfortable funding and liquidity profile, ICRA expects the company to maintain moderate credit profile. Going forward, it would be crucial for GVMFL to secure equity capital to expand its business volumes and maintain a comfortable capital structure. GVMFL's regulatory capital to risk assets ratio (CRAR) stood at 17.6% in September 2015. The company would need equity infusion of about Rs.80-100 crore to achieve a compounded portfolio growth of about 30%, over the next 3 years, ICRA takes note of the initiatives taken by GVMFL for securing equity and expects the company to get the required equity as the outlook on the microfinance sector is good and the company has maintained a strict control on asset quality and has improved its profitability indicators. The company is taking initiatives to augment its fee based income by entering into a Banking Correspondence arrangements.

* Rs. 1 crore = Rs. 10 million = Rs. 100 Lakh

† For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Company profile

GVMFL was setup by Mr. S. Devaraj in 1993. It was initially started as part of a charitable institute of the promoter, called Activists for Social Alternatives (ASA). In 1997, the Grama Vidiyal Community Mutual Benefit Trust was set up as a separate entity from ASA and it became a registered NBFC and was renamed as Grama Vidiyal Micro Finance Limited (GVMFL) in 2007. GVMFL is presently engaged in microfinance lending activities extending credit to economically backward women through the joint liability model. The first round of equity infusion took place in January 2008, when Unitus Equity Fund and Mr. Vinod Khosla were inducted as investors and a total equity of Rs. 13.9 crore was infused. The company received a second round of equity infusion of Rs. 21.8 crore in FY2009, when a third investor - Micro Vest - was inducted. As in November 2015, GVMFL had 10.7 active lakh members with a total outstanding portfolio of Rs. 1,136 crore. Its operations are primarily concentrated in the state of Tamil Nadu and Union Territory of Pondicherry with a small proportion of its portfolio in states of Madhya Pradesh and Maharashtra. In H1FY2016, the company expanded their presence in Karnataka, Kerala and Gujarat however the operations are yet to commence in these new states.

During Seven Month ended FY2016 (7MFY2016), the company reported a net profit of Rs.23.1 crore (provisional) on a total income of Rs. 195.5 crore (provisional). During FY2015, the company reported a net profit of Rs. 18.3 crore on a total income of Rs. 228.6 crore as compared to a net profit of Rs.3.3 crore on a total income of Rs. 165.9 crore in FY2014.

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