

Press Release

Dakshin Budhakhali Improvement Society

August 17, 2018

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Facilities - Term Loan	25	IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)	Assigned
Total	25		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Dakshin Budhakhali Improvement Society (DBIS) is tempered by its small scale of operations with geographical concentration risk, weak resource profile and exposure to socio political risks inherent in the microfinance industry. However, the rating is underpinned by its experienced management, comfortable capital adequacy ratio, stable asset quality, comfortable liquidity profile and improvement in financial performance in FY18. Business growth, asset quality, profitability and gearing level are the key rating sensitivities.

List of Key Rating Drivers

- Small scale of operations
- Geographical concentration risk
- Weak resource profile
- Socio political risks inherent in the industry
- Experienced Management
- Comfortable capital adequacy ratio
- Stable asset quality
- Comfortable liquidity profile
- Improvement in financial performance in FY18

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Detailed Description of Key Rating Drivers

Key Rating Weaknesses

- **Small scale of operations**

The scale of operations of DBIS remained small with a loan portfolio of Rs.24.05 crore as on March 31, 2018 and Rs.25.15 crore as on June 30, 2018.

- **Geographical concentration risk**

DBIS's operations are concentrated in the state of West Bengal and Odisha (started from March, 2018) with major focus in the state of West Bengal. Single state concentration exposes the DBIS to high geographical concentration risk. As on March 31, 2018, DBIS is operating in eight districts in WB and one district in Odisha.

- **Weak resource profile**

Being a society, DBIS has a weak resource profile with limited options to attract funds.

- **Regulatory risks & socio political risks inherent in the industry**

MFI industry is highly prone to regulatory risks & socio political risks mainly on account of its unique collateral free debt nature. Earlier events like demonetization have affected the industry to a great extent where the collection efficiency of the MFI's has got impacted. However given the market potential due to demand of micro loans in rural segments, the sector is likely to maintain its high growth.

Key Rating Strengths

- **Experienced Management**

DBIS is managed by a seven member governing body headed by Mrs. Swapna Das (President). All the governing body members are well versed with the intricacies of the society and operational environment. The day to day affairs are handled by Mr. Prasanta Kr. Panda (Secretary) having more than one decade of experience in the MFI sector.

- **Comfortable capital adequacy ratio**

DBIS has maintained a healthy capital adequacy ratio (CAR) over the years. As on March 31, 2018, CAR was healthy at 37.67% (25.09% as on March 31, 2017). The improvement in CAR was mainly on account of increase in corpus fund due to funds introduced amounting to Rs.3.35 crore during the year and healthy accretion of surplus driven by strong growth in loan

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portfolio in FY18 (Rs.24.05 crore as on Mar 31, 2018 from Rs.14.06 crore as on Mar 31, 2017) which was funded through incremental debt.

- **Stable asset quality**

The asset quality of DBIS has improved in FY18 which is witnessed by stable collection efficiency which was 99.96% in FY17 and 99.98% in FY18. Further, GNPA is 0.27% and NNPA is 0.09% as on March 31, 2018 which improved from 0.40% and 0.21% respectively as on March 31, 2017.

- **Comfortable liquidity profile**

Liquidity position of DBIS, as on March 31, 2018 has been comfortable with positive cumulative mismatches in the short term (upto 1 year) bucket.

- **Improvement in financial performance in FY18**

DBIS's total operating income increased from Rs.2.45 crore in FY17 to Rs.5.65 crore in FY18 driven by healthy increase in loan portfolio during the year. Further, NIM has also improved from 6.78% in FY17 to 10.59% in FY18 driven by healthy increase in loan portfolio coupled with improvement in gearing levels from 4.82x to 2.32x. Operating expense ratio improved marginally from 3.82% in FY17 to 3.68% in FY18 driven by growth in loan portfolio. ROTA improved from 4.16% in FY16 to 7.75% in FY18, on the back of improvement in Net Interest Margin and cost to income ratio. In Q1FY19, the society reported net surplus of Rs.0.80 crore on a total income of Rs.1.59 crore.

Analytical Approach & Applicable Criteria:

Rating Methodology for Financial Institutions / NBFCs.

Financial Ratios & Interpretation (Financial Sector)

About the Company

Dakshin Budhakhali Improvement Society (DBIS) was formed in 1995 as a charitable society with the sole objective of improving the lives of people. DBIS started its micro finance activity from May 2006 by lending to women borrowers engaged in small businesses under 'Self Help Group' model in rural areas of West Bengal (covering 8 districts) and Odisha (covering 1 district). As on June 30, 2018, DBIS is managing a loan portfolio of Rs.25.14 crore through its network of 11 branches spread across 9 districts in West Bengal and Odisha. Currently, the

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operations of the society are managed by Mr. Prasanta Kr. Panda (Secretary) and Ms. Swapna Das (President) along with the support of other governing body members.

Financials (Standalone):

(Rs. Crore)

For the year ended* / As On	31-03-2017	31-03-2018
	Audited	Audited
Total Income	2.45	5.65
Net Interest Income	0.93	2.61
PAT	0.56	1.89
Total Debt	16.21	20.36
Total Loan Assets	14.06	24.05
PAT Margin (%)	23.00	33.42
Net Interest Margin	6.78	10.59
Return on Total Assets	4.09	7.65
Overall Gearing Ratio (x)	4.82	2.32

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Facilities - Term Loan	Long Term	25	IVR BB+ / Stable Outlook			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Facilities - Term Loan	-	-	Sep 2020	25	IVR BB+ / Stable Outlook