



## Press Release

### Dhosa Chandaneswar Bratyajana Samity

October 05, 2020

SI. No.	Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Long term Bank Facilities	13.15 (reduced from 15.00)	IVR BB+; Negative (IVR Double B Plus with Negative outlook)	Rating reaffirmed and outlook revised to Negative from Stable and removed from 'Issuer Not Cooperating'
	<b>Total</b>	<b>13.15</b> <b>(Rs Thirteen crore and Fifteen lakh Only)</b>		

**Details of Facilities are in Annexure 1**

#### **Detailed Rationale**

Due to inadequate information, Infomerics, in line with Securities and Exchange Board of India guidelines, had migrated the ratings on the bank facilities of Dhosa Chandaneswar Bratyajana Samity (DCBS) to IVR BB+/Stable; Issuer Not Cooperating. However, DCBS has subsequently started sharing information, necessary for carrying out a comprehensive review of the ratings. Consequently, Infomerics is migrating its ratings on the bank facilities of DCBS to IVR BB+/ Negative from IVR BB+/Stable; Issuer Not Cooperating.

In a review of the information, the rating takes cognisance of the experienced management, comfortable capital adequacy ratio and stable asset quality of the entity. These rating strengths are however, remain constrained by its small scale of operations with geographical concentration risk, weak resource profile and exposure to regulatory & socio-political risks inherent in the industry. The outlook has been revised from stable to negative as the outbreak of COVID-19 and consequent lockdowns has severely impacted the operations of several NBFCs, including Micro Finance Institutions (MFIs) to a large extent across the country. The logistical challenges faced by MFIs to reach out to their borrowers and conduct their day to day operations has impacted their collection efficiency and asset quality, DCBS is a no exception to that. Further, the credit quality of the borrowers was also severely impacted due to prolonged lockdown. In the above scenarios, the ability of the entity to achieve optimal collection efficiency commensurate with the monthly obligations (both debt servicing obligations and operating expenses) and the ability of the promoters to arrange for



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long term funding support both through equity and long-term debt with reasonable credit cost are the two major monitorable.

### **Rating Sensitivities**

#### **Upward factors**

- Growth in scale of operations and asset under management with improvement in profitability while maintaining its asset quality
- Diversification in funding profile

#### **Downward Factors**

- Decline in profitability and/or deterioration in the asset quality
- Deterioration in capital structure and moderation in CAR
- Movement in collection efficiency with movement in liquidity buffers
- Changes in regulatory environment

### **Detailed Description of Key Rating Drivers**

#### **Key Rating Strengths**

- **Experienced Management**

DCBS is managed by a seven-member governing body headed by Mr. Santosh Kumar Haldar (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. Animesh Naiya (Secretary) having more than two decades of experience in the MFI sector.

- **Comfortable capital adequacy ratio**

DCBS has maintained a healthy capital adequacy ratio (CAR) over the years., where reported CAR was 34.56% and Tire-1 CAR was 23.26% as on March 31, 2020. However, Infomerics expects moderation in the CAR going forward.

- **Stable asset quality**

The asset quality of DCBS has improved in FY20 which is witnessed by stable collection efficiency which was 99.91% in FY19 and 99.80% in FY20. Further, NPA level remained low over the years and the same was 0.36% in FY20.

### **Key Rating Weaknesses**



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- **Small scale of operations**

The entity extends micro credit through the Joint Liability Group (JLG) model which is a form of unsecured lending to marginal income borrowers with limited ability to absorb income shocks. Despite its long presence in the industry its operations continue to remain small with an operating revenue of Rs.3.92 crore and loan portfolio of Rs.18.17 crore as on March 31,2020.

- **Geographical concentration risk**

DCBS's operations are concentrated in the state of West Bengal and Bihar, with major focus in the state of West Bengal. Single state concentration exposes DCBS to high geographical concentration risk.

- **Weak resource profile**

Being a society, DCBS has a weak resource profile with limited options to attract funds. The entity has only 10 financial institutions/banks as its lenders. Infomerics believes that the entity's ability to manage its liquidity at the current juncture while containing its credit costs will be critical to its credit profile, any sharp increase in credit costs could impact its capital adequacy buffers.

- **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. Further, with the outbreak of COVID and subsequent lockdowns the cash flows of its borrower profile have been severely impacted, adding to it is the challenges faced to physically access the JLG groups for cash collections. The MFIs like DCBS was required to extend a moratorium to its borrowers and they, in turn, were expecting similar support from their lenders. DCBS had also sought similar moratorium from its lenders.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Financial Institution/NBFCs

Financial Ratios & Interpretation (Non-Financial Sector)



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### **Liquidity: Stretched**

DCBS's liquidity buffers primarily depend on its cash inflows (collections from clients and loans from banks) vis. a vis. the cash outflows (disbursements, debt servicing commitments, operating expenses). DCBS's borrowings have maturity upto 36 months, however, ~50% of its borrowings have maturities within a year. The cash collections of the entity were impacted by the lockdowns in its area of operations, however, has been improving. Despite moratorium to all of its borrowers, the collection efficiency of the society for April to August 2020 ranged around 30%. The entity itself had availed moratorium from most of its lenders up to the month of August, 2020. The entity has debt servicing obligations of ~Rs.0.80 Cr for the month of September, 2020. It had unencumbered cash and bank balances of ~Rs.0.30 Cr as on August 31, 2020 and is expected to have adequate cash flows to service its debt obligations. Infomerics observes that the collection efficiency of the entity has been showing an improving trend, it is still below the optimal levels considering the debt servicing commitments. Any significant delay in attaining optimal collection efficiency levels or hurdles faced in raising fresh long term funds (Debt or equity) will intensify the liquidity pressures of the entity.

### **About the Society**

Dhosa Chandaneswar Bratyajana Samity (DCBS) was established in the year 2003 at a remote village, Dhosa of South 24 Parganas District under Sundarban of West Bengal for the welfare of rural poor people especially women and children. It was registered as a Society under the West Bengal Societies Registration Act (XXV1) of 1961 in 2003. It was initially started with the initiative of some enthusiastic youths. Though started to provide thrift services, gradually they realized the need to provide loans to the poor in order to make them self-dependent.

DCBS follows a group based (JLG) approach to extend loans to individuals. While the loan given to a member of the group is not guaranteed by other members of the group, peer pressure among the group members acts a strong recovery tool.

Currently, the operations of the society are managed by Mr. Animesh Naiya (Secretary cum CEO) and Mr. Santosh Kumar Haldar (President) along with the support of other governing body members.



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### Financials (Standalone):

(Rs. crore)

	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	3.60	3.92
PAT	0.29	0.42
Tangible Net Worth	4.23	5.17
Total Assets	15.77	18.45
ROTA%	1.95	2.46
Interest Coverage (times)	1.27	1.24
Total CAR %	34.17	34.56
Gross NPA %	0.02%	0.36%
Net NPA %	0.02%	0.36%

\*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Term Loan	Long Term	0.15	IVR BB+; Negative	IVR BB+/ Stable; ISSUER NOT COOPERATING (Mar 26, 2020)	IVR BB+/ Stable (Jan 15, 2019)	-
2	Cash Credit	Long Term	4.53	IVR BB+; Negative	IVR BB+/ Stable; ISSUER NOT COOPERATING (Mar 26, 2020)	IVR BB+/ Stable (Jan 15, 2019)	-
3	Proposed-Fund Based	Long Term	8.47	IVR BB+; Negative	IVR BB+/ Stable; ISSUER NOT COOPERATING (Mar 26, 2020)	IVR BB+/ Stable (Jan 15, 2019)	-

**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](http://www.infomerics.com).

### Name and Contact Details of the Rating Analyst:

Name: Mr. Sanmoy Lahiri	Name: Mr. Avik Podder
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## Press Release

Tel: (033) 46022266

Email: [slahiri@infomerics.com](mailto:slahiri@infomerics.com)

Tel: (033) 46022266

Email: [apodder@infomerics.com](mailto:apodder@infomerics.com)

### 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 Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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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 Fund Based Limits – Term Loan	-	-	Feb 2021	0.15	IVR BB+; Negative
Long Term Fund Based Limits – Cash Credit	-	-	-	4.53	IVR BB+; Negative
Long Term Fund Based Limits- Proposed	-	-	-	8.47	IVR BB+; Negative