

Credit Perspective

October 2019

RATING ACTION**Rating assigned****Long-term Rating**Long-term bank lines –
[ICRA]B**Rating Outlook**

Stable

Total Rated Debt

Rs. 10 crore

Rating Rationale

The rating considers the experienced promoter and management team of Glowmore Finance Pvt. Ltd. (GFPL) with dedicated functional heads. However, the rating is constrained by the company's small scale and geographically concentrated operations with no external funding relationships. The company operates in the Ganjam district of Odisha and had a portfolio of Rs. 5.38 crore as on July 31, 2019.

ICRA notes GFPL's intention of growing its portfolio to ~Rs. 20 crore by March 2022 while diversifying geographically. However, its ability to raise funds in a timely manner to support the envisaged growth will be a key rating monitorable. The rating is also constrained by the risks associated with unsecured lending, including credit risks, political risks and the marginal borrower profile. While GFPL's overall asset quality remains comfortable with no delinquencies as on July 31, 2019, the company's ability to recruit and train employees as it scales up its operations, while improving earnings and maintaining the asset quality, would be important from a rating perspective.

Scenarios for Rating Upgrade

ICRA could upgrade the rating if the company is able to raise funds in a timely manner and profitably scale up its operations while maintaining the asset quality and prudent capitalisation structure.

Scenarios for Rating Downgrade

Pressure on GFPL's rating could arise if there is a deterioration in the asset quality, which could exert pressure on its profitability and overall financial profile. Weakening of the company's capitalisation profile or a further stretch in liquidity could also exert pressure on the rating.

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Key Rating Considerations

Rating Strengths

- Experienced promoter and management team

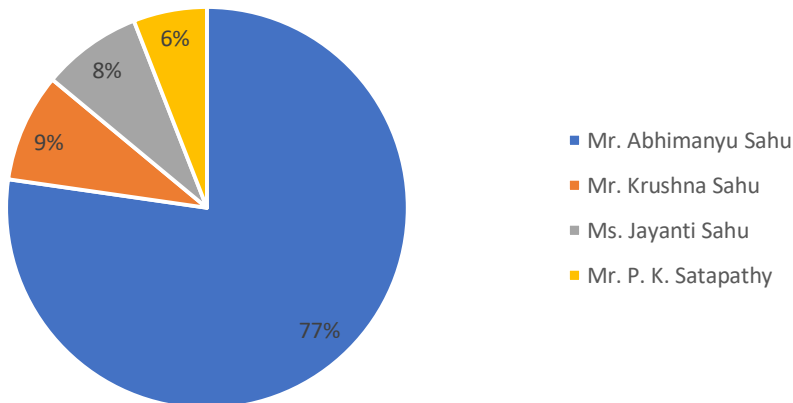
Rating Challenges

- Small scale and geographically concentrated operations
- Modest profitability
- Ability to raise funds at competitive rates
- Ability to manage political, communal risks and to manage marginal borrower profile

Company Profile

Glowmore Finance Pvt. Ltd. (GFPL) is a non-banking finance company (NBFC) with its registered and corporate office in Ganjam, Odisha. The company promotes financial inclusion by extending products and services in the micro credit space. It primarily offers collateral-free loans to rural women through the joint liability group (JLG) model. GFPL had a network of eight branches in the Ganjam district of Odisha as on July 31, 2019.

EXHIBIT 1: Shareholding pattern as on August 31, 2019



Source: Company

BUSINESS RISK PROFILE

Small scale and geographically concentrated operations

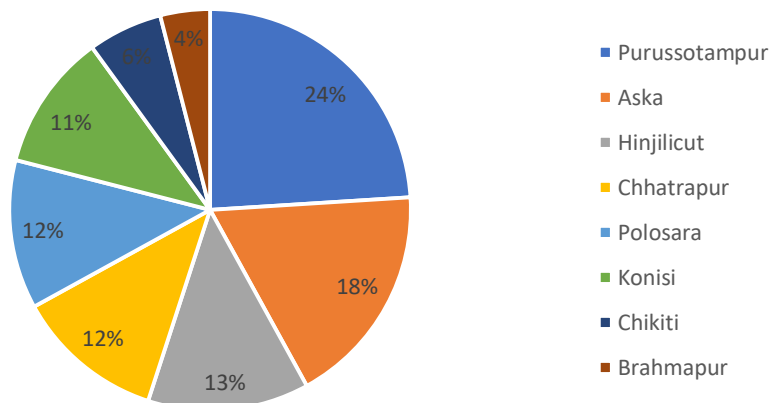
EXHIBIT 2: Trend in operational parameters

	Mar-19	Apr-19	May-19	Jun-19	Jul-19
No. of states	1	1	1	1	1
No. of districts	1	1	1	1	1
No. of branches	8	8	8	8	8
Active borrowers	1,651	1,892	2,439	2,945	3,600
Portfolio (Gross; Rs. crore)	2.89	3.23	3.96	4.59	5.38
- Own portfolio (Gross; Rs. crore)	2.89	3.23	3.96	4.59	5.38
Total employees	36	36	45	45	45
Field staff	17	17	19	19	19
Portfolio per branch (Rs. crore)	0.36	0.40	0.49	0.57	0.67
Loan officer per branch	2	2	2	2	2
Active borrowers/ Loan officer	97	111	128	155	189
Portfolio / Loan officer (Rs. crore)	0.17	0.19	0.21	0.24	0.28
Portfolio / Borrower (Rs.)	17,505	17,065	16,233	15,602	14,937

Source: Company data, ICRA research

GFPL commenced operations in H2 FY2019 with a focus on extending products and services in the micro credit space. It primarily offers collateral-free loans with a ticket size of Rs. 20,000 to women in rural areas through the JLG model. The average portfolio outstanding per borrower as on July 31, 2019 was Rs. 14,937. The company follows a weekly collection model. GFPL also provides life insurance to the borrower and nominee covering the loan amount. The company has tied up with DHFL Pramerica Life Insurance to provide insurance services to its borrowers.

EXHIBIT 3: Branch-wise portfolio as on July 31, 2019



Source: Company & ICRA research

GFPL operates in the Ganjam district of Odisha, with a network of eight branches and a portfolio of Rs. 5.38 crore as on July 31, 2019. The portfolio remains small compared to peers. ICRA notes management's intention of growing its portfolio while geographically diversifying its operations. Going forward, the company's ability to achieve the same would be important from a rating perspective.

Management, systems and processes

GFPL is led by an experienced promoter who is assisted by dedicated functional heads to look after its key areas and operations. The company has set up dedicated functions like human resources, operations, accounts, audit, IT & systems, etc. The company recruits experienced professionals and graduates for middle and senior level management

positions while hiring externally and it recruits people who have completed higher secondary education for field officer positions. It conducts reference checks for all employees when hiring externally.

Typically, a branch comprises 2-3 field officers, 1 assistant branch manager and 1 branch manager. Each field officer manages 25-30 groups while each group consists of 6-12 members. An area manager supervises the operations of 3-4 branches. The field officer conducts compulsory group training (CGT) following the credit bureau check. The CGT is conducted for 3 days followed by a group recognition test (GRT), which is usually conducted by the branch manager, the day following the completion of the CGT. House verification and repayment capacity assessment is done together by the field officer and branch manager. Once the loan is approved, it is disbursed from the branch. At present, disbursements and collections are done in cash mode. The loan utilisation check is conducted by the branch manager for all cases and by the area manager on a sample basis.

The company uses GIMS, a management information system (MIS) developed by a software company based out of Varampur (Odisha). The MIS captures client-level data including the personal details of the borrowers, borrower attendance and repayment track record. The software can produce daily demand sheets, collection reports and passbooks for individual borrowers. At present, the company is collecting Voter ID and Aadhar as the primary KYC document. Client on-boarding uses a physical form and credit bureau checks are conducted at the head office. The company checks the borrower's credit history with Equifax.

The internal audit is done regularly. Given the small scale of operations, the company has a 2-member team which conducts fortnightly audits of each branch. The internal audit covers areas such as completeness of cash registers, member registers, staff and member attendance, process audit, file check, assets of the branch, insurance claims, office infrastructure, etc. During field visits, the internal audit team visits and interacts with a sample set of borrowers to understand the effectiveness of the CGT and identify any deviations in the process.

Given the current scale of operations, the company has recruited people with adequate domain experience. While the headcount and experience are sufficient for the current scale of operations, the recruitment and training of people, process refinement and technological advancement will be critical as the operations expand.

Comfortable asset quality

EXHIBIT 4: Trend in asset quality indicators

	Mar-19	Apr-19	May-19	June-19	July-19
Gross NPA (Rs. crore)	0	0	0	0	0
Net NPA (Rs. crore)	0	0	0	0	0
Gross NPA (%)	0	0	0	0	0
Net NPA (%)	0	0	0	0	0
Delinquencies (Rs. crore)	0	0	0	0	0
1-30 dpd	0	0	0	0	0
30-60 dpd	0	0	0	0	0
60-90 dpd	0	0	0	0	0
90-180 dpd	0	0	0	0	0
>180 dpd	0	0	0	0	0

Source: Company data, ICRA research

While the asset quality indicators are good at present, unsecured lending to the marginal borrower profile, geographical concentration and the political and operational risks associated with microlending may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations, and thus its financial position. While GFPL's overall asset quality remains comfortable with no delinquencies as on July 31, 2019, the company's ability to on-board borrowers with good credit history, recruit and retain employees, and improve geographical diversity while maintaining prudent lending policies would be key for achieving the envisaged growth.

FINANCIAL RISK PROFILE

EXHIBIT 5: Key financial indicators

	Mar-18 IGAAP	Mar-19 IGAAP
Equity Capital	0.25	2.50
Net Worth	0.29	2.54
Net Hire Purchase/ Loan/ Lease Assets	0.28*	2.89
Total Assets	0.32	3.08
Managed Assets (incl. off-balance sheet receivables)	0.32	3.08
Total Income	0.02	0.20
Net Interest Income (Net of BO Costs & Profits from Securitisation)	0.02	0.18
Profit before Tax (PBT)	0.00	0.01
Profit after Tax (PAT)	0.00	0.00
Yield on Average Earning Assets (%)	13.07%	11.45%
Cost of Average Interest-bearing Funds (%)	0.00%	0.00%
Gross Interest Spread (%)	13.07%	11.45%
Net Interest Margin (%)	11.56%	10.71%
Operating Expenses /Average Managed Assets	11.27%	11.31%
Provisions & Write-offs / Average Managed Assets (%)	0.00%	0.00%
Cost-to-Income Ratio (%)	97.46%	96.77%
PBT (excluding extraordinary items) / Average Total Assets	0.29%	0.38%
PAT / Average Total Assets (%)	0.23%	0.17%
Return on Average Net worth (%)	0.26%	0.20%
Total Debt / Net worth	0.06	0.14
Gross NPA/Gross Advances	-	0.00%
Net NPA/Net Advances	-	0.00%

*Other advances; Amounts in Rs. crore; Source: Company & ICRA research

Modest profitability

The company commenced operations in H2 FY2019 and reported a total income of Rs. 0.20 crore in FY2019. It reported a return of 0.17% and 0.20% on average total assets and average net worth, respectively. Overall, GFPL's profitability profile is modest with its profitability indicators being lower than peers.

Capitalisation profile

EXHIBIT 6: Capitalisation profile

	Mar-18	Mar-19
Equity	0.25	2.50
Net worth	0.29	2.54
Gross loan portfolio	-	2.89
Net worth / Gross loan portfolio	-	87%
Gearing (on book)	0.06	0.14

Amounts in Rs. crore; Source: Company & ICRA research

The company reported a net worth of Rs. 2.54 crore as on March 31, 2019 against a portfolio of Rs. 2.89 crore. It plans to achieve a portfolio of Rs. 20 crore by March 2022 while maintaining a gearing of around 6 times. However, the company relied on its own funds and borrowings from promoters and related parties to fund its portfolio as on July 31, 2019. ICRA notes that GFPL is in discussions with multiple lenders and investors to raise funds. In ICRA's opinion, the company's ability to raise external funds in a timely manner and at competitive rates will be important for business continuity and growth.

Stretched liquidity

The company primarily meets its operating expenses and debt obligations through loan repayments from its borrowers. ICRA takes note of the scheduled inflows of ~Rs. 6 crore against the scheduled outflows of Rs. 3 crore till June 2020. However, it would be critical for GFPL to maintain its collection efficiency while ensuring the regular flow of funds to sustain operations and meet its internal growth projections.

BUSINESS & FINANCIAL OUTLOOK

EXHIBIT 7: Business and financial outlook

Parameters	ICRA's Comments
Credit Growth	GFPL plans to increase its managed portfolio over the next three years to ~Rs. 20 crore by March 2022, which would depend on the availability of funds
Profitability	Profitability is expected to improve with the scaling up of operations, provided the credit costs are contained
Asset Quality	Credit costs are expected to be in the range of 1-2%, given the unsecured and geographically concentrated nature of operations
Capitalisation	Capitalisation is expected to moderate over the medium term, given the company's growth plans
Liquidity	Liquidity is expected to remain stretched and it would be critical for GFPL to maintain its collection efficiency while ensuring the regular flow of funds to sustain operations and meet its internal growth projections

MANAGEMENT PROFILE

EXHIBIT 8: Board of directors as on March 31, 2019

Name	Designation
Mr. Abhimanyu Sahu	Managing Director
Mr. P. K. Satapathy	Director
Ms. Jayanti Sahu	Director
Mr. Krushna Sahu	Director

Source: Company data, ICRA research

Annexure I: Past financials

PROFIT & LOSS ACCOUNT	Mar-18	Mar-19
Interest Income (Net of Business Origination Costs and incl. processing fees)	0.02	0.18
Interest Expenses (including Preference Dividend)	-	-
Net Interest Income	0.02	0.18
Non-Interest Income	-	0.02
Operating Income	0.02	0.20
Operating expenses	0.02	0.19
Operating Profits	0.00	0.01
Provisions including NPA provisions	-	-
Income from Securitisation / Assignment	-	-
Net profit on sale of securities and assets	-	-
Profit before Tax (before extraordinary items)	0.00	0.01
Extraordinary Items	-	-
Profit before Tax (PBT)	0.00	0.01
Tax	0.00	0.00
Profit after Tax (PAT)	0.00	0.00
PAT (Reported)	0.00	0.00
Equity dividend	-	-
Accretion to reserves	0.00	0.00
SUMMARY ASSETS		
Net Hire Purchase/ Loan/ Lease Assets	0.28	2.89
Investments - Strategic	-	-
Investments - Short Term Surpluses	0.03	0.03
Cash & Bank Balances	0.00	0.01
Collaterals for Securitisation	-	-
Advance Tax paid	-	-
Other Current Assets	0.00	0.05
Net Fixed Assets	0.00	0.10
Total Assets	0.32	3.08
Off-balance sheet receivables	-	-
Total Managed Assets	0.32	3.08
SUMMARY LIABILITIES		
Equity Share Capital	0.25	2.50
Reserves	0.04	0.04
Net Worth	0.29	2.54
Total Borrowings (including Preference Shares)	0.02	0.36
Interest Accrued but not due	-	-
Provisions for Tax	0.00	0.00
Other Current Liabilities & Provisions	0.02	0.18
Deferred Tax Liability	(0.00)	(0.00)
Total Liabilities	0.32	3.08

Amounts in Rs. crore; Source: Company & ICRA research

KEY FINANCIAL RATIOS	Mar-18	Mar-19
OPERATING RATIOS		
Yield on Average Loans (Net of BO Costs)	0.00%	11.49%
Yield on Average Investments	-	0.0%
Yield on Average Earning Assets (Net of BO Costs)	13.1%	11.5%
Cost of Average Interest-bearing Funds	0.0%	0.0%
Gross Interest Spread	13.1%	11.5%
PROFITABILITY RATIOS		
Interest Earned / Average Assets	11.6%	10.7%
Interest Expenses / Average Assets	0.0%	0.0%
Net Interest Margin/Average Assets	11.6%	10.7%
Fee based Income/Average Assets	0.00%	0.98%
Operating Expenses /Average Managed Assets	11.3%	11.3%
Operating Profit / Average Assets	0.29%	0.38%
Write-offs & Repo losses (net of recoveries)/Average Managed Assets	0.0%	0.0%
Provisions /Average Managed Assets	0.0%	0.0%
Income from securitisation & assignment/ Average Assets	0.0%	0.0%
Net profit on sale of securities and assets / Average Assets	0.0%	0.0%
Profit Before Tax (before extraordinary items)/ Average Assets	0.3%	0.4%
Tax / Profit Before Tax	21.1%	55.1%
Profit After Tax / Average Assets	0.2%	0.2%
Profit After Tax / Average Managed Assets	0.2%	0.2%
Equity Dividend / Profit After Tax	0.0%	0.0%
Profit After Tax / Average Net worth	0.3%	0.2%
EFFICIENCY RATIOS		
Fee Based Income/Operating Expenses	0.0%	23.6%
Operating Cost/Operating Income	97.5%	96.8%
CAPITALISATION RATIOS		
Net Worth/ Total Assets	89.60%	82.43%
Total Debt / Net worth	0.06	0.14
Net NPA/Net worth	0.00%	0.00%
ASSET QUALITY		
Gross NPA/Gross Advances	-	0.00%
Net NPA/Net Advances	-	0.00%

Source: Company & ICRA research

Annexure II: Details of rated facility

Instrument	Amount (Rs. crore)	Rating
Long-term bank lines	10	[ICRA]B(Stable)
Total	10	

Source: Company

Links to Applicable Criteria

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

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