DISARI INDIA SAVINGS & CREDIT CORPORATION LIMITED

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating	Remarks
Long-term Bank Facilities	63.3	'CARE BB+' (Double B plus)	Assigned
Long-term loan from finance companies	6.7	'CARE BB+' (Double B plus)	Assigned
Total Bank Facilities	**70.0**		

Rating

CARE has assigned a **'CARE BB+' [Double B plus]** rating to the bank facilities of Disari India Savings & Credit Corporation Ltd. (Disari) aggregating to Rs.70 crore.

The above rating is constrained by geographical concentration, relatively moderate scale of operations, inadequate IT infrastructure vis-à-vis scale of operation, operational risks, intense competition from other players, regulatory uncertainty and inherent risk in the microfinance industry including socio political intervention risk.

The rating factors in long experience of promoter, company's moderate track record of operation, high collection efficiency, good asset quality and asset-liability maturity profile, adequate capitalisation & financial position.

Changes in regulatory environment, asset quality, scale of operations, capital adequacy and profitability are key rating sensitivities.

Background

Disari India Savings & Credit Corporation Ltd. (Disari), promoted by Dr. S. Bhattacharyya, was incorporated in September, 1985 as 'The Secured Savings & Investment Ltd.', to carry out micro financing activity with prime objective of uplifting lives of rural poor and undertake various socio-economic developmental activities. In November 2004, the name of the company was changed to its present name. Initially, the company was functioning as a deposit taking non-banking financial company (NBFC) with major focus in micro financing activities. With Reserve Bank of India (RBI) making registration for NBFC compulsory, Disari applied for such registration in 1997 and in February 2003, got approval of RBI to carry on business as a RNBC. Subsequently, with RBI's effort to discourage the concept of RNBC, Disari started repaying all its public deposits and received certificate of registration to operate as non-deposit taking NBFC in Aug. 2008.

Currently, Disari is engaged in the business of micro finance through SHGs/JLGs (Self Help Groups/ Joint Liability Groups). The company operates with a network of 53 branches (as on Sep.30, 2010) encompassing eight districts. However, Disari's operations are entirely concentrated in West Bengal and hence operational concentration risk is high for the company. Till Sept.30, 2010, Disari formed 28,872 SHG/JLGs comprising 2,66,457 members. Majority of the group members are female. Disari has moderate track record in microfinance sector as an NBFC.

Disari is managed by five member (three having professional qualification) Board including two female directors and two independent directors. The day-to-day affairs of the company are looked after by Dr. S. Bhattacharyya, founder Chairman of the company, with assistance of a team of experienced executives. Dr Bhattacharyya, the former chairman of Howrah District Central Co-operative Bank and United Co-operative Bank is also a member of CAPART (Council for Advancement of People Action & Rural Technology) under the Ministry of Rural Development, Govt. of India and has long experience in microfinance and rural & social development activities. He has been instrumental in institutionalising various operational policies and forming strategic direction of Disari.

Business profile

Disari provides loans to the members of SHGs and/or JLGs for undertaking various income generating activities. The loan given to a group member is guaranteed by all other members of that group. Disari generally extends two types of loans (Micro credit loans to SHG/JLGs & Micro Enterprise credit) to individuals.

Disbursements by the company witnessed a significant increase over the last three years with increased reach and penetration of operation by Disari over the same period. Consequently, Disari's borrower base expanded to 1.65 lakhs as on Mar.31, 2010 from 0.46 lakhs as on Mar.31, 2008. However, the level of operation of the company is relatively on the lower side. The major loan product for company over the last three years was microfinance loan to women under SHG/JLG, as it formed significant portion of the total loan disbursements. With rise in scale of operations, disbursements during the past few years have increased at a rapid pace due to availability of bank finance & increased reach and penetration by the company. Disari finances agriculture loan, animal husbandry loan, fish firming loan, small business loan, small trading loan (grocery stores, vegetable vending, utensils selling, etc.) followed by loans given for service (carpentry, laundry, rickshaw, etc.) which are included in the priority sector lending.

Disari operates in eight districts of West Bengal with major exposure in Bagnan of Howrah district, where other MFIs are also operating. However, the company is expanding its operations to different districts to minimise this risk. Disari does not have any operation in the state of AP and the company has not faced any problem consequent to such ordinance. However, the possibility of similar type of ordinance in the state of West Bengal may not be ruled out and hence, it poses a risk for Disari. The company lacks adequate IT infrastructure vis-à-vis its scale of operation and is gearing up to improve the same.

Asset profile and Asset quality

Asset base of Disari was very low as on Mar.31, 2008 & Mar.31, 2009, as the scale of operation for the company was low during this period. However, with access to bank finance, resulting in substantial increase in overall loan exposure, the asset base grew significantly as on Mar.31, 2010. The asset quality has been good with the proportion of standard advances ranging around 99.8% over the last three account closing dates. There has been a marginal deterioration in asset quality on account of increased slippages to the sub-standard category which is partly attributed to the prolonged impact of the adverse economic scenario. As against the NPA level of Rs.0.05 crore as on Mar.31, 2010, the company's accumulated provision, as on that date, was Rs.0.7 crore. Disari's collection efficiency was high over the last three years (from 99.86% in FY08 to 99.93% in FY10). Due to cash recovery and disbursements, the company is prone to operational risks related to it.

Resource profile

Income of Disari has grown at a rapid pace in last couple of years with significant increase in scale of business. Major portion (around 86% in FY10) of the income was earned by way of interest on loans given to individual borrowers.

As on Sep.30, 2010, Disari had an outstanding borrowing of Rs.55.0 crore from five public & private sector banks (82%) and one financial institution (18%). Banks categorise lending to MFIs as priority sector advances, which helped the company to raise resources in time. Disari's promoters also demonstrated ability to bring in funds, thereby generating additional resources for it. Disari has been able to successfully raise funds (equity and debt) regularly for the past couple of years. Tangible networth level increased continuously from FY08 to FY10 due to infusion of funds by promoters and accretion of profits to reserve. However, with mobilisation of term loan from banks, the micro-financing activity got geared up significantly.

Liquidity Profile

Liquidity position of the company as reflected in ALM is comfortable as on March 31, 2010. This is mainly due to weekly collection followed by Disari and loan tenure being one year as against major liabilities being term loans availed (mainly 1-3 years).

Capital Adequacy

Due to regular capital infusion, Capital Adequacy Ratio (CAR) of Disari has been comfortable over the last three years. As against regulatory requirement of 12%, CAR at 29.26% was comfortable as on Mar.31, 2010. Looking at the current level of CAR and its ability to infuse equity at regular intervals, Disari is likely to maintain CAR at comfortable level.

Financial Analysis

Total income increased phenomenally during FY10 over FY09 due to increase in income from micro financing activity (backed by loans from banks) on account of increased reach and penetration of operation over the same period. PAT (after defd. tax) however, increased at a lower rate vis-à-vis total income in FY10 due to higher increase in interest cost and other operating expenses during the year. Profitability margin and other related parameters also improved accordingly in FY10 over FY09. There was a fall in ROCE in FY10 vis-à-vis FY09 due to an overall fall in interest rates enjoyed by Disari from term lenders. However, cost of capital declined at a higher rate (due to higher increase in scale of operation through increased loan portfolio) vis-a-vis ROCE in FY10 leading to improvement in net spread during the same period.

Overall gearing, as on Mar.31, 2010, deteriorated from previous account closing date owing to significant increase in the level of borrowings to fund the incremental level of operation, despite increase in networth owing to ploughing back of profit in the business and infusion of equity by the promoters. Operating self-sufficiency and financial self-sufficiency have been adequate over the last three years.

As per audited half yearly results for H1FY11, total income witnessed a significant increase in H1FY11 from H1FY10 mainly on account of higher disbursements arising out of an improved economic scenario & increased reach of the company in rural sector. Interest expenses increased notably on account of higher borrowings to fund the higher disbursements. However, operating expenses increased at marginally lower rate in H1FY11 over H1FY10 vis-à-vis total income. This coupled with higher disbursements led to a notable increase in PAT (after defd. tax) over the above period. Interest coverage declined, due to higher interest expenses and was moderate during the same period. CAR was comfortable at 29.22% as on Sept.30, 2010, compared to present regulatory requirement.

Industry Review & Prospects

The Andhra Pradesh (AP) Ordinance for MFIs promulgated by the AP Government in October 2010 was the materialisation of the latent risk of adverse change in socio-political environment for the sector. Before the AP Ordinance, the sector experienced rapid growth for a period of three to four years with capital support provided by several players including private equity, HNI's and institutional lenders which was driven by high profitability of the segment. In one case, the entity also raised equity through IPO while other large players were in the process approaching the capital markets. However, given the rapid growth and subsequent concerns on high interest rates, multiple lending and overleveraging of the customers, regulatory intervention started in the form of the AP ordinance. Post the ordinance, which put restrictions on several operational activities of the MFIs in AP, sharp deterioration was witnessed in asset quality with recovery going down to 10-15%. The credit profile of several MFIs that were concentrated in AP also corrected sharply and the availability of funding to the sector was also affected as lenders became cautious.

On the regulatory front another key development was the coming out of recommendations of the Malegam Committee that was set up by the RBI to provide framework for regulations in the sector. The recommendations are for regulations of both operational and financial aspects of an MFI and provide a comprehensive framework across the country. Final guidelines from RBI on the same are still awaited and once implemented are expected to bring more clarity on the regulatory framework for the sector.

Going forward, till the time a clear and unambiguous set of guidelines are implemented for the sector, the risk of such an intervention in other regions is a key rating sensitivity. However, the likelihood of the same happening in several regions simultaneously seems low and therefore diversification of the portfolio is a key driver for the credit profile of an entity.

Going forward, Disari's ability to improve scale of operations as well as increase in the level of geographic diversification, while simultaneously managing its profitability under a new regulatory environment will be key determinants of its credit profile.

Financial Results:

(Rs. crore)

Y.E./As on Mar.31,	2008	2009	2010
	(12m, A)	(12m, A)	(12m, A)
Total Income	1.7	5.2	9.9
Total operating expenditure (incl. bad-debts w/o & provisions)	0.4	2.5	5.0
Depreciation	0.1	0.1	0.1
Interest	1.1	2.1	3.8
PBT	0.2	0.5	1.1
PAT (after defd. tax)	0.2	0.5	0.9
Gross cash accruals	0.2	0.5	1.0
Equity share capital	3.7	5.6	9.7
Tangible networth	4.2	6.9	12.0
Total capital employed	18.9	27.0	61.4
Ratios			
PAT (after deferred tax) / Total income (%)	10.02	9.01	9.60
Interest income/Avg. interest earning assets (%)	11.53	15.80	16.24
Interest / Avg. borrowed funds (%)	10.74	12.03	10.80
Interest spread (%)	0.79	3.76	5.44

Y.E./As on Mar.31,	2008	2009	2010
	(12m, A)	(12m, A)	(12m, A)
Return on total assets (ROTA) (%)	1.20	1.62	1.61
RONW (%)	4.53	8.42	10.02
ROCE (%)	9.18	11.40	10.87
Cost of capital (%)	7.75	9.11	8.49
Net spread (%)	1.44	2.29	2.39
Interest coverage	1.23	1.28	1.30
Op. expenses / Avg. capital employed	3.03	10.90	10.46
Overall debt-equity ratio	3.47	2.90	4.11

CARE is headquartered in Mumbai, with Offices all over India. The office addresses and contact numbers are given below:

HEAD OFFICE: MUMBAI

Mr. D.R. Dogra
Managing Director
Cell : +91-98204 16002
E-mail : dr.dogra@careratings.com

Mr. Rajesh Mokashi
Dy. Managing Director
Cell : +91-98204 16001
E-mail: rajesh.mokashi@careratings.com

Mr. P N Sathees Kumar
Executive Vice President – Marketing
Mobile: +91-9820416004
mail:sathees.kumar@careratings.com

Mr. Ankur Sachdeva
Vice President – Marketing (SME)
Mobile: +91-9819698985
E-mail: ankur.sachdeva@careratings.com

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway,
Sion (East), **Mumbai 400 022** Tel.: (022) 67543456 Fax: (022) 67543457
Website: www.careratings.com

OFFICES

Mr.Mehul Pandya Regional Manager 32 TITANIUM Prahaladnagar Corporate Road, Satellite, **Ahmedabad - 380 015.** Tel: 079 4026 5656 Mobile: 98242 56265 E-mail: mehul.pandya@careratings.com	Mr.Sundara Vathanan Regional Manager Unit No. 8, I floor, Commander's Place No. 6, Raja Ram Mohan Roy Road, Richmond Circle, **Bangalore - 560 025.** Tel: 080 2211 7140 Mobile: 98803 60878 E-mail: sundara.vathanan@careratings.com
Mr. Pradeep Kumar Regional Manager Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, **Chennai - 600 002.** Tel: 044 2849 7812/2849 0811 Mobile: 98407 54521 E-mail: Pradeep.kumar@careratings.com	Mr. Ashwini Jani Regional Manager 401, Ashoka Scintilla 3-6-520, Himayat Nagar **Hyderabad - 500 029.** Tel: 040 40102030 Mobile: 91600 74789 E-mail: ashwini.jani@careratings.com
Mr. Sukanta Nag Regional Manager 3rd Floor, Prasad Chambers (Shagun Mall Building) 10A, Shakespeare Sarani **Kolkata - 700 071.** Tel: 033 2283 1800/1803 Mobile: 98311 70075 E-mail: sukanta.nag@careratings.com	Ms.Swati Agrawal Regional Manager 3rd floor, B-47, Inner Circle Near Plaza Cinema Connaught Place **New Delhi – 110 001.** Tel: 011 2331 8701/2371 6199 Mobile: 98117 45677 E-mail: swati.agrawal@careratings.com