

## Dar Credit and Capital Limited

January 02, 2023

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	125.00 (Enhanced from 120.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable )	Reaffirmed
<b>Total Bank Facilities</b>	<b>125.00</b> <b>(₹ One Hundred Twenty-Five Crore Only)</b>		
Non Convertible Debentures	12.50	CARE BBB-; Stable (Triple B Minus; Outlook: Stable )	Reaffirmed
<b>Total Long Term Instruments</b>	<b>12.50</b> <b>(₹ Twelve Crore and Fifty Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

CARE Ratings Ltd. has reaffirmed the ratings assigned to the long- term bank facilities and Non-convertible debentures of Dar Credit & Capital Ltd. at 'CARE BBB-' with 'stable' outlook. The rating continues to factor in experienced management team & long track record of operations, adequate liquidity profile and adequate capitalization for the scale of business.

However, the ratings are constrained on account small scale of operations, moderate asset quality metrics driven by entirely unsecured portfolio, high geographical concentration and modest earnings profile.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustained growth in scale of operations and improvement in profitability with ROTA above 3.00% on sustained basis
- Diversified funding profile

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Inability to raise resources for growth in scale of operations
- Significant decline in liquidity position due to impact on collection efficiency
- Deterioration in asset quality with Gross NPA (180+ dpd) above 3.00% on sustained basis
- Significant deterioration in its scale of operations with ROTA below 1% on sustained basis

### Detailed description of the key rating drivers

#### Key rating strengths

##### Experienced management team with long track record of operations:

DCCL is jointly promoted and 100% held by promoters, Mr. Ramesh Kumar Vijay & Mr. Rajkumar Vijay (both in their personal capacity & families). The operations of the company are jointly led by Mr. Ramesh Kumar Vijay (Chairman) and his brother Mr. Rajkumar Vijay (Wholtime Director and Chief Executive Officer). While Mr. Ramesh Kumar Vijay, a C.A. and C.S. by qualification, has overall experience of around three decades, Mr. Rajkumar Vijay, an M.B.A. (Finance) by qualification, has overall experience of over two decades.

DCCL's head office is situated in Kolkata while administrative office is located at Jaipur. The company has a long track record of more than 25 years in the industry. As on September 30, 2022, DCCL has presence in 23 locations across Rajasthan, Gujarat, West Bengal, Madhya Pradesh, Karnataka and Chhattisgarh. DCCL's the loan portfolio is moderately diversified with personal loan to individuals (mainly class IV municipal employees) and microfinance Loans comprising 56% and 39% of total O/s loan portfolio as on September 30, 2022 with SME loans comprising the remaining portion.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### **Adequate capitalisation levels:**

Owing to decline in disbursements and consequent loan portfolio over last few years, the capitalization levels of the company have improved. The company capital adequacy ratio (CAR) improved to 53.64% as on March 31, 2022 (March 31, 2021: 44.56%), with Tier-I CAR being 44.18% (March 31, 2021: 36.95%) and to further 56.94% with Tier CAR at 46.82% as on Sept 30, 2022. In sync with lower disbursements, borrowings of the company have been declining. DCCL's gearing declined to 1.75 times as on March 31, 2022 as compared to 1.98 times as on March 31, 2021 and to further 1.64 times as on September 30, 2022. While the company's disbursements and fresh borrowings have increased during H1FY23 vis a vis FY22 levels, management intends to cap its gearing at 4x on steady state basis.

While the company has ample headroom for gearing, going forward, the ability of the company to mobilise fresh resources for profitably growing its business operations will be a key rating monitorable.

### **Key rating weaknesses**

#### **Small scale of operations:**

DCCL was incorporated in 1994 and commenced its operations in 1998. DCCL's loan portfolio stood at Rs. 113.30 crore as on March 31, 2022 as against Rs.127.71 crore as on March 31, 2021. Going forward, the ability of the company to profitably grow its scale of operations will be a key rating monitorable.

#### **Moderate Asset quality metrics driven by 100% unsecured lending:**

DCCL's clientele mainly comprises of customers who are more vulnerable to economic shocks. The company extends loans to clients who are mainly class-four employees in Municipalities as well as micro finance loans to women borrowers. Although personal loans to municipal employees are completely unsecured in nature, the company mainly provides loans to on-roll employees and has tied up with the municipal departments for collections which are directly deducted from the employee salary. While this arrangement provides some comfort in terms of collection, recoveries are sometimes delayed thereby resulting into rise in NPAs in interim period. GNPA in personal loans to municipal employees segment as on March 31, 2022 stood at 0.55% and as on September 30, 2022 stood at 0.53%.

Further, DCCL also disburses loans to MFI's (23% of total loan portfolio), with major presence in east of India majorly across West Bengal. MFI loans are largely targeted towards small businesswomen entrepreneurs, with an average ticket size of around Rs.10,000 to Rs.1,00,000 and is extended for a tenure of around 12-24 months. The company also has a small portfolio of SME loans, which are largely disbursed towards existing, and promoter known small businesses, the loan has no fixed repayment cycle and is largely repayable on demand with an average yield of around 14-16%. GNPA in MFI loan segment as on March 31, 2022 stood at 1.19% and as on September 30, 2022 stood at 0.87%.

As on March 31, 2022, the company's GNPA and NNPA improved to 0.70% [PY: 1.02%] and 0.44% [0.74%] owing to recoveries in the personal loans segment. GNPA and NNPA levels stood at 0.63% and 0.41% as on September 30, 2022. Ability to generate growth while maintaining strong asset quality metrics remains a key rating monitorable.

Given, the unsecured nature of business and income profile of the borrower's asset quality to remain strong will be a key rating monitorable.

#### **Geographical concentration in loan portfolio:**

DCCL has presence in the urban and semi-urban areas of West Bengal (comprising ~41% of loan portfolio outstanding as on September 30, 2022 (September 30, 2021: 27%)), while Rajasthan and Madhya Pradesh stood at 34% and 23% (Mar'22: 41% & 24%; Mar'21: 44% and 26%) respectively, with Gujarat and Chhattisgarh contributing to the remaining portfolio.

#### **Moderate earnings profile:**

The company terminated its B2B E-commerce lending arrangement with Hiveloop during FY20, post which its disbursements declined significantly from Rs.114 crore during FY20 to Rs.48 crore during FY21. This coupled with impact on account of Covid further led to lower disbursements of Rs.38 crore during FY22. While credit costs for the company have remained rangebound, lower disbursements coupled with margin pressures have impacted the company's profitability. Consequently, ROTA has declined from 1.89% during FY21 [P.Y.: 2.14%] to 1.46% during FY22.

During H1FY23, however, disbursements have risen to Rs. 34.82 crore (H1FY21: 15.31 crore) from Rs. 36.91 crore during FY22, led by Personal Loans to individuals (21%), Small business loans/MFI loans (78%) and Loans to small business (1%). Despite higher disbursements, NIM of the company has declined by 60bps during H1FY23 vis a vis FY22 on account of margin pressures due to competition. This is also visible in company's NIM which declined to 5.61% during H1FY23 (H1FY22: 6.32%) against 6.21% during FY22 (FY21: 5.11%). During H1FY23, ROTA stood at 1.85%.

**Liquidity: Adequate**

As on September 30, 2022, DCCL's liquidity remained adequate, with no cumulative mismatch in any of the time bucket. As on September 30, 2022, DCCL had free cash and cash equivalents of Rs.15.34 crore. For the next 12 months along with Rs.52.28 crore of inflows from advances company had total debt repayment of Rs.31.19 crore. The cashflow debt coverage of Dar credit & capital ltd for next one year stood at 1.30x as on September 30, 2022.

**Analytical approach: Standalone****Applicable criteria**

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Non Banking Financial Companies](#)

**About the company:**

Dar Credit & Capital Ltd. (DCCL) is a Jaipur based mid-sized (Total loan portfolio as on September 30, 2022 – Rs.116.99 crore) RBI registered Non-Deposit taking NBFC, engaged in the financing of unsecured loans to individuals and small enterprises. DCCL was incorporated in 1994 by Mr. Ramesh Kumar Vijay and Mr. Rajkumar Vijay as a public limited company and got the license to operate as NBFC from RBI in November, 1998. DCCL's head office is situated in Kolkata while administrative office is located at Jaipur.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	27.78	24.92	11.93
PAT	3.42	2.56	1.53
Interest coverage (times)	1.29	1.29	1.29
Total Assets	180.76	169.79	165.61
Net NPA (%)	0.74	0.44	0.41
ROTA (%)	1.89*	1.46	1.85

A: Audited; UA: Unaudited.

\*Calculated on the basis (denominator) of March 2021 numbers only due to significant contraction in the loan portfolio

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated for this company:** Annexure-4

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures*	INE04Q907058	February 11, 2021	12%	10 February 2024	3.20	CARE BBB-; Stable
Debentures-Non Convertible Debentures*	INE04Q907074	February 11, 2021	12%	10 February 2024	2.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures*	INE04Q907066	February 11, 2021	12.25%	10 February 2026	4.55	CARE BBB-; Stable
Debentures-Non Convertible Debentures*	INE04Q907082	February 11, 2021	12.25%	10 February 2026	2.75	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	16.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	Sep-2026	109.00	CARE BBB-; Stable

\*ISINs has been revised after the NCDs got fully paid

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	16.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (04-Jan-22)	1)CARE BBB-; Stable (31-Mar-21) 2)CARE BBB-; Stable (22-May-20)	1)CARE BBB-; Positive (06-Dec-19)
2	Fund-based - LT-Term Loan	LT	109.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (04-Jan-22)	1)CARE BBB-; Stable (31-Mar-21) 2)CARE BBB-; Stable (22-May-20)	1)CARE BBB-; Positive (06-Dec-19)
3	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	1)Withdrawn (31-Dec-20) 2)CARE A3 (11-Sep-20) 3)CARE A3 (02-Sep-20)	-
4	Debentures-Non Convertible Debentures	LT	3.20	CARE BBB-; Stable	-	1)CARE BBB-; Stable (04-Jan-22)	1)CARE BBB-; Stable (31-Mar-21) 2)CARE BBB-; Stable (31-Dec-20)	-

5	Debentures-Non Convertible Debentures	LT	2.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (04-Jan-22)	1)CARE BBB-; Stable (31-Mar-21)	-
6	Debentures-Non Convertible Debentures	LT	4.55	CARE BBB-; Stable	-	1)CARE BBB-; Stable (04-Jan-22)	1)CARE BBB-; Stable (31-Mar-21)	-
7	Debentures-Non Convertible Debentures	LT	2.75	CARE BBB-; Stable	-	1)CARE BBB-; Stable (04-Jan-22)	1)CARE BBB-; Stable (31-Mar-21)	-

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities**

Not applicable

**Annexure-4: Complexity level of the various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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### About us:

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