Dhanvarsha Finvest Limited (Revised)

June 3, 2021

Ratings

Instrument / Facility Details	Amount (Rs. Crore)	Rating[1]	Rating Action
Principal Protected Market Linked Debentures (PP-MLD)	15.00	Provisional CARE PP-MLD A (CE); Stable [Provisional CARE Principal Protected Market Linked Debentures Single A (Credit Enhancement); Outlook: Stable]	Provisional Rating Assigned
Total Long-Term Instruments	**15.00 (Rs. Fifteen Crore Only)**		

Details of instruments/facilities in Annexure-1.

Unsupported Rating [2]	CARE BBB

Note: Unsupported Rating does not factor in the explicit credit enhancement.

Detailed Rationale and Key Rating Drivers

CARE has assigned a rating of 'Provisional CARE PP-MLD A (CE); Stable' [Provisional CARE Principal Protected Market Linked Debentures Single A (Credit Enhancement); Outlook: Stable] to the proposed Principal Protected Market Linked Debentures ("PP-MLD"), issued by Dhanvarsha Finvest Limited (DFL), covered with the security pool of gold loan receivables assigned to by Wint Gold CB - 03.

The rating assigned is provisional [3], based on the structure provided to CARE by DFL, the Issuer. The rating will be confirmed after the copies of documents executed in accordance with the structure, a due diligence audit report by an external auditor and an independent legal opinion is furnished by the Issuer, to the satisfaction of CARE. Consequently, CARE will issue a final rating letter.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

1. Upward revision of DFL's standalone rating.

Negative Factors - Factors that could lead to negative rating action/downgrade:

1. Downward revision in the standalone rating of the Issuer.
2. Non-adherence to the key transaction terms envisaged at the time of the rating.
3. Deterioration in the composition and performance of Security Pool.

Detailed description of the key rating drivers

Dhanvarsha Finvest Limited (DFL; Issuer and Servicer in this transaction) will issue Principal Protected Market Linked Debentures (PP-MLD). The PP-MLD will be secured by way of an irrevocable and unconditional guarantee from the SPV backed by first and exclusive hypothecation of gold loan receivables to the extent of 1.25x cover held by the SPV and Cash

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[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).*

[3] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ MIRSD_CRADT/ P/ CIR/ 2021/ 554 dated April 27, 2021, the copies of documents executed in accordance with the structure, a due diligence audit report by an external auditor and an independent legal opinion are required to be furnished by the Issuer within 90 days (unless an extension of further 90 days is granted at the sole discretion of CARE), the rating of the instrument / facility would be equated to the unsupported rating of the Issuer.*

Collateral of 7% of the Issue Size in the form of fixed deposit. Entire principal and interest on MLDs are promised to the MLD-holders on the Final Legal Maturity (i.e., on expiry of 24 months from deemed date of allotment). However, the MLD-holders are expected to receive principal repayments during amortization period (i.e., post expiry of 15th months from MLD issuance or on occurrence of a Credit Event, whichever is earlier). Prior to amortization period, no amount is proposed to be transferred to MLD-holders.

Until the start of amortisation period, the SPV will utilize cash flows realized from assigned gold loan receivables to pay down the contribution of the issuer and DFL shall on a monthly basis assign additional loans that meet the eligibility criteria to the Assignee such that the amounts outstanding under the loans constituting the Assets (which loans do not have any overdue for 90 days or more) shall not be less than 1.25x of the principal obligation and interest accrued thereon. On the expiry of 15th month from the deemed allotment date of the MLD, the Issuer has the option to exercise the call option on the MLDs and make bullet payment of principal and interest to the MLD-holders.

If Issuer fails to exercise the call option or fails to make the payment on the call option date or a Credit Event has happened (i.e., amortization period starts), then

- the Debenture Trustee shall require the SPV to stop making payment of Contribution to the Company and to use such amounts to make accelerated repayment of the MLD holders
- the Assignee shall as and when it collects/receives any monies in relation to the Assets pay such amounts to the Debenture Trustee within one Business Day therefrom towards accelerated repayment (during the amortization period) of the Debentures
- the cashflows from the underlying cover pool will be utilized to repay the MLD-holders
- no further receivables will be acquired by the SPV and further Contribution shall be repayable by the Assignee to the Company one day after the final redemption date.
- Once the amortization period starts, the priority in payouts will be the cumulative accrued interest component of MLD-holders followed by principal repayment

If the Servicer fails to deposit the collections pertaining to the Identified Receivables into the SPV Account within the agreed timelines (subject to grace period of 2 days for any non-payment due to administrative or technical difficulties). If such delay continues (i.e., funds collected by the Servicer are not deposited with SPV) and the alternate servicer is not appointed within the next 60 days, it shall be considered to be an Accelerated Redemption Event and MLD-holders will have right to demand repayment of total outstanding amount from the Issuer within 30 days.

The MLD Holders are supported by the following:

- DFL's internal accrual (Rated CARE BBB; Stable, for its long term debt obligation), which is primary obligor
- SPV guarantee - provided by Wint Gold CB - 03, a Special Purpose Vehicle (SPV) to which DFL will assign gold loan receivables with principal cover of 1.25 times the outstanding amount (including any accrued/uncrystallised interest); the SPV guarantee will be invoked on occurrence of any of the pre-defined credit events. The cash flows from the assigned receivables will be utilized (in case there is occurrence of credit event/Issuer fails to make payment on the call option day) exclusively for making payouts to the MLD-holders.
- Cash collateral in the form of FD that is maintained at 7.0% of the issuance amount.

The bullet coupon payment to the MLD-holders will depend on the underlying reference index (For this transaction BSE SENSEX 30). If the reference index falls below 80% of initial fixing level (Official closing level of the Reference Index as on Initial Fixing Date) the coupon rate on the PP-MLDs will be 0.0%. Else, the coupon rate on the PP-MLDs will be 11.61% (Equivalent to 12.25% XIRR). Coupon to MLD-holder will increase by 2% on occurrence of any credit event.
The initial underlying covered pool for the PP-MLD structure consists of following features.

- All contracts in the pool are current in payment and there are no over-dues as on the pool cut-off date (May 4, 2021).
- The weighted average Disbursal IRR of the pool is 23.01%.
- The pool is concentrated in terms of geography, with the top state accounting for 75.35% of total pool POS; the top 3 branches comprise ~41% of the pool principal.
- The weighted average Disbursal LTV for the pool is 73.18% with maximum LTV being 75%.

Prior to the amortization period, the Company shall on a monthly basis assign additional loans that meet the eligibility criteria set out in Annexure II to the SPV such that the amounts outstanding under the loans constituting the Assets (which loans do not have any overdue for 90 days or more) shall not be less than [1.25]x. However, in case DFL is not able to assign additional loans as per the eligibility criteria, the cash collected and deposited by the Servicer with the SPV Trust shall be retained with the Trust. The cash so available with the SPV Trust shall be considered for calculating the security cover.

The debenture shall be serviced normally by the issuer (DFL). However, during amortization period, the cash flow generated from the Assets shall also be utilized to service the MLD-holders.

Key Rating Strengths:

1. Three level of protection to the lender. i) DFL's internal accruals, ii) Security Pool - provided by Gold CB - 03, a Special Purpose Vehicle (SPV) to which DFL will assign gold loan receivables with principal cover of 1.25 times the outstanding amount (including any accrued/uncrystallised interest) and iii) Cash collateral in the form of FD that is maintained at 7.0% of the initial term loan amount.

Key Rating Weaknesses:

1. The collection performance of the portfolio of DFL might be impacted due to the prolonged after effects of the Covid-19 pandemic and the ensuing lockdown and moratorium, which may affect the liquidity position of the issuer or performance of the security cover pool.
2. Low seasoning of gold loan portfolio

Analytical approach & Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Non-Banking Financial Companies
Financial ratios – Financial Sector
CARE's methodology for Asset / Mortgage Backed Securitization
Rating Credit Enhanced Debt
Assignment of Provisional Rating

Liquidity Position - Adequate

The inherent liquidity in the structure is adequate given the support available to the MLD holders. The support available to the MLD holder include DFL's internal accruals, Security Pool with 1.25x cover, and Cash Collateral of 7.0% of the initial debenture issue amount. Also, the entire principal and interest is promised to the MLD holders only by the final maturity date (24 months from issue date)

The company had no negative cumulative mismatches in any of the time bucket as on December 31, 2020. As on April 26, 2021, the company had cash/FD balances of Rs.77 crore and liquid investments of around Rs.35 crore as against debt obligations of Rs.6 crore for next 3 months. In addition, it has undrawn bank lines of Rs.52 crore from various PSU and private bank. The company has sufficient liquidity with them to even repay debt obligations for one year which is around Rs.32 crore.

Key Rating Assumptions

The analysis for the purpose of rating is based on a scenario that the company may not exercise the call option and credit event will happen and the cashflows generated from Security Pool would be utilized to repay the MLD holder.

CARE has applied the methodology for rating Asset / Mortgage Backed Transactions to analyze the Security Pool to assess whether the Cash Collateral is sufficient to cover shortfalls. Since the transaction is sensitive to credit quality of the underlying pool, CARE has analyzed the gold loan portfolio performance of the DFL. Considering the borrower profile and nature of loan, pool characteristics and portfolio performance, CARE has taken the average peak shortfall at 7.0% - 8.0% of principal outstanding. The base case shortfalls were stressed along with other key factors such as the timing of shortfalls, the recovery assumptions and the time to recovery. CARE has found that the Security Pool (including selection filters for additional loans) and Cash Collateral stipulated ensures sufficiency of cash flow w.r.t. the assigned rating.

About the Company

Dhanvarsha Finvest Limited is an RBI registered Non-Deposit accepting NBFC since 1998 and listed on BSE. The company was originally incorporated on 9th November, 1994 in Gujarat. Earlier, the Company was promoted by the Gujarat based individual promoters and was carrying on the business of finance brokers, registrar to the issue and share transfer agent, issue houses or insurance agents / brokers and agents or underwriters, consultants, assessors, values surveyors, mortgage brokers and undertaking the provision of hire purchase and credit sale finance and of acting as factors and brokers. Currently, the company is being promoted by Mumbai headquartered Wilson Group which took over as parent in 2018 and has business interests spread across financing, real estate, sustainable infrastructure, Agro commodities trading, advisory services and venture capital investing. As on April 15, 2021, Wilson holdings holds 61.70% stake and remaining stake is being held by various public shareholder. DFL provides financing options to the relatively under-banked Micro, Small & Medium Enterprises (MSME) and Low to Mid Income (LMI) groups of Society offering a range of secured and unsecured financing products that are tailored to suit each borrower's requirements.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total income	19.29	19.29
PAT	2.13	4.10
CAR (%)	55.23	64.21
Total Assets	53.78	48.50
ROTA (%)	3.95	8.02

A- Audited; P- Provisional

Status of non-cooperation with previous CRA:
Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Principal Protected Market Linked Debentures (PP-MLD)	-	-	-	-	15.00	Provisional CARE PP-MLD A (CE); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Principal Protected Market Linked Debentures (PP-MLD)	LT	15.00	Provisional CARE PP-MLD A (CE); Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities:
Credit Events
A credit event shall occur if:

- Any default on part of the Company to make payment of any amount that has become due and payable under the Transaction Documents.
- Non exercise of Call Option on the Initial Call Option Payment Date.
- PAR > 90 in the loans constituting the Asset is greater than 5% of the aggregate outstanding principal amounts of the loans constituting the Asset.
- Failure to comply with the "Maintenance of Security Cover" requirement as defined in Transaction Structure
- Rating of the Company is downgraded below BBB- by the Rating Agency.
- Rating of the instrument is downgraded below A (CE) by the Rating Agency.
- Any delay on part of the Company in crediting the amounts received/collected/recovered in relation to the loans constituting the Assets to the bank account of the Assignee within the stipulated timelines.
- Any breach of any Other Covenants.
- Cross default of the Issuer, Inability to Pay Debts/ Distress

- Failure to perform any obligations in relation to this transaction, including compliance with reporting obligations (as per Reporting Covenant Timeline)
- Material Adverse Effect on the Issuer
- Delisting of Debentures from stock exchange
- Misrepresentation by the Issuer
- Failure by the Issuer to meet standards with respect to management, governance, and data integrity, as may be required by the Debenture Trustee/Investor
- The Servicer is in default in relation to servicing obligations undertaken by it with respect to this transaction;
- Any expropriation, attachment, sequestration, distress or execution affects any assets of the Company which has a material adverse effect on their ability to comply with its payment obligations under the Debenture Documents;
- If one or more legal or governmental proceedings have been initiated against the Company or any claims are made against the Company, which in the opinion of the Debenture Trustee (acting on the instructions of the Majority Debenture Holders), may impair the Company's ability to perform its obligations undertaken in terms of the Debenture Documents or which has a Material Adverse Effect;
- Any change in regulation/guidelines that, in the opinion of the majority debenture holders, invalidates the subsequent assignment of security pool assets to the trust; however, for triggering such an event, a legal opinion from Legal Counsel shall be obtained (and shared with the Trustee) confirming the invalidation of assignment of the receivables.
- Failure to certify/confirm the non-occurrence of any Credit Events in the manner prescribed in the Transaction Documents.

Pool Selection Criteria:

Each loan constituting the Assets in the initial pool selection and subsequent replenishment of the pools, shall meet each of the eligibility criteria listed below.

- Each loan must be originated by the Company and must be a gold loan.
- Loans must be unencumbered (other than under the Transaction Documents) and not sold or assigned by the Company
- Loans must have been originated while complying with all the extant 'know your customer' norms specified by the RBI.
- Loans are current and not in overdue at the time of assignment and have not been terminated or prepaid.
- Loan must have maturity date atleast 1 month before the Final Maturity Date of the Instrument.
- Loans having original maturity of more than 12 months should not be more than 20% at any time during the tenure of the instrument.
- Maximum ticket size of Rs 10 lakh per borrower. In case of any loans with Ticket Size of more than Rs 10 lakhs, only Rs 10 lakhs will be counted for such loan in the security cover calculation
- Minimum disbursal IRR of the Loans must be 15 Percent
- Weighted average disbursal IRR of the loans should be more than 19 Percent
- Loan to value of the contracts should be less than or equal to 75%
- Individual Client concentration should not be more than 1%

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

Sr. No	Name of Instrument	Complexity Level
1	Principal Protected Market Linked Debentures	Highly Complex

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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