Dhanvarsha Finvest Limited

June 03, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	450.00 (Enhanced from 250.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**450.00** **(Rs. Four Hundred Fifty Crore Only)**		
Non-Convertible Debentures	50.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Long-Term Instruments	**50.00** **(Rs. Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the long-term bank facilities and debt instruments of Dhanvarsha Finvest Ltd (DFL) factors in its experienced management team, comfortable capitalization driven by frequent capital infusions and improving earnings profile. However, the rating is constrained by nascent stage of operations of the NBFC with low vintage of the portfolio, moderate asset quality and geographic concentration of the book. In last two years, the company has demonstrated its ability to grow but the vintage and seasoning of the book is still low since the focus segments of business loan and gold loan has been started in FY19 and FY21 respectively. The company's ability to scale up its loan book while maintaining asset quality, leading to sustained profitability will continue to remain a key monitorable.

Rating sensitivities

Positive Factors: Factors that could individually/collectively lead to a review for positive rating action/ upgrade

- Scaling up of loan book beyond Rs.800 crore while maintaining asset quality with leverage within 3 times.
- Improvement in profitability on a sustained basis while maintaining a healthy asset quality.

Negative Factors: Factors that could individually/ collectively lead to a review for negative rating action/downgrade

- Deterioration in asset quality with GNPA exceeding 5% on a sustained basis.
- Deterioration in profitability on sustained basis with ROTA below 1%.
- Increase in leverage beyond 3 times.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management team

The company has experienced board members and management with rich experience in finance industry. The chairperson of the board is Mr. Rakesh Sethi who was the former Chairman and MD of Allahabad Bank. The other board members include Mr. Krishipal Raghuvanshi (Former Commissioner of Thane & current strategic security advisor to RBI), Mr. Nirmal Momaya (CA) and Mr. Rajiv Kapoor (former regional head and senior vice president cross border for Asia Pacific at Visa Inc.). In June-21, Mrs. Minaxi Mehta joined the board as Non-Executive Non-Independent Director. She has diverse business and philanthropic experience. In July-21, Mr. Porter Collins, co-founder of Seawolf capital also join DFL's board of directors. Mr. Collins was a Partner of the FrontPoint Financial Services Fund where he was featured in the Michael Lewis book and the movie 'The Big Short' for accurately predicting the Global Financial Crisis of 2008.

The board also consist of two executive directors. Mr. Rohanjeet Juneja (former investment banker and hedge fund manager)- MD & CEO and Mr. Karan Desai (worked for Bank of America, Pwc & was the Head of corporate finance at Centrum Capital Limited)- Chief Business Officer. Mr. Sanjay Kukreja is the CFO of the company and has more than 27 years of experience in finance industry. Mr. Mahendra Servaiya is the credit head of DFL and was the former AGM at Union Bank of India.

Comfortable capital adequacy position driven by capital infusion at regular intervals

As on March 31, 2021, CRAR of the company stood at 71.40% as against the regulatory requirement of 15% providing adequate room for growth as well as the ability to absorb losses arising from uncertain circumstances. The company has been raising funds in the form of equity at regular intervals the recent one being in the month of May 2022 where the company raised equity of Rs.62.20 crore (mix of equity and warrants) led by non-promoter investor Aviator Emerging Market Fund and conversion of warrants by the promoter of Rs.12.67 crore. Funds worth Rs.34.80 crore has been infused and the balance Rs.27.40 crore will be infused post conversion of warrants into equity over the next 18 months. Prior to these, there was infusion of Rs.68 crore during FY22 led by Aviator Emerging Market Fund. During FY21, the promoter infused funds worth Rs.65 crore during FY21 in the form of CCD and warrant conversion. Consequently, gearing remained low at 0.83 times as on March 31, 2021, despite substantial increase in debt.

As on March 31, 2022, the CRAR of the company stood at 43.96%, well above the regulatory requirement pf 15% with gearing at 1.69 times.

Improving earnings profile

During FY21, the company successfully disbursed loans worth Rs.88 crore as against the disbursements of Rs.8.68 crore during FY20 leading to growth in loan book over 100% and stood at Rs.105 crore as on March 31, 2021. The expansion in the scale of operations from 2 branches during FY20 to 16 branches during FY21 led to improvement in the core revenue of the company. During FY21, interest income grew by 89% to Rs.12.23 crore. The expansion phase also led to increase in operating cost by 54% and on account of high disbursements interest cost also increased by 150%. Consequently, this led to decline in PAT from Rs.4.10 crore during FY20 to Rs.0.69 crore during FY21. The overall disbursements for FY22 further improved and crossed Rs.400 crore leading to improved profitability and PAT for FY22 stood at Rs.7.37 crore. Net Interest Margin (NIM) for FY22 stood at 6.51% as against 7.05% during FY21; the decline being largely due to increased interest expense on account of substantial rise in borrowings. ROTA improved and stood at 2.27% during FY22 as against 0.61% during FY21.

The company plans to open up few more branches and hence for FY23 operating expense may continue to increase. On the interest cost, the management is expecting some improvement due to increase in funding from PSU banks which will help the company to manage its NIM.

Key Rating Weaknesses:

Small scale of operations; albeit improvement along with low vintage of products offered

The company started its operations in 2017 when only LAP loans were offered which has average tenor of 8 to 12 years. With due consideration for both the competitive intensity & increasing need to match ALM, the company than de-focused this segment and stopped disbursements due to Witnessing stress in this segment, the company than de-focused this segment and stopped disbursements. It than started lending under smaller ticket size business loan in 2019 with loan tenor of 2 to 4 years. Also, in the same year the company also started with personal loans to salaried customers with lower income. Given the riskiness in this segment, the company has also decided to phase out this segment. Further, during Q3FY21, the company started with gold loan and education loan segment. The company has stopped disbursements under education loan and now the focus of the company is only business loan through MSME and gold loan product and the avg tenor of both this segment is 3 years. The company has demonstrated its ability to grow in last two years despite the economic challenges, however, the company continues to remain a small player in the non-banking financial company sector, with an AUM size of Rs 306 crore as on March 31, 2022. Further, majority of the disbursements for both the segments (BL and GL) have happened in FY22, hence, the vintage also continues to remain low, and more seasoning in the overall AUM is needed to gauge the asset quality.

Out of the total AUM of Rs.306 crore as on March 31, 2022, 68% consist of own book, 27% is FLDG and 4.13% is off book and co-lending.

Moderate asset quality

Until, June 2021, the company followed 180+ DPD NPA recognition norms and from September 2021 the company has started reporting NPA as per RBI norms basis 90+ DPD. As on March 31, 2021, the GNPA ratio of the company stood at 2.97% as against 5.75% as on March 31, 2020 (basis 180+ DDP). In absolute terms, the GNPA increased to Rs.3.10 crore as on March 31, 2021 as against Rs.1.89 crore as on March 31, 2020. Given the substantial growth in loan book, the GNPA ratio seems to be lower. Nevertheless, majority of the asset quality issue is derived from the legacy LAP loans which contributes 79% of the total GNPA. Most of these loans are expected to be recovered by end FY23.

As on March 31, 2022, the GNPA (basis 90+ DPD) stood at 3.02% as against 4.24% as on March 31, 2021. In absolute terms, GNPA further increased to Rs.9.23 crore as on March 31, 2022 as against Rs.4.43 crore as on March 31, 2021 largely driven by LAP loans and to some extent by personal loans. The company has provided adequately for personal loan segment with provision coverage of 98% and 36% for LAP along with collateral available since LAP segment is secured in nature.

Nevertheless, GNPAs (excluding LAP portfolio) stands at 1.35% as on March 31, 2022.

Given the low seasoning in focused segments of business loan and gold loans, the asset quality will continue to remain key monitorable.

Geographical concentration in Maharashtra; albeit improvement

As on March 31, 2020, 100% of the portfolio was concentrated in the state of Maharashtra. During FY21, the company started to expand in other states like Gujarat, Rajasthan, UP, Delhi, Kerala and Haryana thereby bringing down the concentration to 86% during FY21. In FY22, the company further expanded its reach to new states; Goa and MP. As on March 31, 2022, the state-wise concentration is as follows:

Maharashtra- 70%, Gujarat- 1%, Rajasthan-2%, UP-5%, Delhi-11%, Kerala- 0.19%, Haryana-4%, Goa-3% and MP-1%. Though, the company has been able to expand in newer states, Maharashtra continues to remain concentrated. As per management, Maharashtra, MP and Delhi-NCR would be the focus states for expansion.

Liquidity: Adequate

The company had no negative cumulative mismatches in any of the time bucket as on December 31, 2021.

As on April 30, 2022, the company had cash/FD balances of Rs.20.35 crore and liquid investments of around Rs.47.95 crore as against debt obligations of Rs.30.69 crore for next 3 months. In addition, it had undrawn bank lines of Rs.30 crore. The company is also in discussion with the lenders to raise another debt of Rs.90 crore.

The company has successfully raised funds from numerous lender including PSU banks and total number of lenders are more than 15.

Analytical approach: CARE has analysed the standalone credit profile of DFL.

Applicable Criteria

Criteria on assigning Outlook and credit watch to Credit Ratings

CARE's Policy on Default Recognition

Financial ratios – Financial sector

Rating Methodology- Non-Banking Finance Companies

About the Company

Dhanvarsha Finvest Limited is an RBI registered Non-Deposit accepting NBFC since 1998 and listed on NSE & 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 May 31, 2022, the promoters hold 60.87% stake, Aviator Emerging Market Fund holds 8.28% and remaining stake is being held by various domestic and foreign shareholders. 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)	FY21 (A)	FY22(A)	Q1__/ H1__/9M__
Total income	24.42	70.05	**Not applicable**
PAT	0.69	7.37	
CAR (%)	71.40	43.96	
Total Assets (net of intangible and deferred tax assets)	181.65	468	
ROTA (%)	0.61	2.27	

A: Audited

The ratios are as per CARE's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of 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	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Long Term Bank Facilities	-	-	-	03-Jan-27	450.00	CARE BBB; Stable
Non-Convertible Debenture- Proposed	-	-	-	-	50.00	CARE BBB; 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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	450.00	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Jun-21) 2)CARE BBB; Stable (17-May-21)	-	-
2	Debentures-Market Linked Debentures	LT	15.00	CARE PP-MLD A (CE); Stable	-	1)CARE PP-MLD A (CE); Stable (17-Jun-21) 2)Provisional CARE PP-MLD A (CE); Stable (03-Jun-21)	-	-
3	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Jun-21)	-	-
4	Debentures-Market Linked Debentures	LT	15.00	CARE PP-MLD BBB; Stable	-	1)CARE PP-MLD BBB; Stable (26-Aug-21) 2)Provisional CARE PP-MLD BBB; Stable (06-Aug-21)	-	-

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Capital Adequacy Ratio	CRAR should be above 15%
2. Gross NPA Ratio	GNPA should be below 4%.
B. Non-financial covenants	
1. Submission of audited financial statements	The company shall furnish audited financial statements and its Annual Report of the organization as a whole within 120 days of end of every financial year till currency of this facility.
2. Submission of end use certificate	The company will have to provide end use certificate within 30days from the date of disbursement.

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

Sr. No	Name of instrument	Complexity level
1.	Bank Facilities- Fund Based- Long term	Simple
2.	Non-Convertible Debentures	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 instrument: CARE Ratings Ltd. 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 for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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