Dar Credit & Capital Limited

January 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	120.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**120.00 (Rs. One Hundred Twenty Crore Only)**		
Non Convertible Debentures INE04Q907033	2.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Non Convertible Debentures INE04Q907025	4.55	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Non Convertible Debentures INE04Q907041	2.75	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Non Convertible Debentures INE04Q907017	3.20	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Long Term Instruments	**12.50 (Rs. Twelve Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & 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, adequate liquidity profile, long track record of operations, and adequate capitalization for the scale of business. However, the rating is constrained on account of significant decline in the AUM on the back of exit from the business with Hiveloop Technology Pvt. Ltd. (HTPL), for financing of traders (clients of HTPL) on www.Udaan.com.

Furthermore, the ratings are constrained on account of decline in disbursements in recent times due to challenges faced in resource mobilization, moderate asset quality metrics on the back of presence in 100% unsecured lending business combined with high quantum of restructured assets in the MFI loan portfolio, high geographical concentration in loan book with Rajasthan constituting to around 43% of the total loan portfolio as on September 30, 2021, moderate earnings profile, and moderate scale of operations.

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 with higher number of lenders.

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

- Inability to raise resources at competitive rates to grow business in the next 1-2 quarters, leading to year on year decline in borrowings as on March'22 vis-à-vis March'21.
- 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%.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management team with long track record of operations:

The operations of the company are jointly led by Mr. Ramesh Kumar Vijay (Chairman) and his brother Mr. Rajkumar Vijay (Whole-time 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. Apart from that, DCCL has also appointed Mr. Siddhartha Pradhan, veteran IRS (Indian Revenue Service) officer having vast experience in various central and state government departments. Mr. Santanu Mukherjee (former Managing Director of State Bank of Hyderabad and currently on the Board of Bandhan Bank Ltd.) and Mr. Jayanta Banik (Chartered Accountant having experience of more than 27 years) act as advisors to DCCL's board.

Further, 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, 2021, DCCL has presence in 21 locations across Rajasthan, Gujarat, West Bengal, Madhya Pradesh, Karnataka and Chhattisgarh, further disbursements in Gujarat are carried out through branches. Further, the loan portfolio is moderately diversified with Personal loan to individuals (Municipal employees) and SME Loans (akin to MFI Loans) comprising 70% and 23% of total O/s loan portfolio as on September 30, 2021 while Loans to small businesses comprise the remaining portion.

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

Adequate capitalisation
The capital adequacy ratio (CAR%) of the company has improved from 36.76% as on March 31, 2020 to 44.56% as on March 31, 2021 and further to 48.53% as on September 30, 2021. Improvement in CAR% was majorly on account of decline in risk weighted assets combined with increase in net owned funds due to internal accruals. Overall gearing of the company has also improved on similar lines and stood at 1.98 times as on March 31, 2021 and 1.65 times as on September 30, 2021 against 3.57 times as on March 31, 2020. The decline in gearing is majorly on account of reduced borrowings, on the back of reduced business activity. The capital base is considered to be adequate relative to the scale of business with networth of 59.84 crore as on March 31, 2021, which further improved to Rs. 60.69 crore as on September 30, 2021. Going forward, the ability of the company to mobilise its resources for growing its loan portfolio will be a key rating monitorable.

Key rating weaknesses
Moderate scale of operations with moderate resource base:
During FY21 the company witnessed exit from the E-commerce business loans, leading to a significant decline in loan towards HTPL's customers from Rs.93.29 crore as on March 31, 2020 to Rs.1.04 crore as on September 30, 2021, The exit is because HTPL has itself started lending business through its group company i.e. Hiveloop Capital Pvt. Ltd. As a result, DCCL's total loan portfolio has moderated from Rs.221 crore as on March 31, 2020 to Rs.128 crore as on March 31, 2021 and Rs.119 crore as on September 30, 2021.
Further during FY21 the company witnessed significant decline in the disbursements which was to the tune of Rs. 47.61 crore as compared to Rs.91.58 crore (excluding disbursements made towards HTPL customers) during FY20, the impact was largely on account of challenges in resource mobilization and the impact of covid. Furthermore, the resource base continues to be concentrated with term loan borrowings from banks and FI's constituting to around 62% of the total borrowings as March 31, 2021.
Going forward the company plans to focus on building its MFI loan portfolio in the West Bengal which would be facilitated through the wholly owned subsidiary Dar Credit Microfinance Pvt Ltd. The company is still at a nascent stage and is yet to receive the MFI license, which is expected in the short term. The company also plans to expand its personal loans to municipal employee's loan portfolio in the state of Chhattisgarh and Gujarat. The ability of the company to scale up its business operations by diversifying its resource mix will remain to be a key rating monitorable.

Moderate asset quality:
During FY21 DCCL's asset quality deteriorated with Gross NPA and Net NPA of 1.02% and 0.73% as on March 31, 2021 as against 0.39% and 0.26% respectively as on March 31, 2020. Further Gross NPA and Net NPA stood at 0.83% and 0.43% as on September 30, 2021. Further, the company has been able to ramp up its provisioning to 48% as on September'21 as compared to 29% as on March'21. Net NPA to Net-worth has marginally deteriorated in FY21 and stood at 1.55% as compared to 1.01% as on March'20, albeit some improvement witnessed in H1FY22, with NNPA to Net Worth of 0.84% as on September 30, 2021.
The deterioration in the NPA witnessed in FY21 and H1FY22, is largely driven by weakening credit profile of MFI borrowers. The MFI loans constitute to around 23% of the O/s loan portfolio as on September 30, 2021. Further, the restructured book as on September 30, 2021 stood at Rs.7.51 crore, which is largely towards MFI loans. The restructured book is around 12% of Tangible Net Worth and around 5.51% of the total o/s loan portfolio as on September 30, 2021.

100% unsecured nature of portfolio:
DCCL extends loans to clients who are mainly class-four employees (on roll as well as off roll), sweepers and peons in Government Departments. Although these loans are completely unsecured in nature, the company has tied up at the departmental level for collections and deductions, which are made directly from the salary by the department. This provides some comfort in terms of collection from the municipal employees to DCCL. Loans to individuals comprised of around 70% of the total loan portfolio as on September 30, 2021.
Further, DCCL also disburses loans to MFI's (23% of total loan portfolio), with major presence in east of India, with around 15 branches across West Bengal. MFI loans are largely targeted towards small businesswomen entrepreneurs, with an average ticket size of around Rs.30,000 to Rs.1,00,000 and is extended for a tenure of around 10-24 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 15-17%.
Given, the aftereffects of the pandemic are not yet completely waned out, CARE Ratings expects DCCL's asset quality to remain anchored on the vulnerability of income profiles of the borrowers.

Moderate earning profile:
Net Interest Income (NII) has reduced from Rs.16.46 crore in FY20 to Rs.11.09 crore during FY21, on account of subdued disbursements combined with exit from the B2B E-Commerce business. Subsequently NIM declined to 4.96% in FY21 from 6.24% in FY20, leading to a decline in return on total assets (ROTA) from 2.14% in FY20 to 1.53% in FY21. Operating cost (including employee cost) of DCCL has marginally reduced from Rs.10.72 crore in FY20 to Rs.8.95 cores in FY21, leading to a marginal decline in operating expenses as a % of average total assets ratio over the period to 4.00% in FY21 (4.07% in FY20) on account of subdued business activity. As the nature of lending is mainly unsecured, the company requires a strong collection team especially for collection from MFI loan borrowers. Hence the operating costs are on the higher side. While the management expects to reduce its operating expenses by implementing process improvisation, however, the same is yet to be reflected in the business .

Geographical concentration in loan portfolio:
DCCL has presence in the urban and semi-urban areas of Rajasthan (comprising ~43% of loan portfolio outstanding as on September 30, 2021 (September 30, 2020: 42%)), while MP and West Bengal stood at 27% and 27% (Mar'21: 26% & 27%; Mar'20: 15% and 14%) respectively, and Gujarat and Chhattisgarh contributed the balance. Going forward the company plans to focus on building its MFI loan portfolio in the West Bengal and also plans to expand its personal loans to municipal employee's loan portfolio in the state of Chhattisgarh and Gujarat.

Liquidity: Adequate
DCCL's liquidity remained adequate as on September 30, 2021, with no negative cumulative mismatch witnessed in any of the time bucket. Further, as on September 30, 2021 for the next 12 months DCCL had free cash and cash equivalents of Rs.6.96 crore and free current investments of Rs.2.85 crore along with Rs.71.58 crore of inflows from advances. Against the same the company had total debt repayment of Rs.33.78 crore in next 12 months. Furthermore, DCCL's average collection efficiency (excluding prepayments and overdues) for the month of September 30, 2021 stood at 92% vis-à-vis 90% in April'21. Going forwards, company's ability to raise new funds and sustain healthy collections will remain crucial for maintaining an adequate liquidity.

Analytical approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Non-banking Financial Companies
Financial Ratios – Financial Sectors

About the Company
Dar Credit & Capital Ltd. (DCCL) is a Jaipur based mid-sized (Total loan portfolio as on September 30, 2021 – Rs.118.74 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 (Rs. crore)	31-03-2020 (12M, A)	31-03-2021 (12M, A)	30-09-2021 (6M, UA)
Total operating income	46.91	27.78	12.48
PAT	5.64	3.42	1.31
Interest coverage (times)	1.26	1.29	1.26
Total Assets	266	181	164
Net NPA (%)	0.26	0.74	0.43
ROTA (%)	2.14	1.53	1.52*

*A: Audited; UA: Unaudited; *Annualised*
Status of non-cooperation with previous CRA: None
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: Not Applicable
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
Fund-based - LT-Cash Credit	-	-	-	-	28.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	Feb-2025	92.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures	INE04Q907017	January 11, 2021	12%	10 February 2024	3.20	CARE BBB-; Stable
Debentures-Non Convertible Debentures	INE04Q907033	January 11, 2021	12%	10 February 2024	2.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures	INE04Q907025	January 11, 2021	12.25%	10 February 2026	4.55	CARE BBB-; Stable
Debentures-Non Convertible Debentures	INE04Q907041	January 11, 2021	12.25%	10 February 2026	2.75	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 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	Fund-based - LT-Cash Credit	LT	28.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (31-Mar-21) 2)CARE BBB-; Stable (22-May-20)	1)CARE BBB-; Positive (06-Dec-19)	1)CARE BBB-; Stable (03-Oct-18)
2	Fund-based - LT-Term Loan	LT	92.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (31-Mar-21) 2)CARE BBB-; Stable (22-May-20)	1)CARE BBB-; Positive (06-Dec-19)	1)CARE BBB-; Stable (03-Oct-18)
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 (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 (31-Mar-21)	-	-
6	Debentures-Non Convertible Debentures	LT	4.55	CARE BBB-; Stable	-	1)CARE BBB-; Stable (31-Mar-21)	-	-
7	Debentures-Non Convertible Debentures	LT	2.75	CARE BBB-; Stable	-	1)CARE BBB-; Stable (31-Mar-21)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No.	Name of the 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 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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