

Dhanvarsha Finvest Limited

June 04, 2021

Ratings

Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	250 (Rs. Two hundred and Fifty crore only) (Enhanced from 150)	CARE BBB; Stable [Triple B; Outlook: Stable]	Re-affirmed
Non-Convertible Debenture	50 (Rs. Fifty crore only)	CARE BBB; Stable [Triple B; Outlook: Stable]	Assigned

Details of instruments/facilities in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the long term bank facilities of Dhanvarsha Finvest Ltd (DFL) factors in its experienced management team along with comfortable capital adequacy, diversified secured retail product offerings with granular ticket sizes, resource profile characterized by multiple liability relationships at an early stage of operations, moderate earnings profile and adequate liquidity.

The rating, however, is constrained by nascent stage of operations of the NBFC with low vintage of the portfolio, moderate asset quality due to issues with the legacy LAP book as well as Covid impact and geographic concentration of the book. The company's ability to scale up its loan book while maintaining asset quality along with improvement in profitability parameters will 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 and healthy capitalization
- 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.
- Increase in net debt to equity ratio beyond 2 times by end of FY22.
- Inability to scale up the AUM to at least Rs.300 crore by end of FY22.

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), Mrs. Manjari Kacker (Former member of Indian Revenue Services batch of 1974), Mr. Nirmal Momaya (CA) and Mr. Rajiv Kapoor (former regional head and senior vice president cross border for Asia Pacific at Visa Inc.). The board also consist of two executive directors. Mr. Rohanjeet Juneja (former investment banker and hedge fund manager) and Mr. Karan Desai (worked for Bank of America, PwC & was the Head of corporate finance at Centrum Capital Limited). The two executive directors are also the Joint Managing Directors of DFL. 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 with continuous support from diverse set of investors

The CAR for DFL as on December 31, 2020 stood at 83.2%. The gearing level remains low at 0.5x as on December 31, 2020. The company is raising growth capital from various sources at regular intervals. The company has raised around Rs. 65 crore during FY21 through Compulsorily Convertible Debentures (CCD) and warrant issuance to Wilson Holdings Private Limited (WHPL) (the parent company) and the two joint managing directors. The warrant issuance to key management brings some skin in the game for the key management personnel. The company has also raised another Rs.65 crores in the month of April 2021 through unsecured CCD which was subscribed by Aviator Emerging Market Fund (Rs. 48 crore) & select family office's, HNI's & other investors (Rs. 17.8 crore). This was the first round of infusion where external investors were approached. As on April 15, 2021, Wilson Holdings held 61.7% stake in DFL and remaining 38.3% was held by public investors. The company has plans to raise around Rs.200-300 crore of equity during FY22.

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

Diverse product offerings

During 2017, the company initially started operations with LAP product with average ticket size of about Rs.45 lakhs and gradually, moved to small ticket business loan and personal loan in 2019. The business loan is extended largely to the daily cash-flow generating MSMEs with focus on essential category such as Kirana store, Chemist etc. with average ticket size of Rs.2.5 lakhs to Rs.3 lakhs. The personal loan is mainly towards salaried customers with average ticket size of Rs.1.7 lakhs. The company has been taking steps to reduce the average ticket size. As on March 31, 2021, the company had almost 60% of the portfolio in the ticket size range of up to 10 lakhs as against 24% of the portfolio during March 31, 2020. The company had around 403 borrowers during FY20 which increased to 5,924 during FY21 indicating granularity in the loan book.

The proportion of LAP to total loan book declined from 100% in March 2018 to 82% in March 2019 and further to 31% by March 31, 2021. During Q3FY21, the company diversified into gold loan and education loan. Under the education loan segment, 100% of the lending is done through FLDG partners. In the gold loan segment, the lending is towards MSME customers only backed by gold as a collateral since it is secured, short-term and liquid in nature. As on March 31, 2021, 31% of the total portfolio consist of LAP loans, 33% is business loan, 11% is personal loan, 7% is education loan and 17% is gold loans.

The company's focus is mainly on MSME lending, gold loans and small ticket business loans. The company indicated that it would increase its gold loan business and going forward it may constitute 40%-50% of the total portfolio. The increase in diversification & granularity has somewhat defended the portfolio from the COVID shock. However, maintaining stable asset quality with the increase in portfolio size shall remain a key monitorable.

Moderate earnings profile

For FY20, the company earned a PAT of Rs.4.10 crore as against a PAT of Rs.2.13 for FY19. The PAT increased on account of decline in total expense majorly contributed by a decline in interest expense. On account of decline in total borrowings, the interest expense also declined from Rs.5.18 crore in FY19 to Rs. 1.69 crore in FY20. Due to decline in interest expense as well as decline in average total assets NIM increased to 8.68% in FY20 from 7.60% in FY19.

For 9MFY21, PAT stood at Rs.0.13 crore as against Rs.3.75 crore during 9MFY20. PAT declined on account of increase in total expense mainly due to increase in interest expense and opex. The total borrowings of the company increased from Rs.11.38 crore for 9MFY20 to Rs.31.74 crore for 9MFY21. The opex was high during 9MFY21 as the company introduced new product segments and increased its presence from 2 branches as on March 31, 2020 to 14 branches as on December 31, 2020. As on March 31, 2021, the company had total of 16 branches. The opex is expected to remain high as the company is in a nascent stage of operations and shall continue to build capacity and increase branch network. As such CARE expects the profitability to remain suppressed amidst cautious loan growth and higher opex.

Adequate liquidity profile

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 lenders. The company is also in discussion with the lenders to raise another debt of Rs.35 crore. The company has sufficient liquidity with them to repay debt obligations for one year which is around Rs.32 crore.

Key Rating Weaknesses***Limited vintage of portfolio***

The company started its operations in 2017 when only LAP loans were offered which has average tenor of 10 to 15 years. Other product segments like business loan and personal loan were started gradually in 2019 which has a tenor of 3 to 5 years implying low seasoning of the book. Also, education loan and gold loan segment were started during Q3FY21. As such, the asset quality of the products shall be closely monitored given its low seasoning in the last 2 years of operations.

Moderate asset quality

The company reported Gross NPA ratio of 2.35% (excluding accounts that were standstill as per Supreme Court's order) as on December 31, 2020 as against 5.75% as on March 2020. The pro-forma Gross NPA ratio as on December 31, 2020 stood at 3.61%. At December 31, 2020, the total 90+dpd in absolute terms stood at Rs.5.83 crore of which Rs.4.41 crore is from the legacy LAP loans that were originated before September 2018. Excluding these, 90+ dpd stood at Rs.1.43 crore i.e., 1.87% of the total AUM. During March 31, 2021 Gross NPA stood at 3.14%. The stress on the asset quality is also due to Covid-19 induced uncertainty. The provision coverage ratio of the company increased from 49% during FY20 to 64% as on December 31, 2020 reflecting adequate coverage against legacy loans.

Asset quality was impacted during FY21 mainly due to LAP and business loans. The Gross NPAs in the LAP books majorly consists of the legacy accounts which were of higher ticket size and were originated before September 2018. In order to improve the asset quality, the company has stopped disbursing large ticket size LAP loans and gradually reduced the average ticket size from Rs.45 lakhs to Rs.3 lakhs. Also, the company wants to increase its exposure in the gold loans segment as it is

secured and liquid in nature. The FLDG book has 10% cash guarantee in the form of FD and 90% corporate guarantee by FLDG partners. Comfort is derived from the fact that most of the segments are secured and backed by a collateral except the personal loan segment, which is just 11% at March 31, 2021.

Given the second wave of COVID pandemic, CARE expects an uptick in the delinquencies mainly in the Business loan & LAP segment. However, the increase in provisioning over the quarters may provide some cushion against the impact of COVID.

Geographic Concentration

As on March 31, 2020, 100% of the portfolio was concentrated in the state of Maharashtra. During FY21, the company started to expand and made its presence in cities of other states like Ahmedabad, Jaipur, Lucknow, Delhi, Cochin and Faridabad. However, its presence in other states is still minimal and stands at 14% of total portfolio whereas 86% is still concentrated in Maharashtra of which 70% is Mumbai and rest is Pune as on March 31, 2021. CARE believes the company will grow & stabilize its business in Maharashtra before expanding into new states. Till such time, the portfolio is expected to remain concentrated.

Liquidity Profile: Adequate

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

Applicable Criteria

[Criteria on assigning Outlook and Credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Non-Banking Finance Companies \(NBFCs\)](#)

[Financial ratios – Financial sector](#)

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.

The key financials of the company are presented below

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: 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
Long Term Bank Facilities	-	-	-	-	250.00	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 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.	Long Term Bank Facilities	LT	250 (enhanced from 150)	CARE BBB; Stable	1) CARE BBB; Stable (17-May-21)	-	-	-
2.	Non-Convertible Debenture	LT	50	CARE BBB; Stable	-	-	-	-
3.	Principal Protected Market Linked Debentures (PP-MLD)	LT	15	Provisional CARE PP-MLD A (CE); Stable	1) Provisional CARE PP-MLD A (CE); Stable (03-June-21)	-	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No	Name of Instrument	Complexity Level
1.	Bank Facilities	Simple
2.	Non-Convertible Debentures	Simple

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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