Dhanvarsha Finvest Limited (Revised)

August 06, 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 BBB; Stable [Provisional CARE Principal Protected Market Linked Debentures Triple B; Outlook: Stable]	Assigned
Total Long-Term Instruments	**15.00 (Rs. Fifteen Crore Only)**		

* *Details of instruments/facilities in Annexure-1.*

Rating in the absence of the pending documents	**CARE BBB**

Detailed Rationale and Key Rating Drivers

CARE has assigned a rating of 'Provisional CARE PP-MLD BBB; Stable' [Provisional CARE Principal Protected Market Linked Debentures Triple B; Outlook: Stable] to the proposed Senior Principal Protected Market Linked Debentures ("PP-MLD"), issued by Dhanvarsha Finvest Limited (DFL), backed by Secured LAP and Gold Loan receivables assigned to Wint Gold Bricks CB-01.

The rating assigned is provisional , 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.

The proposed NCDs are structured as a covered bond. In a covered bond, the Issuer shall issue NCDs which shall be an on-balance sheet liability of the Issuer like a normal bond. In addition, the Issuer shall identify a pool of security ("Covered Pool") which is made bankruptcy remote from the Issuer. While the structure provides an additional recourse to pool with a cover of 1.25x, no rating upgrade is proposed based on this to the Covered NCD structure. Unlike usual covered bond transactions, there is no trigger event in this structure to first utilize the pool cash flows to accelerate the payment to the NCD holders. Any adverse event directly leading to an EOD (and consequent acceleration of NCD) without giving sufficient time to SPV to service NCD is constraining the rating and place the default risk directly on the rating of the issuer. Hence, both the standalone rating of DFL (CARE BBB; Stable) and the proposed NCD structure is at the same level.

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.

Further, the above rating is provisional and will be confirmed once the originator has submitted all the below-mentioned documents to the satisfaction of CARE:

a. Assignment Agreement
b. Trust Deed
c. Deed of Hypothecation
d. Legal Opinion from independent legal counsel
e. Due Diligence Audit Report

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

f. Any other documents executed for the transaction

Detailed description of the key rating drivers

Transaction Structure:

1. Dhanvarsha Finvest Limited (DFL or Issuer) shall issue principal protected Market Linked Debentures (PP-MLD or NCD). These MLD shall be on-balance sheet borrowing of the Issuer and shall normally be serviced by the Issuer. The principal and interest on the NCD are promised to be paid (i.e., are due for payment) only on Final Maturity Date.
2. The Company (DFL) will identify pool of security equivalent to 1.25x of the Issue Size ("Covered Pool") and assign the same to the SPV. The assignment will be by way of a true sale for valid and sufficient consideration.
3. The SPV will invite Contribution from the Company and may enter into necessary agreement in this behalf.
4. The Contribution shall be made available in the form of a revocable contribution by the Issuer ("Contribution") to the SPV. Any revocation of the said Contribution shall be with the prior consent of the Debenture Trustee or after the complete redemption of the Debentures.
5. The SPV shall use the proceeds of the Contribution to make payment of purchase consideration for assignment of the Covered Pool. The contribution and purchase consideration for assignment may be netted off against each other.
6. The SPV will appoint the Company as collection and servicing agent (hereinafter referred to as "the Servicer") and since borrowers (forming part of Covered Pool) are not informed about the assignment, the Servicer, in normal course of business, will continue have interface with the borrower as if the Servicer is the owner of the Covered Pool. The collection made by the Servicer from the Covered Pool in month "M" shall be deposited in Collection & Payment Account (hereinafter referred as "the CPA") of the SPV on a pre-agreed date in month M+1.
7. Cash waterfall: The funds lying in the CPA will be used by the SPV either to repay the Contribution or early repayment of the NCD as detailed hereinafter and following sequence of event may happen covered in the points below-:

   a) *Prior to occurrence of EOD:*
      i. The SPV will utilize funds lying in the CPA to pay down the Contribution of the Company.
      ii. The issuer shall make additional Contribution to enable the SPV to acquire additional property and gold loan assets from DFL (hereinafter referred to as "Incremental Covered Pool").
      iii. In case DFL is not able to assign Incremental Covered Pool, the funds lying in the CPA shall be retained with the SPV. The funds so available in the CPA shall be considered for calculating the security cover.
      iv. The Incremental Covered Pool shall conform to pre-defined eligibility criteria with PAR <90 days
      v. The Covered Pool (including Incremental Covered Pool) shall provide security cover of at 1.25 times of the outstanding under NCD (including accrued but unpaid interest).

   b) *After occurrence of EOD:*
      i. The SPV will utilize funds lying in the CPA to make early/part redemption of the NCD.
      ii. The SPV shall not make any payment towards Contribution of the Company and outstanding amount of the Contribution shall be repayable by the SPV to the Company only after the final maturity date as per terms of the Issue.
      iii. It is clarified that the Issuer will continue to be liable to pay unpaid amount of NCD and maintain Covered Pool as per terms of the Issue.

   The dues under NCD are supported by the following:

      i. DFL's internal accrual (rated CARE BBB / Stable) which is primary obligor
      ii. An irrevocable and unconditional guarantee from the SPV. The guarantee is secured on first ranking and exclusive charge over Covered Pool. The guarantee can be invoked on occurrence of EOD Event to utilize funds lying in the CPA to (part) repay NCD without changing the due date of repayment of principal and interest
      iii. Cash collateral of 7.0% of the issuance amount in the form of FD
      iv. Unconditional and Irrevocable Guarantee by the Wilson Holdings
      v. Charge over receivables under the Contribution made by the Company to the SPV

Other Salient Features of the Transaction

a) Coupon Rate: The NCD are in nature of MLD (Market Linked Debenture) where principal is protected but interest payment depends on performance of agreed market index. 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 11.39% per annum compounded monthly (12.00% XIRR). At any time prior to maturity or EOD, the interest rate shall be considered as at 12% XIRR for the purpose of calculating accrued interest or for the purposes of determining the pool cover.

b) Bullet payment: The principal and interest on the NCD are due for payment on Final Legal Maturity Date.
c) Accelerated Redemption Event: In the further assignment of receivables in invalidated in the opinion of the NCD holders (backed by a legal opinion) due to change in regulations, it shall be considered to be an "Accelerated Redemption Event" and investors will have right to demand repayment of total outstanding amount. A failure of the Company to repay all outstanding amounts within 30 (Thirty) calendar days from the date of occurrence of the Accelerated Redemption Event, shall lead to the occurrence of an Event of Default.
d) Subordination: The claims of the Company in respect of the Contribution shall be subordinated to the claims of the Debenture Trustee/Debenture Holder. Any amounts paid by the SPV towards meeting its payment obligations under the guarantee given on NCD shall be set off against the repayment of Contribution payable by the SPV to the Company.
e) On or prior to the Deemed Date of Allotment, the SPV shall provide the guarantee in respect of the Debentures in consideration of (a) the Debentures being subscribed and (ii) the Contribution made available by the Company to SPV towards purchase of Covered Pool.

Key Rating Strengths:

1. The dues under NCD are supported by the following:
   a. DFL's internal accrual (rated CARE BBB / Stable) which is primary obligor
   b. An irrevocable and unconditional guarantee from the SPV. The guarantee is secured on first ranking and exclusive charge over Covered Pool. The guarantee can be invoked on occurrence of EOD Event to utilize funds lying in the CPA to (part) repay NCD without changing the due date of repayment of principal and interest
   c. Cash collateral of 7.0% of the issuance amount in the form of FD
   d. Unconditional and Irrevocable Guarantee by the Wilson Holdings
   e. Charge over receivables under the Contribution made by the Company to the SPV
2. Sound legal structure of the transaction;
3. Underwriting and collection strategies of DFL;
4. The vintage and performance of DFL's Secured LAP and Gold Loan portfolio

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 Secured LAP and Gold Loan portfolios

Liquidity Position - Adequate

The inherent liquidity in the structure is adequate given the support available to the NCD holders. The support available to the NCD holder include DFL's internal accruals, Security Pool with 1.25x cover along with a cash collateral of 7% of issued amount.

Liquidity position of DFL as on June 30, 2021 has remained adequate. The company had cash/FD balances of Rs. 80.19 crore and liquid investments of around Rs.32.95 crore as against debt obligations of Rs.7.68 crore for next 3 months. In addition, it has undrawn bank lines of Rs.40 crore from various PSU and private bank lenders. The company has sufficient liquidity with them to repay debt obligations for one year as well i.e. Rs.32.48 crore.

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 Ratings

Validity of the Provisional Rating:
The provisional rating shall be converted into a final rating after receipt of the above-mentioned transaction documents duly executed/ completion of the above-mentioned steps within 90 days from the date of issuance of the instrument. An extension of 90 days may be granted on a case-to-case basis in line with CARE's Policy on Assignment of Provisional Ratings.

Risks associated with provisional nature of credit rating:
When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CARE Ratings, the final rating is assigned by CARE Ratings. In absence of receipt of documents/ completion of steps or where such documents deviate significantly from that considered by CARE Ratings, the provisional rating will be reviewed in line with the Policy on Assignment of Provisional Ratings.

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)	FY20 (A)	FY21 (Prov.)
Total income	19.29	24.42
PAT	4.10	0.68
CAR (%)	64.21	83.20
Total Assets	48.50	186.37
ROTA (%)	8.02	0.59

A- Audited; Prov.: 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 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 Facility	LT	250 (enhanced from 150)	CARE BBB; Stable	1)CARE BBB; Stable (17-May-21)	-	-	-
2.	Non-Convertible Debenture	LT	50	CARE BBB; Stable	1)CARE BBB; Stable (4-Jun-21)	-	-	-
3.	Principal Protected Market Linked Debentures (PP-MLD)	LT	15	CARE PP-MLD A (CE); Stable	1)Provisional CARE PP-MLD A (CE); Stable (3-Jun-21) 2)CARE PP-MLD A (CE); Stable (17-Jun-2021)	-	-	-
4.	Principal Protected Market Linked Debentures (PP-MLD)	LT	15	Provisional CARE PP-MLD BBB; Stable	-	-	-	-

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

Financial Covenant

1. Minimum capital ratio of Tier I Capital and Tier II Capital to aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items shall not be less than 20 % (Twenty per cent) or as per the regulatory minimum prescribed by the Reserve Bank of India under the NBFC Master Directions, whichever is higher.
2. Gross NPA shall not exceed [7]% of assets under Management
3. Net NPA shall not exceed [5]% of assets under Management

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

Sr. No	Name of Instrument	Complexity Level
1	Principal Protected Market Linked Debentures (PP-MLD)	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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