

## Dvara Kshetriya Gramin Financial Services Private Limited

January 07, 2021

### Rating

Facilities / Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	287.90 (Increased from 236.57)	<b>CARE BBB; Stable</b> (Triple B; Outlook: Stable)	Reaffirmed
Long-term/Short-term Bank Facilities (Proposed)	14.10 (Reduced from 65.43)	<b>CARE BBB; Stable / CARE A3+</b> (Triple B; Outlook: Stable / A Three Plus)	Reaffirmed
<b>Total Facilities</b>	<b>302.00</b> <b>(Rs. Three hundred two crore only)</b>		
Non-Convertible Debenture-II	20.00	<b>CARE BBB; Stable</b> (Triple B; Outlook: Stable)	Reaffirmed
Non-Convertible Debenture-III	50.00	<b>CARE BBB; Stable</b> (Triple B; Outlook: Stable)	Reaffirmed
<b>Total Instruments</b>	<b>70.00</b> <b>(Rs. Seventy crore only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and debt instruments of Dvara Kshetriya Gramin Financial Services Pvt. Ltd. (Dvara KGFS) continue to factor in the experience of senior management team, commensurate loan appraisal, risk management & MIS System, comfortable capital adequacy and adequate liquidity profile. The ratings are, however, constrained by geographical concentration of loan portfolio, product concentration, weak profitability levels, moderate resource profile, moderate asset quality and inherent risks associated with its customer segment including sociopolitical intervention risk and regulatory risk.

#### Rating Sensitivities

*Positive Factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:*

- Improvement in the scale of operations and profitability on a sustained basis
- Sustained improvement in geographical concentration and product concentration

*Negative Factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:*

- Deterioration in Asset Quality with GNPA of above 6% on a sustained basis along with significant deterioration in capital adequacy levels
- Further moderation in profitability parameters

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Experienced management team and part of the Dvara group**

Dvara KGFS is promoted by Dvara Trust (Formerly IFMR Trust) and the board consists of representatives from holding companies. The board & senior management Team of Dvara KGFS have significant experience in NBFC Sector & Rural Banking. Mr Joby C O, CEO of the company has more than 17 years of experience in Indian Microfinance Industry, Mr LVLN Murty, Deputy CEO, has more than two decades of diverse experience and Mr Vijayakumar G, CFO of Dvara KGFS, has more than two decades of experience in various financial institution sectors. The Dvara group provides support for the information technology through Dvara Solutions.

##### **Well-established IT and presence of risk management systems**

Dvara KGFS has well-established structure to monitor the operations at different levels. It has a defined credit appraisal, collection and monitoring system and has also induced credit discipline amongst the borrowers through regular training programs. Dvara KGFS predominantly operates under the JLG lending model. Dvara KGFS also access reports regularly from High Mark to check the eligibility of the individual. The company does a two-level appraisal for JLG loans; the first levels appraisal is done internally and second appraisal is done by third party. For Loans raised for Business Correspondent (BC), second appraisal is done by BC. Dvara KGFS has also formed risk function to take care of enterprise wide risk and credit function to take care of credit function in micro enterprise loans. Furthermore, Dvara KGFS had appointed head of internal audit wherein detailed, surprise and short audits are carried out to implement strict internal control systems. The internal audit team carries out risk scoring of branches based on a defined set of parameters covering different functional areas to

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

assess the performance of the branch. All the branches are equipped with biometric recognition systems, which act as authorization for the transactions. The KGFS model leverages on the robust IT systems through the use of Core Banking System (CBS) and Customer Management System (CMS), which operate in a real-time basis. Such systems enable the company to monitor the portfolio performance on a real-time basis. The company has also formed an in-house IT and data analytics team headed by Chief Technology Officer. The company has also enabled online payment system for the repayment of customers during the moratorium period.

#### ***Business model of KGFS***

Dvara KGFS currently has nine KGFS (Hub). Each of the KGFS has a network of brick and mortar branches which act as the front end-distribution entities in their locality. This helps the KGFS to achieve the primary goal of being a local financial institution offering financial products and services in a focused geography. The core of the KGFS model consists of the village level branch which serves as a customer touch point, where the origination happens. These branches are fully supported by the Head Office (HO) through a series of hubs. Each branch covers a radius of 5-25 km depending on the terrain. Separate credit team is in place and credit appraisal will be done by the credit team at KGFS hubs for non-JLG products.

Dvara KGFS also offers third-party wealth management services like systematic gold investment plan, Insurance and foreign inward remittances. Besides this, Dvara KGFS also acts as a Business Correspondent for Axis bank, MAS Financial Services and ESAF Small Finance Bank. Recently, Dvara KGFS has become Aadhaar-enabled payments partner by RBL Bank to enable cash withdrawal and balance enquiry for the customers.

#### ***Comfortable capitalization levels***

Equity infusion of Rs.127 crore during FY20 (refers to the period April 1 to March 31) by Dvara Trust, Leapfrog Financial Inclusion India (II) Ltd, Stakeboat Capital Fund-I and Nordic Microfinance Initiative has resulted improvement in Capitalisation levels. CAR and Tier I CAR improved to 32.78% and 30.18% as on March 31, 2020 from 24.02% and 1.22% as on March 31, 2019. Overall gearing and adjusted gearing (including managed book) as on March 31, 2020 stood at 2.95% and 3.53% as against 3.91% and 4.25% as on March 31, 2019. As on September 30, 2020, CAR and Tier I CAR stood at 30.30% and 28.10%, respectively.

#### ***Improvement in the scale of operations***

Loan portfolio has grown 32% during FY20 and as on March 31, 2020, it stood at Rs.832 crore as against Rs.629 crore as on March 31, 2019, supported by growth in disbursement. Dvara KGFS also has managed portfolio through Business correspondence (BC) and Direct assignment. Overall AUM improved to Rs.983 crore as on March 31, 2020, from Rs.680 crore as on March 31, 2019.

With the lockdown and slower disbursement during H1FY21 (refers to the period April 01 to September 30), Loan portfolio and AUM de-grew during H1FY21 and stood at Rs.793 crore and Rs.931 crore, respectively.

#### ***Key Rating Weaknesses***

##### ***Subdued profitability during FY20 on account of higher provision***

During FY20, Dvara KGFS reported a profit of Rs.4 crore on a total income of Rs.209 crore as against a PAT of Rs.31 crore on a total income of Rs.162 crore during FY19.

Net Interest Margin (%) has slightly improved from 11.08% during FY19 to 11.16% during FY20 majorly due to the change in capital structure. Opex (to average total assets) has increased to 9.06% during FY20 from 8.17% during FY19 majorly because of the acquisition of Varam Capital and the branch expansion done during FY20. PPOP increased from Rs.22 crore in FY19 to Rs.28 crore in FY20. Credit Cost has increased from 0.87% during FY19 to 2.48% during FY20 mainly because of the addition in Stage III assets during FY20 and additional provision (Rs.8.37 crore) because of the expected Covid-19 impact. With the increase in Credit Cost and Opex, ROTA moderated to 0.42% during FY20 from 4.33% during FY19. On pre-tax basis, the company reported ROTA of 0.59% in FY20 against 2.26% in FY19.

It is to be noted that during FY19, Dvara KGFS had a tax write-back on account of accumulated losses in the books of IFMR Rural Channels and Services Private Limited (IRCS) which was amalgamated.

During H1FY21, Dvara KGFS reported a profit of Rs.6 crore on a total income of Rs.111 crore as against a PAT of Rs.2 crore on a total income of Rs.97 crore during H1FY20. ROTA during H1FY21 stood at 1.10%.

#### ***Moderate resource profile***

The funding profile of Dvara KGFS was skewed towards borrowings from Financial Institutions (including TL, NCD, Sub-debt & PLI) in the past (70.63% as on March 31, 2017) and it improved over the years and stood at 42.68% as on September 30, 2020. Share of borrowings from the banking system (PSB, PVB, SFB) has improved from 31.16% as on March 31, 2019 to 47.25% as on March 31, 2020, and with the issuance of PCG 2.0, it further improved to 49.09% as on September 30, 2020. The share of borrowings through NCD & Sub-debt (except PCG 2.0) stood at 13.11% as on September 30, 2020.

**Geographical concentration of loan portfolio**

As on September 30, 2020, Dvara KGFS had presence in 51 districts spanning across 6 states through 306 branches and 1,929 employees. Dvara KGFS has started its operation in Jharkhand during FY20, and with the acquisition of Varam Capital private Limited (VCPL), the company entered into Chhattisgarh. Dvara KGFS has taken continuous efforts to improve the top state concentration and share of Tamil Nadu has improved from 90% as on March 31, 2019 to 76% as on March 31, 2020. However, the share of top three states continue to remain higher and stood at 94% as on March 31, 2020 as against 98% as on March 31, 2019.

**Product concentration**

Product profile of Dvara KGFS consists of JLG loan, Micro Enterprise Loan, Jewel Loan, Personal loan, Crop loan and Consumer durables loan with a ROI of upto 28%. Apart from Jewel loan, all other products were unsecured. As on March 31, 2020, JLG Loans constituted 92% of the loan portfolio as against 94% as on March 31, 2019. The company has taken initiatives to diversify the earnings profile with increase in share of Micro Enterprise loans (MEL) during FY20.

Dvara KGFS also offers third-party wealth management services like systematic gold investment plan, insurance and foreign inward remittances through its branches.

**Moderate asset quality**

Dvara KGFS transitioned from IGAAP to Ind-As during FY20 and Gross and Net stage III Assets as on March 31, 2020, stood at 3.18% and 1.12% as against 2.45% and 1.37% as on March 31, 2019. With the slippage of 2.53% (PY: 1.30%) during FY20, stage III Provision coverage of 66.16% (PY: 45.35%) and Covid-19-related provision, credit cost increased to 2.48% during FY20 from 0.87% during FY19.

With extension of moratorium to its customers during March 2020, 0+ and 90+ (On AUM basis) improved to 3.50% and 2.39% as on March 31, 2020 from 7.77% and 2.62% as on March 31, 2019. However, post the moratorium, 0+ has increased to 21.43% as on September 30, 2020.

Gross and Net Stage III Assets (On AUM Basis) as on September 30, 2020, stood at 2.56% and 0.50% as on September 30, 2020 as against 2.66% and 0.69% as on March 31, 2020, respectively.

The collections post moratorium remained moderate with monthly collection efficiency (Current month Collection / current month Demand) of 82% in September 2020, 76% in October 2020 and 73% in November 2020. With collection efficiency remaining lower, 0+ DPD, 30+ DPD and 60+ DPD (On AUM Basis) increased to 25.57%, 15.67% and 9.31% as on November 30, 2020, respectively, and remains key monitorable.

**Industry Outlook and Prospects**

The quarter April to June 2020 has been unprecedented both for microfinance lending institutions and microfinance borrowers. With lockdown impacting livelihood of clients, MFIs provided moratorium to clients as per RBI guidelines. However, the moratorium was not extended to MFIs by all lenders, which caused double squeeze. Policy support in the form of TLTRO and Special Liquidity Facility helped MFIs overcome the difficult period; small and medium MFIs bore the brunt of liquidity challenge. The period demonstrated the resilience of the sector and its ability to adapt to changing situation by way of remote back-end operations, increased use of digital methods for spreading client awareness on COVID protocols and moratorium as well as repayments. Green shoots are evident in the sector as clients seek to start credit cycle to rebuild their livelihoods and funders and investors maintaining their support. With translation of policy intent to actual liquidity flow to even small and medium MFIs, it is hoped that by the year end, the repayment and disbursement cycle will inch towards pre COVID times.

**Impact of Covid-19**

Dvara KGFS has requested moratorium from all of its lenders as per the RBI circular, most of them have accepted for the same during moratorium 1.0 and few accepted during moratorium 2.0. During the moratorium period from March 2020 to August 2020, the company has provided moratorium to all of its customers and customers can opt-out. Covid-19-related provision stood at Rs.8.37 crore as on March 31, 2020 and Rs.12.45 crore as on September 30, 2020. The collection efficiency of Dvara KGFS has improved from 1.65% during April 2020 to 72.72% during November 2020.

Prevailing market conditions on account of Covid-19 are expected to have an impact on the asset quality and profitability going forward.

**Liquidity: Adequate**

Liquidity remains adequate with no cumulative ALM mismatches in any of the time brackets as on September 30, 2020, and the company has contractual obligations of Rs.131 crore and Rs.108 crore (Principal alone) including capital market borrowings in Q3FY21 and Q4FY21. With majority of the portfolio composition being JLG loans with tenure of upto 24 months and the borrowings remaining long term, ALM looks adequate. Cash & Bank balances as on September 30, 2020,

stood at Rs.217 crore. With the business correspondence sanctioned lines and Rs.55 crore free assets available for securitisation as on September 30, 2020, the company has adequate liquidity.

**Analytical approach:** Standalone

**Applicable Criteria**

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

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

[Financial Ratios-Financial Sector](#)

[CARE's Rating Methodology for Non-Banking Finance Companies \(NBFCs\)](#)

[Criteria for Short Term Instruments](#)

**About the Company**

Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS) is a non-deposit taking NBFC engaged in providing financial services in remote areas. The services are provided through a network of branches ensuring that every individual and enterprise within a 5 - 25 km radius of his/her residence/place of business has access to financial services. The company is primarily engaged in lending loans through JLG model. Apart from JLG loans, the company also provides jewel loans, MEL loans, consumer durable loans, etc., and liability products including gold investment plan, various insurance products and foreign inward remittances.

Dvara KGFS had entered into a Business Transfer Agreement (slump sale agreement) with Varam Capital Private Limited effecting April 01, 2019. Dvara KGFS has presence in six states, i.e., Karnataka, Odisha, Tamil Nadu, Uttarakhand, Chhattisgarh and Jharkhand through nine KGFS (Pudhuaaru, Thenpennaiaaru, Madurai and Chennai in Tamil Nadu; Keonjhar in Odisha, Sahastradhara in Uttarakhand & Mysuru in Karnataka, Chhattisgarh and Jharkhand) and 306 branches as on September 30, 2020.

As on October 19, 2020, Dvara Trust holds 32.18%, Accion Africa-Asia Investment Company holds 21.76%, Leapfrog Financial Inclusion India (II) Ltd. holds 23.08%, Stakeboat Capital Fund - 1 holds 6.05% and Nordic Microfinance Initiative holds 16.93%.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total Operating Income	162	209
PAT	31	4
Interest Coverage (Times)	1.20	1.05
Total Assets	755	1,063
Net NPA/stage III (%)	1.37	1.12
ROTA (%)	4.33	0.42

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

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

**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-Term Loan	-	-	-	May 2024	287.90	CARE BBB; Stable
Fund-based-LT/ST	-	-	-	-	14.10	CARE BBB; Stable / CARE A3+
Debentures-Non Convertible Debentures - II	INE179P08033	May 30, 2019	13.713%	May 30, 2024	20.00	CARE BBB; Stable
Debentures-Non Convertible Debentures - III	INE179P07118	Dec 01, 2019	13.50%	Nov 30, 2022	0.34	CARE BBB; Stable
	-	Dec 01, 2019	13.50%	Nov 30, 2022	1.01	
	INE179P07126	Jan 01, 2020	13.50%	Dec 31, 2022	0.20	
	-	Jan 01, 2020	13.50%	Dec 31, 2022	2.27	
	-	Feb 25, 2020	13.50%	Feb 25, 2022	0.20	
	INE179P07134	Aug 19, 2020	10.90%	Feb 18, 2022	25.00	
	INE179P07142	Sep 21, 2020	10.90%	Mar 21, 2022	20.00	
	Proposed	-	-	-	0.98	

**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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	287.90	CARE BBB; Stable	1)CARE BBB; Stable (26-May-20)	1)CARE BBB; Positive (04-Oct-19)	1)CARE BBB; Stable (05-Oct-18)	1)CARE BBB; Stable (22-Jan-18)
2.	Fund-based-LT/ST	LT/ST	14.10	CARE BBB; Stable / CARE A3+	1)CARE BBB; Stable / CARE A3+ (26-May-20)	1)CARE BBB; Positive / CARE A3+ (04-Oct-19)	1)CARE BBB; Stable / CARE A3+ (05-Oct-18)	1)CARE BBB; Stable / CARE A3 (22-Jan-18)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (04-Oct-19)	1)CARE BBB; Stable (28-Nov-18)	-
4.	Debentures-Non Convertible Debentures	LT	20.00	CARE BBB; Stable	1)CARE BBB; Stable (26-May-20)	1)CARE BBB; Positive (04-Oct-19) 2)CARE BBB; Stable (03-Jun-19)	-	-
5.	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB; Stable	1)CARE BBB; Stable (26-May-20)	1)CARE BBB; Positive (06-Nov-19)	-	-

**Annexure-3: 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-Term Loan	Simple
3.	Fund-based-LT/ST	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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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