

Dhanvarsha Finvest Limited

June 13, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Market Linked Debentures	15.00	CARE PP-MLD A (CE); Stable	Reaffirmed
Total Long-Term Instruments	15.00 (Rs. Fifteen crore only)		

Details of instruments/facilities in Annexure-1

Unsupported Rating ²	CARE BBB (Triple B)
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Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

CARE Ratings has reaffirmed a rating of 'CARE PP-MLD A (CE); Stable' [Single A (Credit Enhancement); Outlook: Stable] to the Principal Protected Market Linked Debentures ("PP-MLD"), issued by Dhanvarsha Finvest Limited (DFL), covered with the security pool of gold loan receivables assigned to by Wint Gold CB - 03.

The PP-MLD is structured as a covered bond that are on-balance sheet liabilities of the Issuer like a normal bond. In addition, the Issuer has identified a pool of security ("Covered Pool") which is made bankruptcy remote from the Issuer. This Covered Pool is evaluated based on the transaction structure to evaluate the rating of the Covered Pool. The transaction structure has "Trigger Events" which provide for early repayment of PP-MLD, before the PP-MLD is due for payment, out of collections from Covered Pool.

RBI, on September 24, 2021, has placed restriction on transfer of loans by specifying who can be transferee of a loan. While the SPV is not an eligible transferee, CARE believes that since this transaction was concluded before September 24, 2021 and RBI directions are not specifically retrospective, transfer of loan as contemplated in this transaction will be feasible. The investors may seek necessary legal advice.

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 DFL.
2. Non-adherence to the key transaction terms envisaged at the time of the rating.

Detailed description of the key rating drivers

Transaction Structure:

Dhanvarsha Finvest Limited (DFL; Issuer and Servicer in this transaction) will issue Principal Protected Market Linked Debentures (PP-MLD). The PP-MLD will be secured by way of an irrevocable and unconditional guarantee from the SPV backed by first and exclusive hypothecation of gold loan receivables to the extent of 1.25x cover held by the SPV and Cash Collateral of 7% of the Issue Size in the form of fixed deposit. Entire principal and interest on MLDs are promised to the MLD-holders on the Final Legal Maturity (i.e., on expiry of 24 months from deemed date of allotment). However, the MLD-holders are expected to receive principal repayments during amortisation period (i.e., post expiry of 15th months from MLD issuance or on occurrence of a Credit Event, whichever is earlier). Prior to amortisation period, no amount is proposed to be transferred to MLD-holders.

Until the start of amortisation period, the SPV will utilise cash flows realised from assigned gold loan receivables to pay down the contribution of the issuer and DFL shall on a monthly basis assign additional loans that meet the eligibility criteria to the Assignee such that the amounts outstanding under the loans constituting the Assets (which loans do not have any overdue for 90 days or more) shall not be less than 1.25x of the principal obligation and interest accrued thereon. On the expiry of 15th month from the deemed allotment date of the MLD, the Issuer has the option to exercise the call option on the MLDs and make bullet payment of principal and interest to the MLD-holders.

If Issuer fails to exercise the call option or fails to make the payment on the call option date or a Credit Event has happened (i.e., amortisation period starts), then

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

² As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).

- the Debenture Trustee shall require the SPV to stop making payment of Contribution to the Company and to use such amounts to make accelerated repayment of the MLD holders
- the Assignee shall as and when it collects/receives any monies in relation to the Assets pay such amounts to the Debenture Trustee within one Business Day therefrom towards accelerated repayment (during the amortisation period) of the Debentures
- the cashflows from the underlying cover pool will be utilised to repay the MLD-holders
- no further receivables will be acquired by the SPV and further Contribution shall be repayable by the Assignee to the Company one day after the final redemption date.
- Once the amortisation period starts, the priority in payouts will be the cumulative accrued interest component of MLD-holders followed by principal repayment

If the Servicer fails to deposit the collections pertaining to the Identified Receivables into the SPV Account within the agreed timelines (subject to grace period of 2 days for any non-payment due to administrative or technical difficulties). If such delay continues (i.e., funds collected by the Servicer are not deposited with SPV) and the alternate servicer is not appointed within the next 60 days, it shall be considered to be an Accelerated Redemption Event and MLD-holders will have right to demand repayment of total outstanding amount from the Issuer within 30 days.

The MLD Holders are supported by the following:

- DFL's internal accrual (Rated CARE BBB; Stable, for its long term debt obligation), which is primary obligor
- SPV guarantee - provided by Wint Gold CB - 03, a Special Purpose Vehicle (SPV) to which DFL will assign gold loan receivables with principal cover of 1.25 times the outstanding amount (including any accrued/uncrystallised interest); the SPV guarantee will be invoked on occurrence of any of the pre-defined credit events. The cash flows from the assigned receivables will be utilised (in case there is occurrence of credit event/Issuer fails to make payment on the call option day) exclusively for making payouts to the MLD-holders.
- Cash collateral in the form of FD that is maintained at 7.0% of the issuance amount.

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 11.61% (Equivalent to 12.25% XIRR). Coupon to MLD-holder will increase by 2% on occurrence of any credit event.

Detailed description of the key rating drivers

Key Rating Strengths:

1. Three level of protection to the Debentures holders.
 - a. DFL's internal accrual (Rated CARE BBB; Stable, for its long term debt obligation), which is primary obligor
 - b. SPV guarantee - provided by Wint Gold CB - 03, a Special Purpose Vehicle (SPV) to which DFL will assign gold loan receivables with principal cover of 1.25 times the outstanding amount (including any accrued/uncrystallised interest).
 - c. Cash collateral in the form of FD that is maintained at 7.0% of the issuance amount.
2. Sound legal structure of the transaction;
3. Underwriting and collection strategies of DFL;

Key Rating Weaknesses:

1. Low seasoning of gold loan portfolios

Liquidity: Adequate

The inherent liquidity in the structure is adequate given the support available to the MLD holders. The support available to the MLD holder include DFL's internal accruals, Security Pool with 1.25x cover, and Cash Collateral of 7.0% of the initial debenture issue amount. Also, the entire principal and interest is promised to the MLD holders only by the final maturity date (24 months from issue date).

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.

Key Rating Assumptions

The analysis for the purpose of rating is based on a scenario that the credit event will happen and the cashflows generated from Security Pool would be utilised to repay the debenture holders. CARE has applied the methodology for rating [Asset / Mortgage Backed Transactions](#) to analyse the Security Pool to assess whether the Cash Collateral is sufficient to cover shortfalls. Since the transaction is sensitive to credit quality of the underlying pool, CARE has analysed the performance of static pools provided by the Originator and overall portfolio performance of the Originator. Considering the borrower profile and nature of loan, pool characteristics and portfolio performance, CARE has taken the average peak shortfall at 6.0% - 7.0% of principal outstanding. The base case shortfalls were stressed along with other key factors such as the timing of shortfalls, the recovery assumptions and the time to recovery.

Analytical approach and Applicable Criteria

[Rating Outlook and Credit Watch](#)

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

[Criteria for Non-Banking Financial Companies](#)

[Financial ratios – Financial Sector](#)

[Securitisation ABS and MBS](#)

[Rating Credit Enhanced Debt](#)

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; P: Provisional

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
Loan-Long Term	INE615R07026	June 11, 2021	Linked to BSE SENSEX 30	Jun'23	15.00	CARE PP-MLD A (CE); Stable
Un Supported Rating	-	-	-	-	-	CARE BBB

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) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	450.00	CARE BBB; Stable	1)CARE BBB; Stable (03-Jun-22)	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 (03-Jun-22)	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)	-	-
5	Un Supported Rating	LT	0.00	CARE BBB				

*Long Term / Short Term

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

Credit Events for invocation of Trust guarantee are as follows:

- Any default on part of the Company to make payment of any amount that has become due and payable under the Transaction Documents.
- Non exercise of Call Option on the Initial Call Option Payment Date.
- PAR > 90 in the loans constituting the Asset is greater than 5% of the aggregate outstanding principal amounts of the loans constituting the Asset.
- Failure to comply with the "Maintenance of Security Cover" requirement as defined in Transaction Structure
- Rating of the Company is downgraded below BBB- by the Rating Agency.
- Rating of the instrument is downgraded below A (CE) by the Rating Agency.
- Any delay on part of the Company in crediting the amounts received/collected/recovered in relation to the loans constituting the Assets to the bank account of the Assignee within the stipulated timelines.
- Any breach of any Negative Covenants.
- Any breach of any Financial Covenants
- Cross default of the Issuer, Inability to Pay Debts/ Distress
- Failure to perform any obligations in relation to this transaction, including compliance with reporting obligations (as per Reporting Covenant Timeline)
- Material Adverse Effect on the Issuer
- Delisting of Debentures from stock exchange
- Misrepresentation by the Issuer
- Failure by the Issuer to meet standards with respect to management, governance, and data integrity, as may be required by the Debenture Trustee/Investor
- The Servicer is in default in relation to servicing obligations undertaken by it with respect to this transaction;

- Any expropriation, attachment, sequestration, distress or execution affects any assets of the Company which has a material adverse effect on their ability to comply with its payment obligations under the Debenture Documents;
- If one or more legal or governmental proceedings have been initiated against the Company or any claims are made against the Company, which in the opinion of the Debenture Trustee (acting on the instructions of the Majority Debenture Holders), may impair the Company's ability to perform its obligations undertaken in terms of the Debenture Documents or which has a Material Adverse Effect;
- Any change in regulation/guidelines that, in the opinion of the majority debenture holders, invalidates the subsequent assignment of security pool assets to the trust; however, for triggering such an event, a legal opinion from Legal Counsel shall be obtained (and shared with the Trustee) confirming the invalidation of assignment of the receivables.
- Failure to certify/confirm the non-occurrence of any Credit Events in the manner prescribed in the Transaction Documents.

Pool Selection Criteria:

Each loan constituting the Assets in the initial pool selection and subsequent replenishment of the pools, shall meet each of the eligibility criteria listed below.

- Each loan must be originated by the Company and must be a gold loan.
- Loans must be unencumbered (other than under the Transaction Documents) and not sold or assigned by the Company
- Loans must have been originated while complying with all the extant 'know your customer' norms specified by the RBI.
- Loans are current and not in overdue at the time of assignment and have not been terminated or prepaid.
- Loan must have maturity date atleast 1 month before the Final Maturity Date of the Instrument.
- Loans having original maturity of more than 12 months should not be more than 20% at any time during the tenure of the instrument.
- Maximum ticket size of Rs 10 lakh per borrower. In case of any loans with Ticket Size of more than Rs 10 lakhs, only Rs 10 lakhs will be counted for such loan in the security cover calculation
- Minimum disbursal IRR of the Loans must be 15 Percent
- Weighted average disbursal IRR of the loans should be more than 19 Percent
- Loan to value of the contracts should be less than or equal to 75%
- Individual Client concentration should not be more than 1%

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

Sr No	Name of instrument	Complexity level
1	Debentures-Market Linked Debentures	Highly Complex

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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