

Dhana Capital and Finance Limited

March 17, 2022

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Short-term Bank Facilities	6.00	CARE A4; ISSUER NOT COOPERATING* (A Four; ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Facilities	6.00 (Rs. Six crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has been seeking information from Dhana Capital and Finance Limited to monitor the rating(s) vide e-mail communications dated December 03, 2021; December 16, 2021; January 03, 2022; January 24, 2022; February 02, 2022; February 07, 2022; February 14, 2022, among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on Dhana Capital and Finance Limited's bank facilities will now be denoted as **CARE A4; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating takes into account small scale of operations and geographical concentration of loan portfolio having presence only in Chennai, exposure to relatively riskier borrower segment, weak asset quality parameters and concentrated resource profile. The rating draws strength from long track record of operations in lending business and experience of the promoters, fairly managed systems and process, adequate capitalisation and stable profitability.

Detailed description of the key rating drivers

At the time of last rating on March 30, 2021, the following were the rating strengths and weaknesses (updated for the information available from Registrar of Companies (FY21 (refers to the period April 01 to March 31) audited financials)):

Key Rating Weaknesses:

Weak Asset Quality

The company's asset quality indicators have started to deteriorate in FY19. GNPA and NNPA stood at 10.95% and 9.85% as on March 31, 2021 as against 10.77% and 9.84% as on March 31, 2020. The increase in NPA parameters is despite write-off of Rs.7.25 lakh (0.50% of loan portfolio) during FY21 as against 1.24 lakh (0.09% of loan portfolio) during FY20. It is to be noted that the restructured portfolio outstanding as on March 31, 2021 stood at Rs.1.82 crore which is 12.73% of the loan portfolio as on March 31, 2021.

Small scale of operations and regional concentration of portfolio

Despite having a track record of more than three decades, the company's size remained small with loan portfolio outstanding of Rs.14.29 crore as on March 31, 2021. The portfolio witnessed moderate growth over the years as the company was focusing on catering to its well-known customers. The ability of the company to improve its scale of operations while expanding in newer areas and acquiring new customers would be a key rating sensitivity.

Exposure to relatively riskier borrower segment

Dhana Capital is primarily lending to business finance needs of the unorganized MSME segment in the semi-urban areas which is characterized by marginal credit profile of the borrowers and are not serviced by the banking sector. Since this segment is highly susceptible to the impact of economic downturn and asset quality is a key monitorable.

Concentrated resource profile

Dhana Capital depends primarily on promoter funding in the form of capital and bank borrowings (OD) of Rs.6.00 crore. Initially the company was lending with its own funds to its customers, but as the loan portfolio grew, the company started to borrow from bank. The ability to company to improve resource profile by diversifying the source and reduce the cost of borrowings to support the incremental business remains key rating sensitivity.

Key Rating Strengths

Experienced promoters with long track record of operations

Dhana Capital was incorporated in 1985 having track record of more than 3 decades in lending business, with 100% stake owned by promoters. The top management and board is completely held by promoter's family members. Apart from Dhana Capital, the

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

*Issuer did not cooperate; Based on best available information

promoters are involved in various business ranging from chit funds, education institutions, petrol bunks, hotels, real estate, etc. Currently, Dhana Capital lends to known customers of the promoters whose contacts were developed over the years through various business transactions. The day to day operations are handled by Mr N R D Dhanapalan, Chairman and Managing director and Mr. N R D Prem Kumar, Executive Director.

Fairly managed systems and process

Dhana Capital lends to known customers of the promoters whose contacts were developed over the years through various business transactions and referrals from existing customers. The company executives visits the customer premises for due diligence and collect required documents. Based on their feedback, Chairman and Managing Director will approve the loan. 100% of the loans disbursements are done through bank accounts and collection is mostly done by cash. The company also collects through cheques from some of their customers.

Adequate Capitalisation with slight improvement during FY21 because of equity infusion of Rs.1.00 crore.

The company has raised equity of Rs.1.00 crore during FY21 and with the moderation in loan portfolio, CAR and Tier I CAR improved to 63.79% and 62.54% as on March 31, 2021 from 55.98% and 55.98% as on March 31, 2020. Overall Gearing improved to 0.52x as on March 31, 2021 from 0.69x as on March 31, 2020. The current capitalization levels are sufficient to fund the growth in the near term, however regular capital infusion is required in order to scale up the operations further and to meet any change in the regulatory requirement.

Moderate profitability with decline during FY21

During FY21, Dhana Capital has reported a PAT of Rs.0.08 crore on a total income of 2.93 crore as against a PAT of Rs.0.42 crore on a total income of Rs.3.43 crore during FY20.

With decline in yield on advances, NIM declined to 12.47% during FY21 from 15.88% during FY20. Opex has declined to 9.49% during FY21 from 12.11% during FY20. With the increase in NPA, restructuring and higher write-off, credit cost increased to 1.47% during FY21 from 0.25% during FY20. With the moderation in NIM and increase in credit cost, ROTA moderated to 0.48% during FY21 from 2.51% during FY20.

Going forward the company's ability to improve profitability while reducing the operating expenses and maintaining low credit costs will be key rating factors.

Analytical approach: Standalone

Applicable Criteria

[Policy on issuer Non-Cooperation](#)

[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 \(NBFCs\)](#)

About the Company

Dhana Capital and Finance Limited is a non-Banking finance company incorporated in the year 1985. The company is promoted by Mr. N.R. Dhanapalan who along with his family members own 100% Stake. The Company was initially incorporated as a Private Limited and later converted to Public Limited in 1996. Dhana Capital mainly lends to entrepreneurs in the small and medium enterprises (SME) segment, to meet their long-term/working capital requirements who has limited access to formal lending. The company lends in the ticket size range of Rs.1 - 20 lakhs with an interest rate of 18%-36%. As on March 31, 2021, the company has a loan book of Rs.14.29 crore.

The promoters are also involved in other business ranging from chit funds, education institutions, hospitality, petrol bunks, real estate, etc.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9mFY22 (Prov.)
Total operating income	3.43	2.93	NA
PAT	0.42	0.08	NA
Interest coverage (times)	1.65	1.26	NA
Total Assets	17.04	16.91	NA
Net NPA (%)	9.84	9.85	NA
ROTA (%)	2.51	0.48	NA

A: Audited; Prov.: Provisional;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Bank Lender Details: Please refer Annexure-3

Complexity level of various instruments: Please refer Annexure-4

Covenants of rated instrument / facility: Please refer Annexure-5

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 - ST-Bank Overdraft	-	-	-	-	6.00	CARE A4; ISSUER NOT COOPERATING*

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 - ST-Bank Overdraft	ST	6.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (30-Mar-21)	1)CARE A4 (03-Jan-20)	1)CARE A4+ (30-Jul-18)

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - ST-Bank Overdraft	Simple

Annexure-4: Detailed explanation of covenants of the rated instrument / facilities: NA**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 Limited 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:

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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