Dhanvarsha Finvest Limited

May 17, 2021

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	150 (Rs. One hundred and 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 limited portfolio vintage of the portfolio, moderate asset quality impacted due to Covid-19 pandemic 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 lead to positive rating action/ upgrade

- Substantial growth in loan book while maintaining asset quality and healthy capitalization
- Improvement in profitability on a sustained basis

Negative Factors: Factors that could lead to negative rating action/downgrade

- Deterioration in asset quality with GNPA increasing over 5% on a sustained basis.
- Increase in gearing beyond 4x

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 also stands 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 by 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 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 this fiscal.

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 and Chemist with average ticket size of

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

Rs.2.5 lakhs to Rs.3 lakhs. The personal loan is purely towards salaried customers only with average ticket size of Rs.1.7 lakhs. The company has consistently put efforts 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. The company also does lending through FLDG model as well where the partners bring in leads for DFL. The FLDG model is backed by 10% up-front cash guarantee in the form of fixed deposits. As on March 31, 2021, 20% of the loan book was through FLDG model. 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 purely on MSME lending through gold loans and small ticket business loans. The company wants to increase its gold loan business and going forward it may constitute 40%-50% of the total portfolio. The growth in the AUM along with seasoning of the book will 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 total assets NIM increased to 8.68% in FY20 from 7.60% in FY19.

For the 9 months ended December 2020, PAT stood at Rs.0.13 crore as against Rs.3.75 crore during 9MFY20. PAT declined on account of increase in total expense majorly due to 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 company being in its growth phase, the opex is expected to remain high which shall keep the profitability suppressed in the coming quarters.

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 talks with the lenders to raise another debt of Rs.35 crore. The company has sufficient liquidity with them to even 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 and at that point of time 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 was 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%. The total 90+dpd in absolute terms stands at Rs.5.83 crore of which Rs.4.41 crore is from the legacy LAP loans that were originated Pre-September 2018. Excluding these, 90+ dpd stands at Rs.1.43 crore i.e., 1.87% of the total AUM. During March 2021 Gross NPA stood at 3.14%. The stress on the asset quality is also due to Covid-19 induced stress.

Asset quality was impacted during FY21 majorly due to LAP and business loans. The Gross NPAs in the LAP books majorly consist 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.

However, the seasoning of the majority of the product segment is low and hence asset quality will be a key monitorable.

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. The company continues to focus only in Maharashtra because it believes that there is a lot of opportunity in this state.

Liquidity Profile: Adequate

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

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	-	-	-	-	150.00	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 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.	Long Term Bank Facilities	LT	150	CARE BBB; Stable	-	-	-	-

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

Sr. No	Name of Instrument	Complexity Level
1.	Bank Facilities	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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