# Dar Credit & Capital Limited

December 27, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 137.00<br>(Enhanced from 125.00) | CARE BBB-; Stable | Reaffirmed |
| Non-convertible debentures | 12.50 | CARE BBB-; Stable | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The reaffirmation of the ratings assigned to the long-term bank facilities / debentures of Dar Credit & Capital Limited (DCCL) continues to factor in experienced management team, long track record of operations, adequate liquidity profile, and adequate capitalisation levels.

The ratings are, however, constrained on account of the continued small scale of operations, high geographical concentration, and modest earnings profile. While the company has moderate asset quality metrics, it is exposed to the risks arising from an unsecured portfolio.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors – Factors that could lead to positive rating action/upgrade:**

- Sustained growth in scale of operations and improvement in profitability with return on total assets (ROTA) above 3.00% on a sustained basis.
- Diversified funding profile.

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

- Inability to raise resources for growth in the scale of operations.
- Significant decline in liquidity position.
- Deterioration in asset quality with gross non-performing assets (GNPA) (150+ dpd) above 3.00% on a sustained basis.
- Significant deterioration in its scale of operations with ROTA below 1% on a sustained basis.

## Analytical approach:

Standalone business profile of DCCL.

**Outlook:** Stable

The outlook is 'Stable' on account of CARE Ratings Limited's (CARE Ratings') expectation of consistent and profitable scale up of business.

## Detailed description of the key rating drivers:

## Key strengths

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

**Experienced management team with long track record of operations**

DCCL is jointly promoted and 100% held by the promoters, Ramesh Kumar Vijay and Rajkumar Vijay (both in their personal capacity & families). The operations of the company are jointly led by Ramesh Kumar Vijay (Chairman) and his brother Rajkumar Vijay (Whole-time Director). Ramesh Kumar Vijay, a C.A. and C.S. by qualification, has overall experience of around four decades, while Rajkumar Vijay, an M.B.A. (Finance) by qualification, has overall experience of over three decades. With a view to separate ownership and management, the company recently appointed Jayanta Banik as CEO. He is a CA by qualification, having more than three decades of experience in the corporates and microfinance institution (MFI) sector, manufacturing, construction, and service sector multi-national companies (MNCs).

DCCL's head office is situated in Kolkata, while the administrative office is located at Jaipur. The company has a long track record of over 25 years in the industry. As on September 30, 2023, DCCL has presence in 25 locations across Rajasthan, Gujarat, West Bengal, Madhya Pradesh and Chhattisgarh. DCCL's loan portfolio is moderately diversified with personal loan to individuals (mainly class IV municipal employees) comprising 42.43%, microfinance loans – 40%, unsecured small and medium-sized enterprises (SME) loans – 5.30%, and B2B E-Commerce loans– 12.67% of total assets under management (AUM) as on September 30, 2023.

**Adequate capitalisation levels**

The company has adequate capitalisation level with capital adequacy ratio (CAR) of 78.02% as on March 31, 2023 (March 31, 2022: 53.64%), with Tier-I CAR being 64.14% (March 31, 2022: 44.18%) and further improved to 79.03% with Tier-I CAR at 64.81% as on September 30, 2023. DCCL's gearing increased to 1.93x as on March 31, 2023, as compared with 1.75x as on March 31, 2022, and further to 2.16x as on September 30, 2023, owing to the ₹20 crore funds borrowed from Hiveloop Capital Pvt Ltd for further lending to Hiveloop's customers. While the company's disbursals and fresh borrowings have increased during H1FY24 vis-à-vis FY22 levels, management intends to cap its gearing at 4x on a steady state basis.

DCCL's resource profile is diversified with liabilities raised in the form of NCD's (12% of borrowings), term loans (84% of borrowings), and securitisation liability (4% of borrowings) as on September 30, 2023. DCCL is gradually diversifying its resources/ lenders base and currently enjoys bank facilities including term loans and cash credit from four banks and 15 financial institutions (including non-banking finance companies [NBFCs]). Going ahead, the company has initiated business correspondence agreements with SIDBI and ESAF.

While the company has ample headroom for gearing, going forward, CARE Ratings will continue to monitor the ability of the company to raise fresh resources and mobilising them for profitably growing its business operations.

## Key weaknesses

**Small scale of operations**

DCCL was incorporated in 1994 and commenced its operations in 1998. Despite long track record of operations, DCCL's loan portfolio stood at ₹126.36 crore as on March 31, 2023, as against ₹113.30 crore as on March 31, 2022, and further loan book increased to ₹157.87 crore as on September 30, 2023. While CARE Ratings takes cognisance of various institutional tie-ups by the company for augmenting both its AUM as well as it fee income, going forward, the ability of the company to profitably grow its scale of operations will be a key rating monitorable.

**Moderate asset quality metrics driven by 100% unsecured lending**

The asset quality of the company is exposed to the risks arising from unsecured loan portfolio as well as due to exposure to customers who have greater vulnerability to economic shocks. As on September 30, 2023, the company extends loans to clients who are mainly class-four employees in Municipalities (42% of loan book). Although these loans are completely unsecured in nature, the company has no losses in this product since they have tie-ups with Municipalities to deduct EMI from the salaries. While this arrangement provides some comfort in terms of collection, recoveries are sometimes delayed due to administrative and operational issues, thereby resulting in a rise in NPAs in the interim period. GNPA in personal loans to municipal employees segment as on September 30, 2023, stood at 0.91% vis-à-vis stood at 0.78% as on March 31, 2023 [P.Y.: 0.55%].

Furthermore, DCCL also disburses MFI loans (40% of loan book as on September 30, 2023), with major presence in east of India in general and West Bengal in particular. MFI loans are largely targeted towards small businesswomen entrepreneurs. GNPA number for MFI loans stood around 0.35% as on September 30, 2023, vis-à-vis 0.78% as on March 31, 2023 [PY.:1.19%]. The company also has a small portfolio of SME loans, which are largely disbursed towards existing, and promoter known small businesses, with no delinquency existing in this segment.

Overall GNPA and net NPA (NNPA) stood at 1.10% and 0.70%, respectively, as on March 31, 2023, as against 0.70% and 0.44%, respectively, as on March 31, 2022. As on September 30, 2023, recoveries have been made, which resulted in improvement of GNPA and NNPA to 0.54% and 0.35%, respectively.

CARE Ratings further notes that the ability of the company to diversify into secured asset classes while maintaining asset quality remains a key rating monitorable.

**Geographical concentration in loan portfolio**

DCCL has presence in the urban and semi-urban areas of West Bengal (comprising around 50% of loan portfolio outstanding as on September 30, 2023 (September 30, 2022: 41%), while Rajasthan and Madhya Pradesh stood at 29.69% and 19.18% (March 2023: 31% & 20.4%, March 2022: 41% & 24%; March 2021: 44% and 26%), respectively. The top three states constitute around 98.53% of the company's loan book.

Going ahead, a company's ability to enter into new geographies will remain key monitorable.

**Moderate earnings profile**

The company's disbursement has risen to ₹51.11 crore as on September 30, 2023, from ₹34.82 crore as on September 30, 2022, led by personal loans to individuals (13%), small business loans/MFI loans (44%), loans to small business (4%) and B2B E-commerce (47%). Along with higher disbursal, DCCL also increased its yields on personal loans to municipal employees to 24-26% (earlier 22-24%), which led to the improvement of net interest margin (NIM) to 7.03% as on March 31, 2023, from 6.90% as on March 31, 2022, and further improved to 7.24% as on September 30, 2023 [PY.: 6.56%]. The profit after tax (PAT) increased to ₹2.72 crore as on March 31, 2023, as against ₹2.56 crore as on March 31, 2022. Opex and ROTA remained range bound around 4.98% and 1.52%, respectively, as on March 31, 2023. Gearing moderated to 1.93x as on March 31, 2023, from 1.75x as on March 31, 2022.

Going ahead, the company's ability to maintain improved profitability will remain key monitorable.

**Liquidity:** Adequate

As on September 30, 2023, DCCL's liquidity remained adequate, with no negative cumulative mismatches in any of the time buckets. As on September 30, 2023, DCCL had free cash and cash equivalents of ₹33.14 crore as against its next 6 months debt obligation of ₹36.19 crore and loan receivables of ₹31.76 crore. Liquidity coverage stood at 112% for six months and 88% for 1-year as on September 30, 2023.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

## Applicable criteria

[Policy on default recognition](#)
[Financial Ratios - Financial Sector](#)
[Rating Outlook and Credit Watch](#)
[Non-Banking Financial Companies](#)

## About the company and industry

### Industry classification

| Macro-economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Financial services | Financial services | Finance | Non-banking financial company (NBFC) |

DCCL is a Jaipur-based small-sized (total assets as on September 30, 2023 – ₹260.39 crore) Reserve Bank of India (RBI)-registered non-deposit taking NBFC, engaged in the financing of unsecured loans to individuals and small enterprises. DCCL was incorporated in 1994 by Ramesh Kumar Vijay and Rajkumar Vijay as a closely-held public limited company and got the license to operate as an NBFC from RBI in November 1998.

DCCL's head office is situated in Kolkata while administrative office is located at Jaipur. As on September 30, 2022, it has presence in 23 locations across Rajasthan, Gujarat, West Bengal, Madhya Pradesh, Karnataka and Chhattisgarh. Among individuals, the company finances to government employees working with different regional municipal authorities as *safai karamchari*. DCCL also lends to self-employed and business class people among small enterprises. DCCL and online lending platform www.Udaan.com (owned by Hiveloop Technology Pvt Ltd. [HTPL]) are into agreement that DCCL will lend to HTPL's customers where HTPL is an anchor lender.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | H1FY24 (UA) |
|---|---|---|---|
| Total operating income | 25.17 | 25.53 | 15.23 |
| PAT | 2.56 | 2.72 | 1.58 |
| Total assets | 169.79 | 187.74 | 206.39 |
| Net NPA (%) | 0.44 | 0.70 | 0.35 |
| ROTA (%) | 1.46 | 1.52 | 1.61 |

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**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**: Annexure-4

**Lender details**: Annexure-5

**Annexure-1: Details of instruments/facilities**

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Debentures-Non-convertible debentures | INE04Q907058 | 11-Feb-2021 | 12% p.a. | 10 February 2024 | 3.20 | CARE BBB-; Stable |
| Debentures-Non-convertible debentures | INE04Q907074 | 12-Feb-2021 | 12% p.a. | 10 February 2024 | 2.00 | CARE BBB-; Stable |
| Debentures-Non-convertible debentures | INE04Q907066 | 12-Feb-2021 | 12.25% p.a. | 10 February 2026 | 4.55 | CARE BBB-; Stable |
| Debentures-Non-convertible debentures | INE04Q907082 | 12-Feb-2021 | 12.25% p.a. | 10 February 2026 | 2.75 | CARE BBB-; Stable |
| Fund-based - LT-Cash credit | | - | - | - | 2.00 | CARE BBB-; Stable |
| Fund-based - LT-Term loan | | - | - | 30-09-2027 | 135.00 | CARE BBB-; Stable |

**Annexure-2: Rating history for the last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | 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 |
| 1 | Fund-based - LT-Cash credit | LT | 2.00 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (02-Jan-23) | 1)CARE BBB-; Stable (04-Jan-22) | 1)CARE BBB-; Stable (31-Mar-21)<br><br>2)CARE BBB-; Stable (22-May-20) |
| 2 | Fund-based - LT-Term loan | LT | 135.00 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (02-Jan-23) | 1)CARE BBB-; Stable (04-Jan-22) | 1)CARE BBB-; Stable (31-Mar-21)<br><br>2)CARE BBB-; Stable (22-May-20) |
| 3 | Commercial paper-Commercial paper (Standalone) | ST | - | - | - | - | - | 1)Withdrawn (31-Dec-20)<br><br>2)CARE A3 (11-Sep-20) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | 3)CARE A3 (02-Sep-20) |
| 4 | Debentures-Non-convertible debentures | LT | 3.20 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (02-Jan-23) | 1)CARE BBB-; Stable (04-Jan-22) | 1)CARE BBB-; Stable (31-Mar-21)<br><br>2)CARE BBB-; Stable (31-Dec-20) |
| 5 | Debentures-Non-convertible debentures | LT | 2.00 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (02-Jan-23) | 1)CARE BBB-; Stable (04-Jan-22) | 1)CARE BBB-; Stable (31-Mar-21) |
| 6 | Debentures-Non-convertible debentures | LT | 4.55 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (02-Jan-23) | 1)CARE BBB-; Stable (04-Jan-22) | 1)CARE BBB-; Stable (31-Mar-21) |
| 7 | Debentures-Non-convertible debentures | LT | 2.75 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (02-Jan-23) | 1)CARE BBB-; Stable (04-Jan-22) | 1)CARE BBB-; Stable (31-Mar-21) |

*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of the various instruments rated**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Debentures-Non-convertible debentures | Simple |
| 2 | Fund-based - LT-Cash credit | Simple |
| 3 | Fund-based - LT-Term loan | Simple |

**Annexure-5: Lender details**

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| To view the lender wise details of bank facilities please click here |

**Note on the complexity levels of the rated instruments:** CARE Ratings 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.

## Contact us

| Media Contact | Analytical Contacts |
|---|---|
| Mradul Mishra<br>Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754 3596<br>E-mail: mradul.mishra@careedge.in<br><br>**Relationship Contact**<br><br>Pradeep Kumar V<br>Senior Director<br>**CARE Ratings Limited**<br>Phone: 91 44 2850 1001<br>E-mail: pradeep.kumar@careedge.in | Gaurav Dixit<br>Director<br>**CARE Ratings Limited**<br>Phone: 91-120-4452002<br>E-mail: gaurav.dixit@careedge.in<br><br>Geeta Chainani<br>Associate Director<br>**CARE Ratings Limited**<br>Phone: 912267543447<br>E-mail: Geeta.Chainani@careedge.in<br><br>Shivam Katkar<br>Rating Analyst<br>**CARE Ratings Limited**<br>E-mail: Shivam.Katkar@careedge.in |

**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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