

## Dhana Capital and Finance Limited

August 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Short-term bank facilities	6.00	CARE A4; ISSUER NOT COOPERATING*	Rating continues to remain under ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

\*Issuer did not cooperate; based on best available information.

### Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) had, vide its press release dated March 17, 2022, placed the rating of Dhana Capital and Finance Limited (Dhana Capital) under the 'issuer not cooperating' category as the company failed to provide information for monitoring of the rating. Dhana Capital continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls, and emails dated April 09, 2024; April 19, 2024; and April 29, 2024. In line with the extant Securities and Exchange Board of India (SEBI) guidelines, CARE Ratings has reviewed the rating on the basis of the best available information which, however, in CARE Ratings' opinion is not sufficient to arrive at a fair rating.

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

The rating assigned to the short-term bank facility of Dhana Capital and Finance Limited is constrained by weak asset quality, small scale of operations and regional concentration of portfolio, exposure to relatively riskier borrower segment and concentrated resource profile. However, the rating draws strength from experienced promoters with long track record of operations, fairly managed systems and process, adequate capitalisation and moderate profitability with improvement in FY23.

**Analytical approach:** Standalone

### Detailed description of key rating drivers:

At the time of last rating on May 25, 2023, the following were rating strengths and weaknesses (updated for the information available from Registrar of Companies (FY23 (refers to the period April 01 to March 31) audited financials):

#### Key weaknesses

##### Weak Asset Quality

Gross non-performing assets (GNPA) and net NPA (NNPA) stood at 21.38% and 19.69% as on March 31, 2023, as against 9.57% and 8.62% as on March 31, 2022. Overall GNPA stood at ₹3.31 crore as on March 31, 2023, as against ₹1.40 crore as on March 31, 2022.

##### 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 ₹15.12 crore as on March 31, 2023. The portfolio witnessed moderate growth over the years, as the company was focusing on catering to its well-known customers. The company's ability 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 unorganised MSME segment in semi-urban areas, which is characterised by marginal credit profile of 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications.

### Concentrated resource profile

Dhana Capital depends primarily on promoter funding in the form of capital and bank borrowings from one bank. Initially, the company was lending with its own funds to its customers, but as the loan portfolio grew, it started to borrow from the bank. The company's ability to improve resource profile by diversifying the source and reducing cost of borrowings to support incremental business remains a key rating sensitivity.

### Key strengths

#### Experienced promoters with long track record of operations

Dhana Capital was incorporated in 1985 having track record of more than three decades in the 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 promoters are involved in various business ranging from chit funds, education institutions, petrol bunks, hotels, and real estate, among others. Currently, Dhana Capital lends to known customers of promoters, whose contacts were developed through 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 promoters, whose contacts were developed over the years through business transactions and referrals from existing customers. The company executives visit 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

The company has raised equity of ₹0.45 crore in FY22. CAR and Tier-I CAR stood at 64.50% and 63.26% as on March 31, 2022, from 63.79% and 62.54% as on March 31, 2021. The company's overall gearing remained at 0.54x as on March 31, 2023, as against 0.52x as on March 31, 2022. Current capitalisation levels are sufficient to fund the growth in the near term, however, regular capital infusion is required to scale up the operations further and to meet any change in the regulatory requirements.

#### Moderate profitability with improvement in FY23

In FY23, Dhana Capital has reported a PAT of ₹0.22 crore on a total income of ₹2.59 crore as against a PAT of ₹0.10 crore on a total income of ₹2.51 crore in FY22. With decline in yield on advances, NIM declined to 9.15% in FY23 from 9.98% in FY22. Opex declined to 7.58% in FY23 from 8.06% in FY22. Other income increased from 0.17% in FY22 to 0.72% in FY23 on account of sale of fixed asset amounting to ₹0.10 crore. Credit cost improved to 0.50% in FY23 from 0.70% in FY22. Despite moderation in NIM, ROTA increased to 1.28% in FY23 from 0.73% in FY22, driven by improvements in other income and decline in credit cost.

### Applicable criteria

[Policy in respect of non-cooperation by issuers](#)

[Definition of Default](#)

[Financial Ratios - Financial Sector](#)

[Short Term Instruments](#)

[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)

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 ₹1-20 lakhs with an interest rate of 18%-36%. As on March 31, 2023, the company has a loan book of ₹15.12 crore. The promoters are also involved in other business ranging from chit funds, education institutions, hospitality, petrol bunks, and real estate, among others.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	2.51	2.59
PAT	0.10	0.22
Interest coverage (times)	1.18	1.29
Total Assets	17.57	18.49
Net NPA (%)	8.62	19.69
ROTA (%)	0.73	1.28

A: Audited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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
Fund-based - ST-Bank Overdraft	-	-	-	-	6.00	CARE A4; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; based on best available information.

#### Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - ST-Bank Overdraft	ST	6.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (25-May-23)	-	1)CARE A4; ISSUER NOT COOPERATING* (17-Mar-22)

\*Issuer did not cooperate; based on best available information.

ST: Short term

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

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

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - ST-Bank Overdraft	Simple

**Annexure-5: Lender details**

To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

### Contact us

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### About us:

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### Disclaimer:

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