

Dvara Kshetriya Gramin Financial Services Private Limited

December 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	292.00	CARE BBB+; Stable	Reaffirmed
Long-term / Short-term bank facilities	10.00	CARE BBB+; Stable / CARE A2	Reaffirmed
Subordinate debt - I	50.00	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures - III	0.98 (Reduced from 4.25)	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures - IV	70.00	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures - II	-	-	Withdrawn
Commercial paper	50.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities and debt instruments of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS) continue to factor in the long track record of operations, well-established Information Technology (IT) and presence of risk management systems, adequate capitalisation levels and improvement in the geographical concentration of the loan portfolio. Ratings also take note of the improvement in the scale of operations with increase in assets under management (AUM) from ₹1,770 crore as on March 31, 2023, to ₹2,251 crore as on March 31, 2024, and further to ₹2,385 crore as on September 30, 2024. However, ratings are constrained by the moderate profitability levels despite improvement in FY24, moderate asset quality with significant moderation in H1FY25, moderately concentrated resource profile, and inherent risks associated with its customer segment, including socio-political intervention risk and regulatory risk.

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to the non-convertible debenture (NCD) issue – II of Dvara KGFS with immediate effect, as the company has repaid the aforementioned NCD issue in full and there is no amount outstanding under the issue as on date.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors that could individually or collectively lead to positive rating action/upgrade:

- Improvement in the scale of operations and profitability on a sustained basis with return on total assets (ROTA) over 2.5%.
- Improvement in the borrowing costs, wherein the average costs of funds are less than 11% on a sustained basis.
- Further improvement in product diversification.
- Significant improvement in capitalisation.

Negative factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Deterioration in the capitalisation levels with gearing above 6x on a sustained basis.
- Moderation in the asset quality leading to sustained losses.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the likely continuation of stable credit profile.

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

Detailed description of key rating drivers:

Key strengths

Long track record of operations

Dvara KGFS was incorporated in August 2008 and has an established track record in carrying out lending activities. It is promoted by Dvara Trust, with the board consisting of representatives from the holding trust. The day-to-day operations are managed by the senior management team and are supervised by the board consisting of 10 directors, including two non-executive directors representing the promoter, four independent directors, three nominee directors, and the Managing Director. The board and senior management team of Dvara KGFS have significant experience in the non-banking financial company (NBFC) sector and rural banking. LVLN Murty, Managing Director & CEO of Dvara KGFS, has over two decades of diverse experience. CARE Ratings Limited (CARE Ratings) expects the founding promoter, Dvara Trust, to provide need-based financial support going forward as well.

Well-established IT and presence of risk management systems

Dvara KGFS has a well-established structure of monitoring operations at different levels. It has a defined credit appraisal, collection, and monitoring system and has also induced credit discipline among borrowers through regular training programmes. Dvara KGFS predominantly operates under the joint liability group (JLG) lending model. It also accesses reports regularly from High Mark to check the eligibility of individuals. For the own-book JLG loan portfolio, appraisal is carried out internally for loans raised for business correspondents (BC) in addition to internal appraisal, while second appraisal is carried out by the BC.

Dvara KGFS has also formed a risk function for taking care of enterprise-wide risk and credit functions for managing these functions in microenterprise loans. The internal audit team carries out risk scoring of branches based on a defined set of parameters covering different functional areas for assessing branch performance. All branches are equipped with biometric recognition systems, which act as authorisation for transactions. The KGFS model leverages robust IT systems using core financial solutions (CFS) and customer management system (CMS), which operate on a real-time basis. Such systems enable the company to monitor portfolio performance on a real-time basis. The company has also formed an in-house IT and data analytics team headed by the chief information officer. It has also enabled a host of digital payment options on its platform for enabling customers to pay EMIs digitally.

Business model of KGFS Dvara

KGFS has a network of brick-and-mortar branches, which act as the front-end distribution entities in their localities. This helps KGFS achieve the primary goal of being a local financial institution (FI) offering financial products and services in a focused geography. The core of the KGFS model consists of the village level branch, which serves as a customer touch point, where the origination happens. These branches are fully supported by the head office (HO) through a series of hubs. Each branch covers a radius of 5-25 km depending on the terrain. A separate credit team is in place and credit appraisal is carried out by the credit team at KGFS hubs for JLG and non-JLG products. Dvara KGFS also offers third-party insurance, domestic money transfers, and foreign inward remittances. Besides this, Dvara KGFS has BC partnerships with various financial institutions for which it acts as an originator. As part of its omnichannel customer management strategy, Dvara KGFS acts as a Aadhaar-enabled payments partner and one entity to enable cash withdrawals and balance enquiry for the customer. In FY24, the company has shifted its focus towards the Enterprise loan segment with a separate team for the product working under the CPO.

Adequate capitalisation levels with moderation in FY24 and H1FY25

The capital adequacy ratio (CAR) and Tier-I CAR moderated from 22.64% and 22.64%, respectively, as on March 31, 2023, to 19.42% and 17.22%, respectively, as on March 31, 2024, with growth in loan book. CAR improved to 21.72% as on September 30, 2024 owing to healthy internal accruals in H1FY25. Gearing stood at 5.13x as on March 31, 2024, against 5.53x as on March 31, 2023. CARE Ratings notes that the company's CCPS amounting to ₹35.84 crore was converted in FY24. The change in gearing in FY24 was considering conversion of CCPS. Adjusted gearing (Excluding CCPS as debt) stood at 4.85x as on March 31, 2023. Overall gearing stood at 5.48x as on September 30, 2024. Gearing (excluding cash) stood at 4.39x as on March 31, 2024, and 4.54x as on September 30, 2024.

Improvement in the scale of operations

The company's AUM increased 27% y-o-y from ₹1,770 crore as on March 31, 2023, to ₹2,251 crore as on March 31, 2024, and further to ₹2,385 crore as on September 30, 2024. The company disbursed ₹1,902 crore in FY24 against ₹1,624 crore in FY23. The AUM of JLG loans increased from ₹1,460 crore as on March 31, 2023, to ₹1,867 crore as on March 31, 2024, and ₹1,899

crore as on September 30, 2024. The number of branches also increased from 378 as on March 31, 2023, to 390 as on March 31, 2024, and to 420 as on September 30, 2024.

Improvement in geographical concentration of loan portfolio

As on March 31, 2024, Dvara KGFS had presence across 10 states (Tamil Nadu, Odisha, Karnataka, Chhattisgarh, Uttarakhand, Jharkhand, Bihar, Haryana, Uttar Pradesh, Punjab, and Andhra Pradesh) through 390 branches and 3374 employees (March 2023: 10 states, 378 branches, and 2,895 employees). Dvara KGFS has taken continuous efforts for improving the top state concentration and the share of Tamil Nadu has been declining continuously from 56% as on March 31, 2023 to 51% as on March 31, 2024, and 48% as on September 30, 2024. The share of the top three states also reduced from 78% of the AUM as on March 31, 2023, to 74% of the AUM as on March 31, 2024, and further reduced to 71% as on September 30, 2024, however, it continues to remain high.

The company's product profile consists of JLG loans, enterprise loans, jewel loans, personal loans, crop loans, and consumer durable loans with a rate of interest (RoI) of up to 29%. Apart from jewel loans and secured Enterprise loan, all other products are unsecured. As on March 31, 2024, JLG loans constituted 83% of the AUM (83% as on March 31, 2023) and stood at 80% as on September 30, 2024. The company's share of enterprise loan increased from 15% as on March 31, 2023, to 16% as on March 31, 2024, and further to 20% as on September 30, 2024.

Key weaknesses

Moderate resource profile

The borrowing profile of Dvara KGFS comprises term loans forming 52.8%, (PY: 66.8%), external commercial borrowings (ECBs; 19.2%, PY: 6.5%), and other debt instruments such as NCDs and sub debt forming 28% (PY: 23.1%) as on March 31, 2024. The proportion of borrowing in the form of term loan, ECB and other debt instruments stood at 37%, 34%, and 29%, respectively, on September 30, 2024. The increase in borrowing from ECB is majorly considering the lower borrowing cost associated with it.

The proportion of term loans from banks stood at 29% as on March 31, 2024 (PY: 27%) and 23% as on September 30, 2024. On the other hand, the proportion of term loan borrowing from NBFC's stood significantly lower at 12.0% of overall borrowings as on September 30, 2024, against 39.9% as on March 31, 2023. The company also raised funds from AIF and Foreign institutions which stood at 4% (PY: 0%) and 17% (PY: 6%) of the total borrowings, respectively, as on March 31, 2024, and 3% and 19%, respectively, as on September 30, 2024. The weighted average cost of debt stood at 13.0% as on March 31, 2024, and 12.8% as on September 30, 2024.

CARE Ratings also notes that the company has breached financial covenants (relating to asset quality and gearing) associated with debt facilities outstanding of ₹464 crore, out of which the company has received waivers for facilities outstanding of ₹19 crore and are in process to get waiver from other lenders. Going Forward, CARE Ratings expects continued lender support and does not anticipate requests for sizeable recall or accelerated repayments. Any deviation from the lender's current stance will be a critical factor for ongoing monitoring.

Profitability remained moderate

The company's net interest margin (NIM) moderated to 11.84% in FY24 from 12.42% in FY23. Other income increased significantly from 2.03% in FY23 to 4.73% in FY24. The increase in other income is majorly considering higher income from profit on sale of portfolio through assignment. Opex/ average assets witnessed decline from 9.17% in FY23 to 8.80% in FY24. Credit cost increased to 4.03% in FY24 against 3.82% in FY23. As a result of other higher income, despite moderation in NIM and increase in credit cost, ROTA increased to 2.34% in FY24 against 0.94% in FY23. In H1FY25, NIM moderated to 10.83%. As credit cost and Opex remained high at 3.82% and 8.37%, respectively, ROTA stood at 1.83%. Going forward, CARE Ratings expects profitability to moderate with increase in credit cost and stagnation in loan portfolio growth. The company's ability to contain credit costs will be a key monitorable.

Moderate asset quality, with significant decline in H1FY25

Asset quality improved in FY24 with gross non-performing asset (GNPA) and net NPA (NNPA) at 2.98% and 1.26%, respectively, as on March 31, 2024, against 4.03% and 2.38%, respectively, as on March 31, 2023. However, GNPA and NNPA witnessed significant increase in H1FY25 and stood at 4.76% and 1.92%, respectively, as on September 30, 2024. In similar lines, delinquency levels witnessed improvement in FY24 as 0+ and 90+ DPD improved from 4.8% and 2.7%, respectively, as on March 31, 2023, to 4.0% and 1.9% as on March 31, 2024. 0+ DPD and 90+ DPD moderated in H1FY25 and stood at 8.4% and 3.8%, respectively. The standard restructured portfolio outstanding stood at ₹0.68 crore as on March 31, 2024, against ₹16.45 crore as

on March 31, 2023, forming 0.04% of the portfolio outstanding. With the increase in delinquencies across industry, CARE Ratings expects the company's asset quality to moderate going forward.

Inherent risk associated with customer segment

Microfinance institution (MFI) and JLG lending is exposed to the inherent risk associated with unsecured lending and marginal profile of borrowers, exposing it to elevated asset quality issues. The credit view will continue factoring risks associated with unsecured lending, socio-political intervention, geographical concentration, and operational risks related to cash-based transactions. The company's ability to limit incremental slippage in the challenging macro environment conditions and improve asset quality will be critical to the earnings profile of the company.

Liquidity: Adequate

The liquidity remains adequate with no negative cumulative mismatches in the asset liability management (ALM) as on September 30, 2024, in time bucket up to one year as majority of the portfolio consists of JLG loans with a tenure of up to 24 months compared to longer term borrowings. The company has maintained cash and cash equivalents of ₹320 crore as on September 30, 2024, which adds comfort.

Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Withdrawal Policy](#)

[Short Term Instruments](#)

[Non Banking Financial Companies](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Non banking financial company (nbfc)

Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS) is a non-deposit taking NBFC engaged in providing financial services in remote areas. The company is primarily engaged in lending loans through JLG model. Apart from JLG loans, the company also provides Micro Enterprise loans, Consumer durable loan, jewel loans, Crop Loan and Personal Loan.

As on September 30, 2024, the company has presence in 115 districts of 11 states, including Tamil Nadu, Orissa, Uttarakhand, Karnataka, Jharkhand, Chhattisgarh, Bihar, Uttar Pradesh, Haryana, Punjab and Andhra Pradesh through its 420 branches network, with Tamil Nadu constituting 48% of the total AUM as on September 30, 2024.

As on September 30, 2024, Dvara Trust holds 30%, Accion Africa-Asia Investment Company holds 21%, Leapfrog Financial Inclusion India (II) Ltd. holds 21%, Abler Nordic Fund IV KS holds 18%, Stakeboat Capital Fund – 1 holds 6% and Dvara Holdings holds 1.00%.

Brief Financials (₹ crore)	31-03-2023(A)	31-03-2024(A)	30-09-2024(UA)
Total income	382	565	306
PAT	14	48	21
Interest coverage (times)	1.13	1.30	1.22
Total assets	1835	2229	2432
Net NPA (%)	2.38	1.26	1.92
ROTA (%)	0.94	2.34	1.83

A: Audited UA: Unaudited; 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

Detailed explanation of 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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating assigned and Rating Outlook
Commercial paper- Commercial paper (standalone)	Proposed	-	-	-	50.00	CARE A2
Fund-based - LT-Term loan	-	-	-	September 2027	292.00	CARE BBB+; Stable
Fund-based-LT/ST	-	-	-	-	10.00	CARE BBB+; Stable / CARE A2
Debentures-Non-convertible debentures-II	INE179P08033	30-May-19	13.71%	30-May-24	0.00 [^]	Withdrawn
Debentures-Non-convertible debentures-III	-	01-Dec-19	13.50%	30-Nov-22	0.00 [^]	Withdrawn
	-	01-Jan-20	13.50%	31-Dec-22	0.00 [^]	
	-	25-Feb-20	13.50%	25-Feb-22	0.00 [^]	
	Proposed	-	-	-	0.98	CARE BBB+; Stable
Debentures-Non-convertible debentures-IV	INE179P07290	28-12-2022	13.50%	03-01-2027	66.00	CARE BBB+; Stable
	Proposed	-	-	-	4.00	CARE BBB+; Stable
Debt-subordinate debt-I	INE179P08066	April 02, 2024	14.3%	May 28, 2029	20.00	CARE BBB+; Stable
Debt-subordinate debt-II	Proposed	-	-	-	30.00	CARE BBB+; Stable

[^]Withdrawn on account of repayment

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 - LT-Term Loan	LT	292.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (28-Mar-24)	1)CARE BBB+; Stable (29-Dec-22)	1)CARE BBB; Stable

						2)CARE BBB+; Stable (08-Jan-24) 3)CARE BBB+; Stable (03-May-23) 4)CARE BBB+; Stable (27-Apr-23)		(30-Dec-21)
2	Fund-based-LT/ST	LT/ST	10.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (28-Mar-24) 2)CARE BBB+; Stable / CARE A2 (08-Jan-24) 3)CARE BBB+; Stable / CARE A2 (03-May-23) 4)CARE BBB+; Stable / CARE A2 (27-Apr-23)	1)CARE BBB+; Stable / CARE A2 (29-Dec-22)	1)CARE BBB; Stable / CARE A3+ (30-Dec-21)
3	Debentures-Non-Convertible Debentures	LT	-	-	-	1)CARE BBB+; Stable (28-Mar-24) 2)CARE BBB+; Stable (08-Jan-24) 3)CARE BBB+; Stable (03-May-23) 4)CARE BBB+; Stable (27-Apr-23)	1)CARE BBB+; Stable (29-Dec-22)	1)CARE BBB; Stable (30-Dec-21)
4	Debentures-Non-Convertible Debentures	LT	0.98	CARE BBB+; Stable	-	1)CARE BBB+; Stable (28-Mar-24) 2)CARE BBB+; Stable (08-Jan-24) 3)CARE BBB+; Stable (03-May-23)	1)CARE BBB+; Stable (29-Dec-22)	1)CARE BBB; Stable (30-Dec-21)

						4)CARE BBB+; Stable (27-Apr-23)		
5	Debentures- Non- Convertible Debentures	LT	70.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (28-Mar-24) 2)CARE BBB+; Stable (08-Jan-24) 3)CARE BBB+; Stable (03-May-23) 4)CARE BBB+; Stable (27-Apr-23)	1)CARE BBB+; Stable (29-Dec-22)	-
6	Commercial Paper- Commercial Paper (Standalone)	ST	50.00	CARE A2	-	1)CARE A2 (28-Mar-24) 2)CARE A2 (08-Jan-24) 3)CARE A2 (03-May-23) 4)CARE A2 (27-Apr-23)	-	-
7	Debt- Subordinate Debt	LT	50.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (28-Mar-24)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/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	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non-Convertible Debentures	Simple
3	Debt-Subordinate Debt	Simple
4	Fund-based - LT-Term Loan	Simple
5	Fund-based-LT/ST	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 for clarifications.

Contact us

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About us:

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Disclaimer:

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