Dar Credit and Capital Limited

December 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	162.00 (Enhanced from 137.00)	CARE BBB-; Stable	Reaffirmed
Non-convertible Debentures	4.55	CARE BBB-; Stable	Reaffirmed
Non-convertible Debentures	2.75	CARE BBB-; Stable	Reaffirmed
Non-convertible Debentures	-	-	Withdrawn
Non-convertible Debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to long-term bank facilities / debentures of Dar Credit & Capital Limited (DCCL) continues to factor in experienced management team, long track record of operations, adequate capital structure and liquidity. However, ratings are constrained by continued small scale of operations with high business and geographical concentration. Despite its healthy asset quality metrics, the company remains exposed to credit risks from its unsecured portfolio.

CARE Ratings Limited (CARE Ratings) has withdrawn ratings assigned to the non-convertible debentures of Dar Credit and Capital Limited with immediate effect as the company repaid these non-convertible debentures issue in full and there is no amount outstanding 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:

- Ability to significantly scale up revenues and raise longer tenor funds at competitive rates
- Improvement in profitability with return on total managed assets (ROMA) above 3.00% on a sustained basis

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

- Inability to raise resources to fund revenue growth
- Deterioration in liquidity position
- Deterioration in asset quality with gross non-performing assets (GNPA) (90+ dpd) above 3.00%
- Significant deterioration in its profitability with ROMA below 1% on a sustained basis

Analytical approach:

Standalone business profile of Dar Credit and Capital Limited

Outlook: Stable

The outlook is "stable" on account of CARE Ratings Limited's (CARE Ratings) expectation of steady and profitable scale up of business while maintaining healthy asset quality.

[1]Complete 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

Experienced management team with long standing track record of operations

DCCL is jointly promoted and 100% held by promoters, Ramesh Kumar Vijay and Rajkumar Vijay (in their personal capacity and families). The company's operations are jointly led by Ramesh Kumar Vijay (Chairman) and his brother Rajkumar Vijay (Whole-time Director). Ramesh Kumar Vijay, a qualified CA and CS, has overall experience of around four decades in personal loan and unsecured Micro, Small & Medium Enterprises (MSME) loan, while Rajkumar Vijay, an MBA (Finance), has overall experience of over three decades personal loan portfolio and NBFC sector. Jayanta Banik, CEO, is a qualified CA, having over 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 regional office is at Jaipur. The company has a long track record of over 30 years in the industry.

As on September 30, 2024, DCCL has presence in 35 locations across Rajasthan, Gujarat, West Bengal, Madhya Pradesh, Chhattisgarh, Bihar and Jharkhand. DCCL's loan portfolio is moderately diversified with personal loan to individuals (mainly class IV municipal employees – cleaners, sweepers and peons) comprising 44.46%, micro loans – 40.12%, unsecured small and medium-sized enterprises (SME) loans – 2.65%, and Secured MSME – 12.76% of total assets under management (AUM) as on September 30, 2024.

Adequate Capital Structure

The company has adequate capitalisation level with capital adequacy ratio (CAR) of 36.79% as on March 31, 2024 (March 31, 2023: 54.90%), with Tier-I CAR being 32.64% (March 31, 2023: 54.87%) and further improved to 39.58% with Tier-I CAR at 35.17% as on September 30, 2024. DCCL's gearing increased to 2.51x as on March 31, 2024, compared to 1.93x as on March 31, 2023, owing to the ₹25 crore funds borrowed from Hiveloop Capital Private Limited for further lending to Hiveloop's customers. While the company's disbursals and fresh borrowings have increased in FY24 against FY23 levels, management intends to cap its gearing at 4x on a steady state basis. The company has also filed Draft Red Herring Prospectus (DRHP) for IPO (SME category) to augment its capital base.

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

Key weaknesses

Small and concentrated scale of operations

DCCL was incorporated in 1994 and received license to operate as an NBFC from RBI in November 1998. Despite long track record of operations, DCCL's remains relatively small sized NBFC with AUM of ₹181.57 crore as on March 31, 2024 [March 31, 2023: ₹126.36 crore]. The company mainly caters to unsecured segment with personal loans (44.46% of AUM) and micro loans (40.12%) forming majority of the AUM as on September 30, 2024. During FY24, while the company's disbursements increased to ₹146.91 crore as against ₹87.24 crore during FY23, the company was unable to grow its AUM significantly on account of high competition and portfolio rundown in the segments that the company operates in. During FY24, company started lending towards secured loans to MSME segment, backed by property mortgages. Further, 53% and 27% of its portfolio is geographically concentrated in the state of West Bengal and Rajasthan as on September 30, 2024 which exposes the company to higher credit risk. During FY24, company has initiated business correspondence arrangements with Small Industries Development Bank of India (SIDBI) for lending towards unsecured MSME loan segment upto ticket size of ₹2 lakhs and with ESAF Small Finance Bank for lending towards Unsecured and Secured MSME loan segment between ticket size of ₹2 lakhs to ₹10 lakhs. While CARE Ratings takes cognisance of various institutional tie-ups by the company for business origination, going forward, the ability of the company to profitably grow its scale of operations will be a key rating monitorable.

Exposure to relatively riskier borrower segment, leading to increased delinquencies in the current year:

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, 2024, the company extends loans to clients who are mainly class-four employees in Municipalities (44% of AUM). Currently, the company has tie-up with 60 – 70 municipalities. Although these loans are completely unsecured in nature, however the company has minimal asset quality issues 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, 2024, stood at 0.62% [September 2023: 0.91%] vis-à-vis stood at 0.45% as on March 31, 2024 [March 2023: 0.78% and March 2022: 0.55%]. The GNPA levels under personal loans to municipalities has been below 1% for last three years.

Furthermore, DCCL also disburses micro loans (73% of loan book as on September 30, 2024), with major presence in east of India in general and West Bengal in particular. micro loans are largely targeted towards small business entrepreneurs (individual borrowers, not groups) and better customer base as compared to other NBFC-MFIs. GNPA number for micro loans stood around 1.18% as on September 30, 2024, vis-à-vis 0.68% as on March 31, 2024 [PY.:0.78%]. 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 0.55% and 0.07%, respectively, as on March 31, 2024, as against 1.10% and 0.70%, respectively, as on March 31, 2022. As on September 30, 2024, GNPA and NNPA levels increased to 0.82% and 0.29% on account floods in the state of west Bengal and majorly from Unsecured MSME loan segment. CARE Ratings further notes that during FY24, company has expanded into newer geographies and secured loan product segment whose asset quality seasoning is yet to be established and is a key monitorable.

Moderate, albeit improving, profitability:

DCCL's disbursement increased to ₹87.24 crore as on September 30, 2024 as against ₹51.11 crore as on September 30, 2023, led by personal loans to individuals (16%), micro loans (74%) and Secured MSME loans (10%). Backed by higher disbursements (March 24: ₹146.91 crore), the assets under management (AUM) of the company increased from ₹126.36 crore as on March 31, 2023 to ₹181.57 crore as on March 31, 2024 (AUM stood at ₹178.11 crore as on September 30, 2024). The company's portfolio yields increased to 19.38% during FY24 [March 2023: 18.94%] and further to 21.26% during H1FY25 on account of higher lending towards small business loan/micro loan segment. Backed by higher disbursements and increase in yields, net interest margin (NIM) improved to 7.34% during FY24 and further to 8.48% during H1FY25. Given the expansion in the geographies as well as in existing and newer product offering, company's branch network and staff headcount increased during FY24, thereby resulting into higher operating expenses (opex). Opex/Average total assets (Opex/ATA), as result, increased from 4.99% during FY23 to 5.09% during FY24 and further to 5.11% during H1FY25. Rise in opex cost was offset by healthy spreads, thereby resulting in improvement in ROTA to 1.70% during FY24 from 1.52% in previous year. The company's ability to maintain profitable growth momentum is a key monitorable.

Liquidity: Adequate

As on September 30, 2024, the company had adequate liquidity position with no cumulative mismatches in all time buckets. DCCL reported cash and cash equivalent (unencumbered) of ₹27.99 crore as on September 30, 2024 and receivable from loan book (including interest) of ₹126.50 crore as against the debt repayment obligation (including interest) of ₹95.16 crore for next one year. Company also has unutilized bank sanction lines ₹15.00 crore as on September 30, 2024 as an additional cushion to the liquidity.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

Not applicable

Applicable criteria

Policy on Default Recognition
Financial Ratios - Financial Sector
Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Non-Banking Financial Companies
Withdrawal Policy

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, 2024 – ₹224.76 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 received the license to operate as an NBFC from RBI in November 1998. DCCL's head office is situated in Kolkata while regional office is located at Jaipur. As on September 30, 2024, it has presence in 35 locations across Rajasthan, Gujarat, West Bengal, Madhya Pradesh, Karnataka, Chhattisgarh, Bihar and Jharkhand. Among individuals, the company finances to government employees working with different regional municipal authorities as cleaners, sweepers and peons. DCCL also lends to self-employed and business class people among small enterprises.

Brief Financials (₹ crore)	31-03-2023	31-03-2024	30-09-2024
	A	A	UA
Total operating income	25.53	32.86	20.66
PAT	2.72	3.69	3.32
Interest coverage (times)	1.30	1.30	1.43
Total assets	187.13	236.64	224.20
Net NPA (%)	0.70	0.07	0.29
ROTA (%)	1.53	1.74	2.88**
ROMA (%)	1.52	1.70	2.75**

A: Audited UA: Unaudited; Note: these are latest available financial results
*Net of deferred tax assets and intangible assets
**Annualised

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Debentures-Non Convertible Debentures	INE04Q907058	11-Feb-2021	12%	10-Feb-2024	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE04Q907074	12-Feb-2021	12%	10-Feb-2024	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE04Q907066	12-Feb-2021	12.25%	10-Feb-2026	4.55	CARE BBB-; Stable
Debentures-Non Convertible Debentures	INE04Q907082	12-Feb-2021	12.25%	10-Feb-2026	2.75	CARE BBB-; Stable
Fund-based - LT-Cash Credit		-	-	-	2.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	30-09-2027	160.00	CARE BBB-; Stable

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-Cash Credit	LT	2.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Dec-23)	1)CARE BBB-; Stable (02-Jan-23)	1)CARE BBB-; Stable (04-Jan-22)
2	Fund-based - LT-Term Loan	LT	160.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Dec-23)	1)CARE BBB-; Stable (02-Jan-23)	1)CARE BBB-; Stable (04-Jan-22)
3	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE BBB-; Stable (27-Dec-23)	1)CARE BBB-; Stable (02-Jan-23)	1)CARE BBB-; Stable (04-Jan-22)

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
4	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE BBB-; Stable (27-Dec-23)	1)CARE BBB-; Stable (02-Jan-23)	1)CARE BBB-; Stable (04-Jan-22)
5	Debentures-Non Convertible Debentures	LT	4.55	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Dec-23)	1)CARE BBB-; Stable (02-Jan-23)	1)CARE BBB-; Stable (04-Jan-22)
6	Debentures-Non Convertible Debentures	LT	2.75	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Dec-23)	1)CARE BBB-; Stable (02-Jan-23)	1)CARE BBB-; Stable (04-Jan-22)

*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	Debentures-Non-convertible debentures	Simple
2	Fund-based - LT-Cash credit	Simple
3	Fund-based - LT-Term loan	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.

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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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