Dar Credit and Capital Limited

March 31, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	120.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**120.00 (Rs. One Hundred Twenty Crore Only)**		
Non Convertible Debentures INE04Q907033	2.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Non Convertible Debentures INE04Q907025	4.55	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Non Convertible Debentures INE04Q907041	2.75	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Non Convertible Debentures INE04Q907017	3.20	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Long Term Instruments	**12.50 (Rs. Twelve Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating of Dar Credit and Capital Ltd. (DCCL) continues to draw strength from its experienced promoters, moderate asset quality, adequate capitalization level with adequate risk management and MIS system. Further, the rating also takes cognizance of its stable scale of operations during FY20 (refers to the period April 1 to March 31) along with gradual geographical diversification and expansion of resource base during the year.

The rating, however, continues to remain constrained on account of unsecured nature of DCCL's loan portfolio (though partly mitigated by the collection mechanism in place) with moderate seasoning and its moderately diversified resource base. The rating is further constrained due to moderate product and geographical concentration of its operations and moderate earnings profile. CARE also takes cognizance of the company availing the moratorium granted by its lenders as a COVID relief measure (as permitted by the Reserve Bank of India) for the interest and instalment repayments on its term loan/ working capital facilities for a period of 3 months from its lenders.

Rating Sensitivity

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

- Sustained growth in scale of operations and improvement in profitability with ROTA above 3% on sustained basis
- Diversified funding profile to support growth in scale of operations with increase in its individual loan portfolio above Rs.150 crore.

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

- Deterioration in asset quality with Gross NPA (180 dpd) above 3% on sustained basis
- Significant decline in liquidity due to impact on collection efficiency in the wake of Covid-19 pandemic situation and non-availability of fresh funding.
- Significant deterioration in its scale of operations and profitability

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters: The operations of the company are being looked after jointly by Mr. Ramesh Kumar Vijay (Chairman) as well as his brother Mr. Rajkumar Vijay (Whole-time Director and Chief Executive Officer). While Mr. Ramesh Kumar Vijay, a C.A. and C.S. by qualification, has overall experience of around three decades, Mr. Rajkumar Vijay, an M.B.A. (Finance) by qualification, has overall experience of over two decades. Both have been instrumental in driving the growth of the company over the period. In August 2019, DCCL appointed Mr. Saswata Choudhury, veteran banker retired from the post of Chief General Manager at State Bank of Mysore having experience of around 35 years across various verticals of the bank. Apart from that, DCCL has also appointed Mr. Siddhartha Pradhan, veteran IRS (Indian Revenue Service) officer having vast experience in various central and state government departments. Mr. Santanu Mukherjee (former Managing Director of State Bank of Hyderabad and currently on the Board of Bandhan Bank Ltd.) and Mr. Jayanta Banik (Chartered Accountant having experience of more than 27 years) act as advisors to DCCL's board.

Long track record of operations: DCCL has a long track record of more than 25 years in the industry. DCCL has built a large customer base with active customers being 18,671 as on December 31, 2020, leading to substantial repeat business with less effort. Also, it has built decent in-house employee strength of 101 including professional team of top management. Further, over a period of time, DCCL has built good relations with municipal councils leading to y-o-y growth in loan portfolio.

Moderate asset quality with stable scale of operations in FY20: DCCL commenced its operations in 1994 but its scale of operations has remained moderate although the same has grown significantly in recent years including FY19; albeit it remained stable in FY20. DCCL's outstanding loan portfolio stood at Rs.221.02 crore as on March 31, 2020 as against Rs.225.29 crore as on March 31, 2019; lower than previously envisaged growth in its loan portfolio was mainly on account of decline in disbursements from Rs.178.24 crore in FY19 to Rs.114.02 crore in FY20 due to lower disbursements done in e-commerce loans to small traders in FY20 (clients of Hiveloop Technology Pvt. Ltd., HTPL; FY20: Rs.22.44 crore against Rs.104.28 crore in FY19). E-commerce loans disbursed by DCCL are funded through unsecured loan given by HTPL. Further own book loan portfolio stood at Rs.133.61 crore as on December 31, 2020; moderation in loan portfolio was mainly on account of lower disbursements of Rs.24.07 crore in 9MFY21 as well as decline in e-commerce loan portfolio. DCCL reported growth of 66.57% in its total income to Rs.46.86 crore in FY20 as compared to Rs.28.97 crore in FY19; further in 9MFY21, DCCL has earned total income of Rs.20.51 crore.

DCCL's asset quality in FY20 has remained in similar lines with Gross NPA and Net NPA of 0.39% and 0.26% as on March 31, 2020 as against 0.38% and 0.25% respectively as on March 31, 2019. Further Gross NPA and Net NPA moderated to 0.79% and 0.58% respectively as on December 31, 2020 mainly on account of decline in loan portfolio with no major change in Gross NPA and Net NPA levels in absolute terms. In absolute terms, closing Gross NPA and Net NPA stood at Rs. 1.06 crore and Rs.0.77 crore respectively as on December 31, 2020 and Rs.0.86 crore and Rs.0.57 crore respectively as on March 31, 2020 as against Rs.0.85 crore and Rs.0.56 crore as on March 31, 2019. Further, Net NPA to Net-worth has marginally improved from 1.09% as on March 31, 2019 to 0.99% as on March 31, 2020 and the same stood at 1.27% as on December 31, 2020.

***Moderate capital adequacy*:** The capital adequacy ratio (CAR) of DCCL improved during FY20 and stood at 36.76% as on March 31, 2020 against 21.31% as on March 31, 2019 mainly on account of increase in net owned funds due to accretion of profits to reserves coupled with decline in debt funded loans portfolio. Further, CAR stood at 40.34% as on December 31, 2020. Overall gearing of DCCL has improved from 4.01 times as on March 31, 2019 to 3.57 times as on March 31, 2020 and further to 1.92 times as on December 31, 2020 mainly due to accretion of profits to reserve and decline in debt from HTPL. Going forward, with increasing reliance on external debt for further financing, DCCL's capital adequacy and overall gearing are likely to moderate.

Adequate risk management system: The company has installed online software i.e. 'Risemoney' which facilitates connectivity of its branches with the Administrative Office at Jaipur. The company maintains the details of personal loans to individuals in the software whereas the details of loans to small enterprises are maintained in accounting software 'Tally'. The risk management system of DCCL is adequate with majority of the important operational aspects of the company like appraisal, documentation and approval of loans as well as fund management and Management Information System (MIS) being controlled from its Administrative Office (HO) in Jaipur. However, the same would require upgradation with an increase in scale of operations going forward.

Key Rating Weakness

Unsecured nature of portfolio; albeit strong collection mechanism: DCCL extends loans to clients who are mainly class-four employees (on roll as well as off roll), sweepers and peons in Government Departments. DCCL also extends loans to small enterprises having some business. The loans are unsecured (not backed by any collateral). In case of loans given to employees of government departments, the company has tied up at the departmental level for collections and deductions are made directly from salary by the department. This provides some security to DCCL. The model will be tested through the times going forward. Further, DCCL has entered into an agreement with Hiveloop Technology Pvt. Ltd. (HTPL) for the financing of traders (clients of HTPL) on www.Udaan.com for the period of up to 12 Months classified as E-commerce loans. HTPL will lend the money to DCCL while the same money will be funded to the traders recommended by HTPL. As per the agreement, HTPL guarantees every loan that is lent to HTPL's traders by DCCL.

Loans to individuals comprised 67.99% (Rs.7.66 crore) and 39.50% (Rs.45.04 crore) of total disbursements in H1FY21 and FY20 respectively (22.39% in FY19; Rs.39.90 crore) and 65.58% (Rs.89.67 crore) of total outstanding loan portfolio as on September 30, 2020 and 42.07% (Rs.92.99 crore) of total outstanding loan portfolio as on March 31, 2020 (38.24%; Rs.86.15 crore as on March 31, 2019). Apart from that, B2B E-Commerce (HTPL) loans comprised around 42% of total outstanding loan portfolio as on March 31, 2020 which has reduced to 9.75% as on September 30, 2020 while loans to small enterprises and small business loan comprised the balance (24.67%). Apart from B2B E-Commerce loans and personal loans to individuals (Municipal loans), remaining loans portfolio of the company is of unsecured nature. However, E-commerce loan book of DCCL is expected to decline in medium term mainly because HTPL itself has started lending business through its group company i.e. Hiveloop Capital Pvt. Ltd.

Moderate seasoning of loan portfolio with moderately diversified resource base: DCCL's portfolio has moderate seasoning with growth in municipal loan portfolio in FY20 and decline in e-commerce loan portfolio. DCCL is providing loans to the clients of HTPL for shorter tenor of 3-12 months which has grown from Rs.6.14 crore as on March 31, 2018 to Rs.112.19 crore as on March 31, 2019 but has declined to around Rs.93.29 crore as on March 31, 2020 and further to Rs.13.29 crore as on December 31, 2020. Against this, loan from HTPL has declined from Rs.107.77 crore as on March 31, 2019 to Rs.92.77 crore as on March 31, 2020 and further to Rs.13.02 crore as on December 31, 2020.

Further, DCCL's resource base continued to remain moderately diversified with banks and financial institutions forming major resource base of the company. DCCL has 4 banks and 6 financial institutions (NBFCs) on board. In September 2020, DCCL had also raised funds through commercial paper issue of Rs.5.00 crore having tenure of 3 months which was fully repaid in the December 2020, further in February 2021 DCCL has raised funds of Rs.12.50 crore through NCD issue.

Moderate earning profile: Net Interest Income (NII) has increased from Rs.13.01 crore in FY19 to Rs.17.41 crore in FY20 mainly due to higher income in e-commerce loans on which DCCL earns Credit Facilitation Income (CFI; Rs.5.62 crore in FY19, Rs.20.66 crore in FY20) as the e-commerce portfolio was majorly disbursed in Q4FY19 and on which the interest income benefit was received in FY20. However, upon adjusting CFI income from total interest income and interest expenses paid to HTPL from total interest expenses, the NII stood at Rs.13.25 crore in FY20 as compared to Rs.13.01 crore in FY19. Despite increase in NII in FY20 over FY19, NIM had marginally moderated from 6.73% in FY19 to 6.61% in FY20. Moreover, DCCL earned lower CFI of Rs.1.93 crore in 9MFY21 with a decline in E-commerce loan portfolio. However, return on total assets (ROTA) marginally declined to 2.14% in FY20 from 2.16% in FY19 mainly on account of increase in operating expenses. Operating cost (including employee cost) of DCCL has increased from Rs.8.11 crore in FY19 to Rs.10.71 cores in FY20, however, increase in total assets from Rs.125.82 crore as on March 31, 2018 to Rs.260.92 crore as on March 31, 2019 and further to Rs.266.29 crore as on March 31, 2020 led to decline in operating expenses as a % of average total assets ratio over the period to 4.06% in FY20 (4.43% in FY19) on account of higher growth in asset size (e-commerce loans – where operating cost is lower as the prospective customer links are given by HTPL). During 9MFY21, DCCL incurred total operating expenses of Rs.6.71 crore.

Moderate product and geographical concentration: DCCL has mainly four products i.e. personal loans to individual, loans to small enterprises, loans to small women entrepreneurs (small business loans) and e-commerce loan portfolio. DCCL has presence in the urban and semi-urban areas of Rajasthan *(comprising ~28% of loan portfolio outstanding as on March 31, 2020 (March 31, 2019: 28%))*, while share of e-commerce loans (Karnataka state) in total loan portfolio stood at 42% (50%) owing to tie-up with HTPL, further, proportion of MP and West Bengal stood at 15% and 14% (12% & 10%) respectively, while Gujarat and Chhattisgarh contributed the balance. As on September 30, 2020 share of Rajasthan in total loan portfolio stood at 42% followed by MP (24%), West Bengal (22%), Gujarat (1.37%) and Chhattisgarh (0.50), Moreover, share of e-commerce loans (Karnataka state) declined to 10%. As on September 30, 2020 DCCL has presence in 21 locations across Rajasthan, Gujarat, West Bengal, Madhya Pradesh, Karnataka and Chhattisgarh, further disbursements in Gujarat and Chhattisgarh are carried out through branches in Rajasthan and Gujarat. The loan portfolio is moderately diversified with Personal loan to individuals (Municipal employees) and E-Commerce loans comprising 42.07% and 42.21% of total O/s loan portfolio as on March 31, 2020 while Small business loans and SME loans comprised the remaining portion. Further as on September 30, 2020 contribution of Personal loan to individuals (Municipal employees) and E-Commerce loans to total loan portfolio stood at 65.58% and 9.75% respectively.

Liquidity: AdequateDCCL's liquidity remained adequate as on January 31, 2021 with available free cash and cash equivalents of Rs.22.65 crore and free current investments of Rs.2.80 crore apart from unutilised working capital limits of Rs.11.23 crore, further as on January 31, 2021, DCCL has debt repayment (Including interest) of Rs.10.15 crore and Rs.36.10 crore in next 3 months and 12 months respectively leading to 3 months LCR (liquidity coverage ratio) of 361.38% and 1 year LCR of 101.61%. Further as per ALM as on December 31, 2020, DCCL has no cumulative mismatch in any time bucket upto 1 year bucket. Moreover, DCCL's average collection efficiency (including prepayments and opening overdues) for trailing twelve months ended February 28, 2021 stood at 99.84% as it has experienced gradual increase in monthly collection efficiency from 59.33% in April 2020 to 112.96% in February 2021. Moreover, raising new funds from the lenders and sustaining the collection efficiency will remain crucial for the liquidity of the company going forward.

Impact of Covid-19: DCCL has opted for the moratorium on debt servicing from its lenders for a period of three months from March 1 to May 31, 2020 as a part of Covid relief measure (as permitted by the RBI) and it has received moratorium for around 65% of total debt (apart from unsecured debt from HTPL) from different lenders. Further, DCCL's lending to e-commerce clients (HTPL's client) has back-to-back arrangement with HTPL in which DCCL lends to the e-commerce clients against the unsecured funds received from HTPL leading to no requirement of moratorium. Further portfolio under moratorium (with-out E-Commerce) has declined from 85% as on April 30, 2020 to 20% as on August 31, 2020.

Subdued Industry Outlook*:* Due to subdued economic environment, last three years have been challenging period for the NBFCs with moderation in growth and rising delinquencies resulting in higher provisioning thereby impacting profitability. However, comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs in spite of impact on profitability. Also, with the improvement in economic environment, asset quality pressures should ease which will partially offset the impact of migration towards 90 -day NPA recognition norm.
Further, the spread of the COVID-19 pandemic has led to a nation-wide lockdown which is likely to impact the overall growth and collections of NBFCs/HFCs sector. As a result, in CARE's view the credit risk profile of NBFCs/HFCs is expected to deteriorate over the medium term. Liquidity profile, resource raising ability, funding support from parent/group and exposure to vulnerable asset classes and operating profiles in terms of geographies and borrower types would be critical monitorable factors in the NBFCs/HFCs sector.

Analytical approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Non-banking Financial Companies
Financial Ratios – Financial Sectors

About the Company
Dar Credit & Capital Ltd. (DCCL) is a Jaipur based mid-sized (Total Assets as on March 31, 2020 – Rs.266.29 crore) RBI registered Non-Deposit taking NBFC, engaged in the financing of unsecured loans to individuals and small enterprises. DCCL was incorporated in 1994 by Mr. Ramesh Kumar Vijay and Mr. Rajkumar Vijay as a public limited company and got the license to operate as NBFC from RBI in November, 1998. DCCL's head office is situated in Kolkata while administrative office is located at Jaipur.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	28.97	46.91
PAT	4.17	5.64
Interest coverage (times)	1.38	1.26
Total Assets	260.92	266.29
Net NPA (%)	0.25	0.26
ROTA (%)	2.16	2.14

A: Audited;

During 9MFY21, DCCL has earned PAT of Rs.2.18 crore on total income of Rs.20.51 crore.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-4.*

Status of non-cooperation with previous CRA: None
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
Fund-based - LT-Cash Credit	-	-	-	-	28.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	Feb-2025	92.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures	INE04Q907017	January 11, 2021	12%	10 February 2024	3.20	CARE BBB-; Stable
Debentures-Non Convertible Debentures	INE04Q907033	January 11, 2021	12%	10 February 2024	2.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures	INE04Q907025	January 11, 2021	12.25%	10 February 2026	4.55	CARE BBB-; Stable
Debentures-Non Convertible Debentures	INE04Q907041	January 11, 2021	12.25%	10 February 2026	2.75	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.	Fund-based - LT-Cash Credit	LT	28.00	CARE BBB-; Stable	1)CARE BBB-; Stable (22-May-20)	1)CARE BBB-; Positive (06-Dec-19)	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BBB-; Stable (13-Nov-17) 2)CARE BB+; Positive (21-Aug-17)
2.	Fund-based - LT-Term Loan	LT	92.00	CARE BBB-; Stable	1)CARE BBB-; Stable (22-May-20)	1)CARE BBB-; Positive (06-Dec-19)	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BBB-; Stable (13-Nov-17) 2)CARE BB+; Positive (21-Aug-17)
3.	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	1)Withdrawn (31-Dec-20) 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 (31-Dec-20)	-	-	-
5.	Debentures-Non Convertible Debentures	LT	2.00	CARE BBB-; Stable	-	-	-	-

6.	Debentures-Non Convertible Debentures	LT	4.55	CARE BBB-; Stable	-	-	-	-
7.	Debentures-Non Convertible Debentures	LT	2.75	CARE BBB-; Stable	-	-	-	-

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

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-4: Detailed explanation of covenants of the rated Instruments: None

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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.