

Dhani Loans and Services Limited
(erstwhile Indiabulls Consumer Finance Ltd.)

September 18, 2020

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long & Short term bank facilities	10,000.00 (Rs. Ten Thousand Crore only)	CARE AA-; Stable / CARE A1+ [Double A Minus; Outlook: Stable / A One Plus]	Reaffirmed
Non-convertible debentures	2,900.00 (Rs. Two Thousand Nine Hundred Crore only)	CARE AA- ; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Proposed Public Issuance of Secured Redeemable Non-Convertible Debentures	3,000.00 (Rs. Three Thousand Crore Only)	CARE AA- ; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Commercial Paper	2,000.00 (Rs. Two Thousand Crore only)	CARE A1+ [A One Plus]	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to debt instruments and bank facilities of Dhani Loans and Services Limited (DLSL) (formerly Indiabulls Consumer Finance Limited) continue to factor in linkages with the Indiabulls Group, experienced management team, moderate gearing levels, healthy capitalization level and sound liquidity buffers.

On the other hand, company's credit profile was constrained by the moderation in the financial risk profile and financial flexibility of the group due to continued challenges faced by the group in raising debt funds from the market resulting in reduction in diversification in its resources profile. DLSL has reduced its disbursements over the last one and a half years on account of overall tightening of market liquidity towards NBFCs and HFCs. Although, DLSL has raised funds largely via term loan facilities, securitization and through direct assignments of its loan portfolio, the overall quantum of the borrowings has reduced due to limited borrowing avenues. The company has reduced its loan book substantially by resorting to Direct assignments and securitization during FY20. Credit profile of the company also remains impacted by the limited track record, initial stage of operations and consequent moderate seasoning of the loan book as well as a sizeable portion of the loan portfolio being unsecured in nature. The ability to raise funds from a diversified sources and growth in business in a profitable manner, remain key rating monitorables.

While the company has plans to contain the operational expenses, profitability will be impacted in near term due to challenging macro environment on account of COVID-19 outbreak which could adversely impact the overall business of the company. Amid the nationwide lockdown due to COVID-19 outbreak and moratorium availed and extended to by the company, CARE Ratings would closely monitor the impact on business growth, profitability, asset quality and resource raising ability of DLSL.

Rating Sensitivities

Factors that could lead to positive rating action/upgrade:

- Substantial improvement in the asset quality with GNPA less than 1%, with seasoning of the loan book
- Sustained growth in business with profitability
- Improvement in resource raising ability from diversified sources on a steady state basis

Factors that could lead to negative rating action/downgrade:

- Further deterioration in the credit profile of the promoter group
- Significant deterioration in asset quality considering large proportion of unsecured loans
- Cost of borrowings remaining at current level on a sustained basis with constraints in raising resources
- Significant impact on profitability on account of scale down of business / change in business model and/or due to change in operating environment

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

*Adjusted Gearing (times) = (Debt + Off Balance Sheet Assets / Tangible Net Worth)

Detailed description of the key rating drivers

Key Rating Strengths

Linkages with parent group i.e. Indiabulls group

DLSL is a wholly owned subsidiary of Indiabulls Ventures Limited (IVL) which is one of the financial services companies of Indiabulls Group. The company has over the last few years built a technology platform through its digital application 'Dhani'. The company opted for name change to align "Dhani" with the name of the company, as its customers resonate with its products and features on 'Dhani' app.

By virtue of being a part of Indiabulls, DLSL receives strong support from its parent as well as managerial and operational linkages and financial flexibility in form of regular capital support. The Board of IVL is headed by Mr. Sameer Gehlaut (promoter of Indiabulls group) as Chairman and has Mr. Gagan Banga (Vice Chairman and CEO of Indiabulls Housing Finance Limited (rated 'CARE AA; Negative') as one of the Directors.

DLSL contributes to 82.44% of the total assets of IVL at end-FY20 and receives strong support from its parent company. During FY19, IVL infused equity capital of Rs.2,572.25 crore into DLSL, strengthening the capitalisation level of the company as well as provided support via Inter Corporate Deposits (ICD).

In the recent period, the group has seen challenges in raising funds due to overall risk aversion in the market towards the group resulting in moderation in financial flexibility of the group. In case of continued risk aversion among market participants, it would be a challenge to raise funds and in turn that may impact the profitability of the company. The linkage with its parent group i.e. Indiabulls group and continued support from the promoters continue to remain one of the key monitorables.

Experienced management team

The management team of DLSL has extensive experience in financial services industry and is headed by Mr. Pinank Shah, who is the Whole-time director and Chief Executive Officer (CEO). Mr. Shah has been associated with the Indiabulls group for over 8 years. He is ably supported by the vastly experienced second line of management many of whom have had experience within the Indiabulls group or with leading private sector banks and NBFCs. Mr. Shah headed treasury in IBHFL before he joined DLSL as CEO. He has also worked with mortgage lender HDFC Limited for almost 10 years leading the corporate lending portfolio of HDFC. He is also one of the Executive Directors of the parent company IVL.

The company has also appointed Mr. Narendra Jadhav as the new Independent Director. Currently he is a Member of Rajya Sabha, the upper house of Indian Parliament. He previously served as member of the Planning Commission of India and the National Advisory Council.

Strong net-worth base and healthy capitalization levels

DLSL continues to be strongly capitalized with tangible net worth of Rs.4,136 crore as on March 31, 2020 as against Rs.4,280 crore as on March 31, 2019. The company reported healthy Capital Adequacy Ratio (CAR) of 58.92% (Tier-I CAR of 52.66%) as on March 31, 2020 as compared to CAR of 37.70% at end-FY19 (Tier I CAR: 37.12%). Overall gearing ratio continued to be low at 1.19 times as on March 31, 2020, from 1.77 times as on March 31, 2019 and 2.29 times as on March 31, 2018.

DLSL's parent – IVL has raised Rs.588 crore (or \$80 million) through a preferential share sale to investors led by American fintech investor Ribbit Capital. The company will issue 33.6 million shares, representing about 5.5% shareholding, to six investors including units of Ribbit Capital and NWI Management at Rs.175 per share. Also, in the next two quarters, the company is expected to receive around Rs.800 crore from the partly paid rights issue it had done last year.

Although DLSL remains well capitalized, in case the need to raise more capital arises in future, the parent IVL would remain open to evaluating the scenario and infusing capital. The company has a net gearing target of maximum upto 2x to 2.5x.

Diversified loan portfolio with app based lending platform for personal loan

After growing by 180% y-o-y in FY19, DLSL registered a 14.27% y-o-y decline in AUM to Rs.9,626 crore as on March 31, 2020 and constituted personal loans (62%), unsecured SME loans (15%) and secured SME loans (23%). While the on-book loans and advances portfolio showed a sharp drop to Rs.4,709 crore (P.Y.: Rs.10,633 crore) at end-FY20, the off-book lending portfolio witnessed a substantial rise to Rs.4,917 crore (P.Y.: Rs.595). The company consciously chose to run-off the on-book loan assets as it opted for securitization and direct assignments to raise funds during FY20.

Further, DLSL has developed an application for their personal loan portfolio called 'Dhani' which enables loan application, risk analysis, credit approval, underwriting and disbursement process to be carried out electronically through the application. DLSL has around 2.02 million partners and around 0.6 million active daily users on this app as of June 30, 2020. Going forward, the

company expects to focus on retail personal loans and unsecured loans to constitute majority of the loan book on a steady state basis.

Key Rating Weaknesses

Moderation in profitability

DLSL reported a sharp decline in profitability in FY20 as it reported a PAT of Rs.54.25 crore on total income of Rs.2,517 crore in FY20 as compared to PAT of Rs.400 crore on total income of Rs.1,650 crore in FY19. The profit declined as DLSL made COVID-19 related provisioning (over and above standard ECL provisioning) worth Rs.390 crore at end-FY20. While the company's pre-provisioning operating profit increased to Rs.880 crore in FY20 (P.Y.: Rs.636 crore), it was partly offset by the sharp increase in operating expenditure which almost doubled y-o-y to Rs.897 crore during the year. Moreover, the company had higher provisioning and write-off costs to the tune of Rs.816 crore in FY20 compared to Rs.103 crore in FY19.

The management is focused on maintaining profitability by ensuring loan book growth and slashing operating costs. It has undertaken several cost rationalization measures and it expects these measures to bring 30-40% reduction in operating costs in the current financial year.

Limited track record of operations with unseasoned loan portfolio and untested asset quality as majority loans remain unsecured in nature

The company has started its full-fledged operations post launch of its app during H1FY18 for sourcing its personal loans along with sourcing of business loans in FY18 due to which the company has low track record within the industry. Given DLSL recently started lending operations, the company's loan portfolio remains unseasoned. The portfolio mix as on March 31, 2020 constituted 77% of unsecured lending in form of personal loan and unsecured business loans and company's management targets to reduce its secured loans portfolio in the near future.

Asset quality worsened in FY20 and reported Gross NPA ratio and Net NPA ratios were at 0.94% and 0.36% as on March 31, 2020, respectively as against 0.75% and 0.24% as on March 31, 2019, respectively. Further, the rise in net NPA and decline in tangible net-worth in FY20, led to an increase in Net NPA to Tangible Net worth ratio to 0.85% as on March 31, 2020 as against 0.61% as on March 31, 2019.

Moderation in funding profile

DLSL has a past record of raising funds through NCD, bank facilities, commercial papers and securitization/assignment. However, post September, 2018, due to overall risk aversion by lenders, NBFCs saw certain challenges in raising resources. With overall tightening in liquidity in the markets, the disbursement levels of the company have seen decline and DLSL's total borrowings declined from Rs.7,563 crore at end-FY19, which constituted largely of bank loans (72%) and NCD (10%), Commercial Paper (CP; 13%) and Securitisation (5%) to Rs.4,753 crore as on March 31, 2020 constituting bank loans (64%), securitisation lines (19%) and NCD (17%) while CP stood at nil. The company has incrementally relied on securitisation for its funding in the current financial year. While the company has been able to raise equity funds, it has faced challenges in raising debt funds. CARE would continue to monitor closely the ability of the company to raise debt funds and it would remain a key monitorable.

Liquidity profile: Strong

As on July 31, 2020, DLSL's ALM showed no negative mismatch in upto 5 year bucket. DLSL maintained cash and liquid investments of ~Rs.1,217 crore in the form of cash, Mutual Fund, NCDs/CDs and Fixed Deposits investments. The company maintains sufficient amount of cash and cash equivalents upto around 11-12 months of debt re-payments (without considering cash inflows from loan assets). As on July 31, 2020, business collections in next one year stood at Rs.1,943 crore, which covers scheduled one year repayments of ~Rs.1,426 by more than 1 time, providing adequate cover.

COVID-19 pandemic impact:

As of July 2020, 28% of the company's AUM remained under moratorium. While collections took a beating under moratorium, collections reached almost 80% levels of pre-COVID-19 collections by the end of August. DLSL's management believes that stability has come back. In order to insulate the lending portfolio from future shocks, the company has made COVID-19 related provisioning (over and above the standard ECL provisioning) worth Rs.390 crore at end-FY20.

Industry Prospects:

Even as the second phase of moratorium ended in August 2020, the collections may take time to come back to pre-Covid levels. In the short-medium term, the ability of individual HFC / NBFC to raise resources and ramp up collection efforts amidst gradual lifting of the lockdown would be critical from the liquidity point of view. The overall funding environment for the sector seems

to have improved somewhat given high level of liquidity in the banking system and the various fund raising channels put in place by the government, viz., TLTRO 2.0, Partial Guarantee Scheme (for on-balance sheet lending as well as for asset pool purchase), refinancing schemes and relief measures for the MSME sector among others. This, coupled with expectations of improving collections, should aid the overall liquidity position for the NBFC sector.

Analytical approach: CARE has assessed the standalone financial profile of DLSL and its shared management and operational linkages with the Indiabulls group.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology- Non-Banking Finance Companies](#)

[Financial ratios - Financial Sector](#)

About the Company

Dhani Loans and Services Limited (DLSL) (erstwhile Indiabulls Consumer Finance Limited) is a wholly owned subsidiary of Indiabulls Ventures Limited (IVL), one of the financial services company of Indiabulls group. The company was incorporated on October 27, 1994 and in September, 2018, the name of the company was changed to 'Indiabulls Consumer Finance Limited'. The company is registered as a non-deposit taking systemically important non-banking finance company (NBFC-ND-SI) and is into lending business with primary focus on personal loans, unsecured SME loans and secured SME loans.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1,650	2517
PAT	400	54
Interest coverage (times)	1.95	1.07
Total Assets	12,369	9,442
Net NPA (%)	0.24	0.36
ROTA (%)	4.48	0.50

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of instruments/facilities as on August 31, 2020

1. Bank Facilities

Name of the Instrument	ISIN	Date of Issue	Date of Maturity	Santioned Amt. (Rs.cr.)	OS Amt. (Rs.cr.)	Coupon	Rating Assigned with Rating Outlook
Bank Facilities - Long Term	NA	NA	NA	4,189.00	2,486.00	NA	CARE AA-; Stable
Bank Facilities - Short Term	NA	NA	NA	25.00	-	NA	CARE A1+
Total				4,214.00	2,486.00		

2. Non-Convertible Debentures

Name of the Instrument	ISIN	Date of Issue	Date of Maturity	Issued (Rs.cr.)	OS (Rs.cr.)	Coupon	Rating Assigned & Rating Outlook
Debentures - Public issue of Non Convertible Debentures	INE614X07027	08-Mar-19	08-May-21	377.47	373.00	10.75%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07035	08-Mar-19	08-May-21	24.66	27.00	10.75%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07043	08-Mar-19	08-May-22	32.5	32.00	10.90%	CARE AA-; Stable

Debentures - Public issue of Non Convertible Debentures	INE614X07050	08-Mar-19	08-May-22	75.54	75.00	10.91%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07068	08-Mar-19	08-May-22	23.58	25.00	10.90%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07076	08-Mar-19	08-Mar-24	47.01	46.00	11.01%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07084	08-Mar-19	08-Mar-24	26.07	26.00	10.99%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07092	08-Mar-19	08-Mar-24	19.38	21.00	11.00%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07134	27-Jun-19	27-Jun-21	7.18	7.00	10.25%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07142	27-Jun-19	27-Jun-21	3.48	4.00	10.25%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07159	27-Jun-19	27-Jun-22	12.37	12.00	10.41%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07167	27-Jun-19	27-Jun-22	12.21	12.00	10.40%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07175	27-Jun-19	27-Jun-22	4.28	4.00	10.40%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07183	27-Jun-19	27-Jun-24	15.64	15.00	10.60%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07191	27-Jun-19	27-Jun-24	12.8	12.00	10.60%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07209	27-Jun-19	27-Jun-24	4.39	4.00	10.60%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07217	06-Sep-19	10-Oct-20	59.03	60.00	10.00%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07225	06-Sep-19	06-Sep-21	1.21	1.00	10.10%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07233	06-Sep-19	06-Sep-21	0.48	-	10.10%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07241	06-Sep-19	06-Sep-22	2.97	3.00	10.25%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07258	06-Sep-19	06-Sep-22	2.25	2.00	10.25%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07266	06-Sep-19	06-Sep-22	0.86	1.00	10.25%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07274	06-Sep-19	06-Sep-24	3.79	4.00	10.50%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07282	06-Sep-19	06-Sep-24	11.81	12.00	10.50%	CARE AA-; Stable
Debentures - Public issue of Non Convertible Debentures	INE614X07290	06-Sep-19	06-Sep-24	1.04	1.00	10.50%	CARE AA-; Stable
Total					782.00		

3. Commercial Paper: Nil

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

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/ST- Bank facilities	LT	10,000	CARE AA-; Stable / CARE A1+	CARE AA-; Stable / CARE A1+ (01-Apr-20)	-	1) CARE AA; Stable / CARE A1+ (27-Mar-19) 2) CARE AA; Stable/CARE A1+ (04-Jan-19)	1) CARE AA; Stable/CARE A1+ (21-Mar-18)
2	Commercial Paper	ST	2,000	CARE A1+	CARE A1+ (01-Apr-20)	-	1) CARE A1+ (27-Mar-19) 2) CARE A1+ (04-Jan-19) 3) CARE A1+ (08-May-18)	1) CARE A1+ (21-Mar-18)
3	Debentures- Non-convertible debentures	LT	2,900	CARE AA-; Stable	CARE AA-; Stable (01-Apr-20)	-	1) CARE AA; Stable (27-Mar-19) 2) CARE AA; Stable (04-Jan-19) 3) CARE AA; Stable (25-Sep-18)	1) CARE AA; Stable (23-Mar-18)
4	Proposed Public issue of secured redeemable non-convertible debentures	LT	3,000	CARE AA-; Stable	CARE AA-; Stable (01-Apr-20)	-	1) CARE AA; Stable (27-Mar-19) 2) CARE AA; Stable (04-Jan-19) 3) CARE AA; Stable (05-Sep-18)	-

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

Sr. No	Name of Instrument	Complexity Level
1	Fund Based – LT/ST – Term Loan	Simple
2	Commercial Paper	Simple
3	Debentures- Non-convertible debentures	Simple

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.

(For more details please refer to our rationale for the entity published on May 04, 2020)

Contact us

Media Contact

Name - Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact 1

Name - Mr. Himanshu Shethia
Contact no.- +91-22-6754 3468
Email ID – himanshu.shethia@careratings.com

Analyst Contact 2

Name - Mr. Sanjay Kumar Agarwal
Contact no. – +91-22-6754 3500 / 582
Email ID – sanjay.agarwal@careratings.com

Business Development Contact

Name: Mr. Ankur Sachdeva
Contact no. : +91-22-6754 3495
Email ID – ankur.sachdeva@careratings.com

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.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**