



Press Release

Dhani Loans and Services Limited [DLSL]

March 12, 2021

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1	<u>Long Term Fund based facilities</u> Proposed Non-Convertible Debentures*	1000.00	IVR AA/ Stable Outlook [IVR Double A with Stable Outlook]	Assigned

* The proposed NCDs of DLSL are through a Public Issue (not through a Private Placement) for INR 1,000 Crore.

Details of facilities are in Annexure 1

Rating Rationale

The rating assigned to the Non-Convertible Debentures of Dhani Loans and Services Limited (DLSL) derives strength from experienced promoters backed by reputed board members, comfortable capitalization and strong resource-raising ability, strong linkage & support from the Promoters, improved gearing parameters and improved operating income parameters. The rating is however constrained by reduction in loan portfolio, moderate asset quality, significant amount of impairment losses, impact of COVID-19 global pandemic and competitive nature of industry.

Key Rating Sensitivities:

➤ **Upward Rating Factor:**

Substantial scaling up of its operations and diversifying its loan portfolio geographically, while maintaining the asset quality indicators, adequate capital position and profitability.

➤ **Downward Rating Factor:**

Adverse movement in the collection efficiency which impacts the asset quality significantly thereby increasing the credit cost for the Company.



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Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters backed by reputed board members:

DLSL's promoter is Dhani Services Limited (formerly Indiabulls Ventures Limited) ('DSL').

Mr. Pinank Jayant Shah, aged 41 years, is a Whole-time Director on the Board and Chief Executive Officer of the Company. He holds a bachelor's degree in commerce from Mumbai University and a master's degree in management studies (Finance) from Jamnalal Bajaj Institute of Management Studies. He has over 18 years of experience in retail lending, corporate lending and fund raising.

He is also one of the Executive Director of the parent company DSL. All the remaining board members also well qualified and have vast experience in their respective fields and contribute significantly in the overall growth of the Company. The company shall benefit from the strong experience of its professional management team which will enable them to scale-up its operations while managing the risks inherent in this type of business.

Comfortable capitalization and strong resource-raising ability:

DLSL has comfortable capitalization primarily supported by steady capital infusion from the promoter group. The Company's Tangible Net Worth stood at INR 4263.37 Crore as at H1-FY21 as against INR 4183.52 Crore as at March 31, 2020. DLSL has been able to obtain continuous funding support from its promoters as well as investors. During the six months ended 30-Sep-2020, the Company has issued & allotted NCDs (privately placed) worth INR 500 Crore.

Considering the scale of operations as on March 31, 2020, the company is well capitalized with a CAR (%) of 58.92%. Also, it has adequately matched asset liability profile as on September 30, 2020.

Strong linkage & support from the Promoters

Dhani Loans & Services Limited is a wholly-owned subsidiary of Dhani Services Limited (DSL) (Formerly Indiabulls Ventures Limited). Dhani Services Ltd. is a consumer business that operates through its app 'Dhani' and provides digital healthcare and digital transactional



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finance to its customers. The equity shares of DSL are listed on NSE and BSE and its Global Depository Receipts are listed on the Luxembourg Stock Exchange.

DSL has raised multiple rounds of capital through placement of its equity shares to specialist tech enabled investors. The last round of such capital was a raise of 80 mn USD in Sep/Oct 2020.

During FY19, the Holding Company (DSL) infused equity capital of INR 2,302.75 Crore into DLSL.

Improved Gearing parameters

The Overall Gearing ratio has improved significantly from 1.75x as at FY19 to 1.14x as at FY20 & further to 0.94x as at half year ended Sep-20, as the borrowings reduced over the years.

Improved operating income parameters

The Company interest income has increased by almost 20% in FY20 from FY19. The Net Interest margin (NIM) has seen improvement given the increase in Net Interest Income while having a moderate level of loan book as on March 31, 2020. The NIM was 12.51% in FY19, which improved to 13.89% in FY20.

Key Rating Weaknesses

Reduction in loan portfolio:

Decline in loan portfolio is due to sale of loan assets by way of Assignment, subsequently resulting in de-recognition of such assets from the books of the Company. The gain on sale of loan portfolio through assignment amounted to INR 616.69 Crore in FY20.

The Company has also securitized its loan assets to unrelated entities. These loan assets are not derecognized and proceeds received are presented as other financial liability.

The own book portfolio reduced from INR 10,633 Crore (AUM – INR 11,228 Crore) as at FY19 to INR 4,710 (AUM – INR 9,626 Crore) as at FY20.

Moderate Asset Quality:



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The Gross NPAs increased in percentage terms to 2.18% in FY20 when compared to 0.80% in FY19 while the Net NPA levels stood at 0.74% in FY20 and 0.25% in FY19. This is largely due to the reduction in the portfolio size. The ability to grow its loan book while maintaining low delinquency levels remains to be seen. Given that the portfolio has grown aggressively only post lockdown (i.e. May 2020), the portfolio has not yet seen one complete cycle. The company's ability to manage the asset quality while growing its portfolio is a key rating sensitivity.

Significant amount of impairment losses

There has been a significant amount of impairment on financial assets in FY20 of INR 816.25 Crore as against INR 103.01 Crore in FY19. Out of INR 816 Crore in FY20, loans written off amounted to INR 362 Crore and Covid related provision amounted to INR 390 Crore.

Impact of COVID-19 global pandemic

COVID-19, a global pandemic has contributed to a significant decline and volatility in global & Indian markets and a significant decrease in economic activity. The Company's businesses are expected to be impacted by lower lending opportunities and decline in collection efficiencies.

However, the Company's capital & liquidity position remains strong. The Overall Gearing ratio improved from 1.14x as at Mar-20 to 0.94x as at Sep-20. Pursuant to RBI's circular, the Company had extended moratorium to its borrowers in accordance to their board approved policies. Around 28% of the loans were under moratorium. Collection Efficiency has also started improving post COVID-19. The company expects only around 5% of the loans to come under restructuring.

Competitive nature of industry:

DLSL is exposed to stiff competition from other NBFCs and banks. The lending industry focused around SMEs and small ticket loans is highly fragmented with unorganized lenders also vying for the same set of borrowers. However, DLSL's professional management and focused approach towards SME lending and conservative underwriting policy standards is expected to grow its business while mitigating the risks.



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Analytical Approach & Applicable Criteria:

- Standalone
- Rating methodology for Financial Institutions/NBFCs
- Financial ratios and Interpretation (Financial Sector)

Liquidity: Strong

Considering the scale of operations as on March 31, 2020, the company is well capitalized with a CAR (%) of 58.92%. Also, it has adequately matched asset liability profile as on September 30, 2020. Also, it has strong cash & bank balances of INR 746.35 Crore as at December 31, 2020.

About the company

Dhani Loans and Services Limited (Formerly Indiabulls Consumer Finance Limited) (DLSL) is a non-deposit taking, systemically important, non-banking finance company (NBFC-ND-SI), registered with the Reserve Bank of India. It is a wholly owned subsidiary of Dhani Services Limited (Formerly Indiabulls Ventures Limited). DLSL primarily extends three kinds of Loans – Secured and Unsecured MSME loans and self-employed and salaried personal loans.

Financials [DLSL – Standalone]

	INR in Crore	
For the year ended/ As on*	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	1,648.06	2,516.88
Interest expense	559.48	739.66
PAT	400.19	54.25
Total Debt	7,565.21	4,986.41
Tangible Net Worth	4,313.82	4,183.52
Total Loan Assets	10,508.13	4,179.55
Ratios (%)		
Overall Gearing Ratio (x)	1.75	1.14



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GNPA (%)	0.80%	2.18%
NNPA (%)	0.25%	0.74%
CAR (%)	37.70%	58.92%

* Classification as per Infomerics' standards

Details of Non Co-operation with any other CRA: Nil

Any other information: N.A.

Rating History for last three years:

Name of Instrument/ Facility	Current Rating (Year: 2020-21)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Rating assigned in 2019-20	Rating assigned in 2018-19	Rating assigned in 2017-18
Long Term Fund based facility	Proposed NCDs*	1000.00	IVR AA/ Stable Outlook	--	--	--

* The proposed NCDs of DLSL are through a Public Issue (not through a Private Placement) for INR 1,000 Crore.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Sr. No.	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
1	<u>Long Term Fund based facilities</u> Proposed Non-Convertible Debentures*	--	--	To be decided	1000.00	IVR AA/ Stable Outlook

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