Press Release

Dhani Loans and Services Limited

Revised Press Release
August 25, 2023

This is with reference to the Press Release dated May 26, 2022. The revised PR stands as follows:

The revised press release added the Adequacy of Credit Enhancement Structure, Transaction Structure & Detailed explanation of covenants of the rated instrument/facilities as per the regulator guidelines.

Link to the press release dated May 26, 2022 published on Infomerics' website:
https://www.infomerics.com/admin/uploads/pr-dhani-loans-services-26may22.pdf

Ratings

Facilities/Instrument	Amount (INR crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator (Simple/High/ Complex)
Long Term – Non-Convertible Debentures	1000.00	IVR A+/CWDI (IVR A Plus Credit watch with developing implications)	IVR AA/Stable (IVR Double A with Stable outlook)	Revised	Complex
Long Term – Bank Loan Facilities	2500.00	IVR A+/CWDI (IVR A Plus Credit watch with developing implications)	IVR AA/Stable (IVR Double A with Stable outlook)	Revised	Simple
Total	**3500.00 (INR Three Thousand Five Hundred Crores only)**				

Details of Facilities are in Annexure 1

Detailed Rationale

The rating revision factors the reducing legacy loan book, average asset quality, deteriorating profitability due to significant impairment losses and lower than expected growth in the new business loan book. However, the rating continues to derive comfort from the strong parent support with an established track record of capital raising, experienced promoters and board of directors, strong capitalisation, and adequate liquidity.

The ratings have been placed under “credit watch with developing implications” (CWDI) on account of evolving nature of new business model of transaction finance, which is yet to make a substantial contribution towards company’s financial and business risk profile.

Key Rating Sensitivities:

- **Upward Rating Factor:**
  Substantial scaling up of its operations from the expected growth in the new loan book portfolio, while maintaining healthy 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.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Strong support from the parent with established track record of raising funds

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 finance to its customers. Its equity shares are listed on NSE and BSE and its Global Depository Receipts are listed on the Luxembourg Stock Exchange. During FY19, the Holding Company (DSL) infused equity capital of INR 2,302.75 Crore into DLSL as well as provided support via Inter Corporate Deposits (ICD).

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 Rs 588 Crore through preferential share sale to investors led by American fintech investor Ribbit Capital. Some of the distinguished investors are, Ribbit Capital, Clermont Group, Steadview Capital, Toscafund, Think Investments, NWI, Inteligigo Bank, etc.

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 our 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 Group CFO of DSL (parent of DLSL). The company has also appointed Mr. Narendra Jadhav as the new Independent Director, who is currently a Member of Rajya Sabha (nominated by President of India). 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.

Strong capitalization:

DLSL has strong capitalization primarily supported by steady capital infusion from the promoter group and its key management. The Company's Tangible Net Worth stood at Rs 4620.99 Crore as on December 31, 2021, as against INR 4175.68 Crore as at March 31, 2021. Considering the current scale of operations, the company is strongly capitalized with a CAR (%) of 67.41%. Also, it has adequately matched asset liability profile as on December 31, 2021. The Company's liquidity is strong with cash & bank balances of Rs 851 Crore as on April 30, 2021. The Overall Gearing ratio has improved significantly from 1.75x as at FY19 to 0.80x as at FY21, as the borrowings reduced over the years.

Key Rating Weaknesses

Reducing loan portfolio due to adoption of new business model:

Since April 2021, The company stopped fresh disbursements towards unsecured lending as the company changed its business model. DLSL is now largely focusing on transaction finance business at zero interest rates which includes a fee-based credit limit to customers. The product is bundled with other benefits and services to customer like cashback, online healthcare services and a daily goods store/e-pharmacy with doorstep delivery of medicines, grocery, household and personal care items which involves group companies.

The legacy loan book continues to degrow on the back of curtailed disbursements for the last 2 years towards consumer lending/legacy loan book coupled with lower-than-expected growth in the new business. Decline in legacy loan portfolio is also 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 own book portfolio reduced from Rs 10,633 Crore in FY19 to Rs 4,160 in FY21 and further to Rs 4,254 in 9MFY22.

Average asset Quality:

The Gross NPAs increased in percentage terms from 0.80% in FY19 to 10.26% in FY21 on the back of the impact of COVID 19 on the legacy book/unsecured loan portfolio which constitutes to 85% of total loan book coupled with continues degrowth in the loan book. However, due to substantial write-off's/provisions, the GNPA has moderated to 4.96% in 9MFY22. Going forward, the ability of the company to maintain a healthy asset quality by maintaining low delinquency levels will be a key rating sensitivity.

Deteriorating profitability due to significant amount of impairment losses

Company's profitability has deteriorated in the last 2 years with company reported net losses of Rs 54.10 Crores for FY21 and net loss of Rs 204.44 Crores in 9MFY22. This is mainly on account of collective write off of loans amounting to Rs.362 crore during FY20, Rs.184 crore during FY21 and Rs.510 crore during 9MFY22. NIM has also reduced from 13.89% in FY20 to 9.24% in FY21 on the back of reducing interest income. The company has reported profit of Rs 66.39 Crores in Q3FY22 on the back of improved revenues when compared to Q3FY21, reflecting the turnaround in the performance of the company. However, given the high write offs/provisions in H1FY22, the company has reported Net loss for 9MFY22. The ability of the company to reduce its credit costs and scale up its new business which will help them to improve the revenue levels will be a key rating monitorable.

Analytical Approach: Standalone

Applicable Criteria: Rating Methodology for Non-Banking Finance companies

Liquidity – Adequate

As on December 31, 2021, the company is well capitalized with a CAR (%) of 67.41% and has a adequately matched asset liability profile as on December 31, 2021. Also, it has strong cash & bank balances of Rs 851 Crore as on April 30, 2022. Collections were also stable in the 12 months with collection efficiency above 90%.

About the Company

Dhani Loans and Services Limited (DLSL, erstwhile Indiabulls Consumer Finance Limited) is a wholly owned subsidiary of Dhani Services Limited (DSL, erstwhile Indiabulls Ventures Limited). The company was incorporated on October 27, 1994. The company is registered as a non-deposit taking systemically important non-banking finance company (NBFC-ND-SI) and provides personal loans, unsecured and secured SME loans, with recent focus on transaction finance business. It is wholly owned subsidiary of DSL. The company has shifted its business model to a technology-based credit card solution under the brand name of 'One Freedom Card' to a customer segment which is between prime and new to market. The card business is based on a monthly subscription fee and is a zero-interest bearing service.

Financials (Standalone):

INR in Crore

For the year ended/ As on*	31-03-2019 (Audited)	31-03-2020 (Audited)	31-03-2021 (Audited)
Total Operating Income	1,648.06	2,516.88	1,062.90
Interest expense	559.48	739.66	435.90
PAT	400.19	54.25	-54.10
Total Debt	7,565.21	4,986.41	3,292.40
Tangible Net Worth	4,313.82	4,183.52	4,127.20
Total Loan Assets	10,508.13	4,179.55	3,721.20
Ratios (%)			
Overall Gearing Ratio (x)	1.75	1.19	0.80
GNPA (%)	0.79%	1.93%	10.26%
NNPA (%)	0.25%	0.74%	2.30%
CAR (%)	37.70%	58.92%	58.24%

* *Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information:

Rating History for last three years:

Name of Instrument/ Facility	Current Rating (Year: 2021-22)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Rating assigned in 2020-21 27 March 2021	Rating assigned in 2019-20	Rating assigned in 2018-19
Long Term Fund based facility	NCDs*	1000.00	IVR A+/ CWDI	IVR AA/ Stable Outlook	-	-
Long Term Fund based facility	Bank Loan Facilities	2500.00	IVR A+/ CWDI	IVR AA/ Stable Outlook	-	-
Total		**3,500.00**				

** The proposed NCDs of DLSL are through a Public Issue (not through a Private Placement) for INR 1,000 Crore and the company has raised Rs 190.57 Crores.*

Name and Contact Details of the Rating Analyst:

Name: Mr. Amey Joshi

Tel: (022) 62396023

Email: amey.joshi@infomercis.com

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of the Instrument	Size of Facility (INR Crore)	ISIN	Date of Issuance	Coupon Rate/IRR	Maturity Date	Rating Assigned/ Outlook
Non-Convertible Debentures	128.64	INE614X07324	2 Feb 2022	N.A.	7 Feb 2023	IVR A+/ CWDI
Non-Convertible Debentures	3.88	INE614X07332	2 Feb 2022	10.50%	2 Feb 2024	IVR A+/ CWDI
Non-Convertible Debentures	4.78	INE614X07340	2 Feb 2022	N.A.	2 Feb 2024	IVR A+/ CWDI
Non-Convertible Debentures	7.10	INE614X07357	2 Feb 2022	10.03%	2 Feb 2024	IVR A+/ CWDI
Non-Convertible Debentures	11.40	INE614X07365	2 Feb 2022	11.00%	31 Jan 2025	IVR A+/ CWDI

Non-Convertible Debentures	9.17	INE614X07373	2 Feb 2022	N.A.	31 Jan 2025	IVR A+/ CWDI
Non-Convertible Debentures	25.60	INE614X07381	2 Feb 2022	10.49%	31 Jan 2025	IVR A+/ CWDI
Proposed Non-Convertible Debentures	809.43	-	-	-	-	
Total	**1000.00**					

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Dhani-Loans-May22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: No Covenants

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.