Press Release

Dhanvarsha Finvest Limited

October 16, 2019

Ratings

S. No.	Instrument/Facility	Amount (Rs. crore)	Rating Assigned
1	Proposed Term Loan	50.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
	Total	**50.00**	

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from the reputed promoter, profitable operations, regular capital infusion by the promoters, comfortable capital adequacy and the good leverage position. The rating however is constrained by the relatively small portfolio size, de-growth in portfolio, moderate asset quality, geographical concentration risk and the competitive nature of the industry.

Key Rating Sensitivities:

- **Upward Rating factor -** The company's ability to keep the delinquency levels under check while growing its portfolio would be crucial for its profitability and would call for a positive rating action if achieved
- **Downward rating factor -** Any deterioration in company's asset quality while it looks to increase its portfolio with higher proportion of small ticket size loans would call for a negative rating action

Detailed Description of Key Rating Drivers

Key Rating Strengths

- ***Reputed promoter***

Mr. Nimir Mehta holds the controlling interest in Wilson Holdings Pvt Ltd (WHPL), which holds over 52.09% of DFL. Mr. Mehta is the Promoter of the Wilson Group. He has diverse business experience across a range of sectors including retail and wholesale lending, real estate investments, agro commodities and investing in sustainable infrastructure projects. Mr. Mehta is an Investor / Director in companies including Wilson Financial Services Limited and Wilson Ventures Pte Ltd (Singapore).

- ***Profitable operations***

  DFL profitability parameters improved substantially in FY18 and the level was maintained in FY19 as the company posted a net profit of Rs.4.43crore in FY19 on a total income of Rs.21.30crore as against a profit of Rs.4.08crore on a total income of Rs.11.89crore in FY18.

- ***Regular capital infusion by the promoters***

  The parent company, WHPL had infused funds in to DFL, to the tune of Rs.39.05 crore, via inter-corporate loans in June 2018. The interest rate on the loans is 11.50%. Further, the promoters infused equity aggregating toRs.12.06crore in FY19 and application money towards preferential warrants to the tune of Rs.1.25 crore. The total amount of capital to be infused via preferential warrants is expected to be Rs.5 crore and these would be converted in to equity by May 2020.

- ***Comfortable capital adequacy and good leverage***

  DFL's capital adequacy ratio (CAR) stood at 55.23% as on March 31, 2019, and it increased further to 59.37% as on June 30, 2019 (Provisional) as against the regulatory requirement applicable for NBFCs of 15%. Leverage too improved after the fresh equity infusion done by the company with total debt-equity moving down to 0.87x as on March 31, 2019 from3.17x reported as on March 31, 2018.

<u>Key Rating Weaknesses</u>

- ***Relatively small loan portfolio and short track record of operations***

  DFL effectively began ramping up its operations from July 2017. The company lends to SMEs primarily in the form of loans against property (LAP) and extends unsecured loans mainly to small businesses. The SME loans have a typical tenure of 60-84 months and unsecured loans are extended for a tenure of 24-36 months. Thus the seasoning of the portfolio is limited. The total loan book size stood at Rs.39.16 crore as on July 31, 2019 (provisional).

- ***De-growth in portfolio***

  DFL was earlier growing its portfolio rapidly before it changed its business plan and started focusing more on smaller retail businesses and individuals in an attempt to reduce company's exposure in high ticket size segment and have a more diversified portfolio. Owing to this change, the company portfolio reduced to Rs 48.73 crore in FY19 from Rs 48.85 in FY18 and further decreased to Rs. 39.16 crore (Provisional) as on July 31, 2019.

- ***Moderate Asset Quality:***

  The Gross NPAs (recognised at 180+days past due (DPD)) reduced from Rs.1.4 crore as on December 31, 2018 to Rs.1.0 crore as on July 31, 2019, while the 90+ DPD also improved from Rs.2.7 crore to Rs.1.6 crore over the same period. The Gross NPAs increased in percentage terms from 2.21% as on December 31, 2018 to 2.75% as on July 31, 2019 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 only in the past two financial years, 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.

- ***Geographical Concentration risk:***

  The entire portfolio of DFL is concentrated in and around Mumbai and Pune currently, indicating geographical concentration. However, the company plans to expand its branch network in Maharashtra and also set-up new branches in Gujarat and Rajasthan over the next three years, which is likely to reduce the geographical concentration in the medium term.

- ***Competitive nature of industry:***

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

Analytical Approach & Applicable Criteria:

- Standalone Approach
- Rating Methodology for Financial Institutions/NBFCs
- Financial Ratios & Interpretation (Financial Sector)

Liquidity

The Company has high margins and growing GCA on account of increasing scale of operations. The ICR and DSCR are high at 7.75 times and 5.15 times for FY19. The company does not have any large debt repayments in the near future. It is expected to be able to generate sufficient cash flows to meet all its debt obligations in the ensuing 12 month period.

About the company

Incorporated in 1994, Dhanvarsha Finvest Limited (DFL) is a Reserve Bank of India registered Non Deposit accepting Non-Banking Finance Company (“NBFC-ND”). The company, listed on the BSE, is a retail focused NBFC that aims to support small businesses (SMEs) & low-to-moderate income (LMI) customers by offering them financing solutions. DLF is currently focusing on low ticket size loans and reducing its exposure in high ticket size segments. Mr. Nimir Mehta, promoter of the Wilson Group, holds the controlling interest in WHPL, which holds over 52.09% of DFL. The company is well capitalised with a CAR ratio of 59.37% as on June 30, 2019. Also, the company does not have any debt apart from the loan availed from the holding company with an outstanding amount of Rs.24.50 crore as on March 31, 2019.

Financials (Standalone) **(Rs. Crore)**

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	11.89	21.30
Interest Expense	2.00	5.18
PAT	4.08	4.43
Total Debt	39.05	24.50
Tangible Net worth	12.32	28.06
Total CAR (%)	24.24	55.23
Interest Coverage (x)	3.31	2.11
Net Interest Margin (%)	2.58	7.41

* Classification as per Infomerics' standards

Details of Non Cooperation with any other CRA: Nil

Any other information: N.A

Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Proposed Term Loan	*Long Term*	50.00	IVR BBB- /Stable Outlook	--	--	--
		50.00				

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.

Annexure 1: Details of Facilities

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	***Proposed Term Loan***	--	--	--	50.00	IVR BBB- / Stable Outlook
Total					**50.00**	