

Press Release

Dvara Kshetriya Gramin Financial Services Private Limited

March 29, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	250.00	ACUITE A- Negative Reaffirmed Stable to Negative	-
Commercial Paper (CP)	25.00	-	ACUITE A2+ Reaffirmed
Non Convertible Debentures (NCD)	25.00	-	ACUITE A2+ Assigned
Non Convertible Debentures (NCD)	25.00	ACUITE A- Negative Reaffirmed Stable to Negative	-
Non Convertible Debentures (NCD)	50.00	PP-MLD ACUITE A- Negative Reaffirmed Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	375.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 250.00 Cr. bank facilities of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS). The outlook is revised to '**Negative**' from '**Stable**'.

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 25.00 Cr. proposed non-convertible debentures of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS). The outlook is revised to '**Negative**' from '**Stable**'.

Acuite has reaffirmed the short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 25.00 Cr. proposed commercial paper program of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS).

Acuite has reaffirmed the long-term rating of '**ACUITE PP-MLD A-**' (read as **ACUITE Principal Protected Market Linked Debentures A minus**) on the Rs. 50.00 crore PP-MLD of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS). The outlook is revised to '**Negative**' from '**Stable**'.

Further, Acuite has assigned short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 25.00 Cr. proposed non-convertible debentures of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS).

Revision in Outlook

The revision in outlook is on account deterioration in asset quality as marked by Gross Non Performing Assets of 8.41 percent as on December 31, 2021 (7.73 percent as on March 31, 2021) coupled with high proportion of restructurings and its consequent impact on overall credit profile. Dvara KGFS reported a loss of Rs. 17.33 crore during 9MFY22 as compared to PAT of Rs. 0.84 Cr. during FY21 on account of elevated credit costs as the company wrote off account in 365+dpd bucket. The company wrote -off Rs. 73.76 crore of assets during 9M FY2022. While Acuite takes note of m-o-m improvement in collections efficiency, the overall collection efficiency continues to be low at 43.82 percent as on January 31, 2021. The overall collection efficiency remained low as a result of overdues, however, the company has shown improvement in scheduled collections averaging 97.46 percent for 6 months ended January 31, 2022. As on December 31, 2021 Dvara KGFS's outstanding restructured portfolio stood at Rs. 125.61 Cr. under RBI restructuring framework which accounted for 15.54 percent of total POS against which provisions stood at Rs. 70.97 Cr.

The rating factors in Dvara KGFS's experienced management, support from marquee investors, diversified and comfortable resource raising ability. The rating also factors in capital raising expectations in the near to medium term which shall support company's growth and bolster capitalization levels. The rating also takes into consideration Dvara KGFS's established presence in its areas of operations and demonstrated growth of its AUM which stood at Rs. 1,028.66 Cr. as on December 31, 2021. The rating also factors in the company's comfortable capitalization levels marked by Capital Adequacy Ratio (CAR) of 23.95 percent as on December 31, 2021 and has demonstrated the ability to attract funding from Banks and NBFC/FI's as reflected in Dvara KGFS's diversified funding profile. The company has maintained a conservative leverage of 2.94 times as on December 31, 2021.

These strengths are partially offset by relatively geographically concentrated portfolio in the state of Tamil Nadu with ~73.66 percent of the AUM as on March 31, 2021. Acuite notes the inherent risks in nature of the microfinance business accentuated by the economic impact of COVID-19, rendering the portfolio vulnerable to asset quality risks.

About the company

Chennai based, Dvara Kshetriya Grameen Financial Services Private Limited (previously Pudhuaru Financial Services Private Limited) is a non-deposit taking, systemically important non-banking finance company ('NBFC-ND-SI'). The company is co-founded by Ms. Bindu Ananth, chairperson of Dvara Trust and Dvara KGFS. Dvara KGFS is promoted by Dvara Trust (erstwhile IFMR Trust) which holds ~32.12 percent of shareholding as on January 31, 2021, the rest is held by Accion International, LeapFrog Investment, Stakeboat Capital and Nordic Microfinance Initiative. Dvara KGFS is engaged in extending loans and financial products. It majorly provides loans under Joint Liability Group (JLG) model and also provides micro-enterprise loans, personal loans, jewel loans, consumer loans and crop loans.

Dvara KGFS operates through its network of 309 branches spread across 6 states as on March 31, 2021.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Dvara KGFS to arrive at the rating.

Key Rating Drivers

Strength

Experienced management team supported by diverse and reputed investors

Dvara KGFS commenced its operations in 2008, under the name Pudhuaru Financial Services Private Limited and was later re-branded as Dvara KGFS in 2018. The company offers a range of financial services and loan products under its 'Wealth Management Approach' through its branch based Kshetriya Gramin model. Dvara KGFS has presence in 53 districts with a

network of 309 branches having an AUM of Rs. 1,107.79 Cr. as on March 31, 2021.

Dvara KGFS's management team has vast experience in the field of microfinance, social transformation and banking. The board is led by Ms. Bindu Ananth (Chairperson) and Mr. Samir Shah (Director). Ms. Bindu is the co-founder and Chairperson of Dvara Trust. She was Board Chair of Northern Arc Capital from 2009 – 2018. Ms. Bindu also acquired experience in microfinance segment while her stint at ICICI Bank. Mr. Samir was ex-Managing Director & CEO at NCDEX and has around two decades of experience at Thomson Reuters where he held positions in various capacities including the position of the Global Head of Business Planning and Operations; he also led Reuters' India operations as the Managing Director in South Asia. The board is also supported by independent directors and the investors also have board representations and Dvara KGFS benefits from their expertise.

The management has demonstrated its ability to attract funding in the form of Equity, CCPS from marquee investors like Accion International, LeapFrog Investment, Stakeboat Capital and Nordic Microfinance Initiative. These investors held around 67.68 percent of total shareholding as on December 2021 and rest 32.32 percent is held by founder-promoter Dvara Trust. The company has raised capital amounting to Rs. 137 Cr. during FY2020. Dvara is also expecting capital infusion of Rs. 30 crore via rights issue by Q1 FY2023.

Acuité believes that the company's growth prospects will be supported by the management's experience in the industry, along with their demonstrated track record of resource raising ability.

Adequate capitalization with diversified funding mix

Dvara KGFS's capital structure is marked by networth of Rs. 295.44 Cr. as on March 31, 2020 (Rs. 293.68 Cr. as on March 31, 2020) and a gearing of 3.03 times as on March 31, 2020 (2.61 times as on March 31, 2020). As on December 31, 2021 the networth stood at Rs. 278.21 Cr. with gearing levels at 2.94 times (provisional). The company has adequate capitalization levels marked by Capital Adequacy Ratio (CAR) at 23.95 percent as on December 31, 2021. Dvara KGFS has strong lender profile comprising Banks and NBFC/FI's, with total debt of Rs. 818.88 Cr. outstanding as on December 31, 2021. Dvara KGFS's borrowing profile comprised Term loans (67.23 percent), NCD's (24.61 percent) and External commercial borrowings (8.16 percent) as on December 31, 2021. Dvara KGFS has demonstrated access to funding from both banks and large NBFC/FIs as reflected in its sanctions to the tune of around Rs. 200 Cr. for 9M FY2022.

Acuité believes that the company's comfortable capitalization levels along with demonstrated resource raising ability will support its growth plans over the medium term.

Steady growth in AUM

Dvara KGFS commenced its operations in 2008, in Tamil Nadu. Over the years the company has expanded its presence by further penetration in Tamil Nadu and expanding into new states like Odisha, Karnataka and Uttarakhand. In addition to organic growth, in FY2019 Dvara KGFS acquired the business of Varam Capital Private Limited an existing NBFC-MFI to expand its presence in the state of Chhattisgarh. The company disbursed loans amounting to around Rs. 669 Cr. in FY2021. Dvara KGFS's AUM has grown from Rs. 679.73 Cr. as on March 31, 2019 to Rs. 1,028.66 Cr. as on December 31, 2021. The AUM of Rs. 1,028.66 Cr. comprised owned portfolio of Rs. 808.28 Cr. (78.58 percent of AUM) and off book exposure of Rs. 220.38 Cr. (21.42 percent of AUM). Dvara KGFS takes off book exposure through Business Correspondence (BC), Direct Assignment (DA) and Pass through Certificate (PTC) transactions. Dvara KGFS has BC partnership with Axis Bank, ESAF Small Finance Bank, MAS Financial Services and Northern Arc Capital. The company also entered into DA & PTC transactions in FY2020 and FY2021.

Acuité expects Dvara KGFS to maintain the growth momentum in a sustainable manner while diversifying its geographical reach.

Weakness

Deterioration in asset quality

Dvara KGFS largely extends JLG loans and micro enterprise loans which comprise 70.10 percent and 16.20 percent of the AUM respectively as on December 31, 2021. The operations of Dvara KGFS are spread across the states of Tamil Nadu, Odisha, Karnataka, Uttarakhand, Chhattisgarh, Jharkhand and Bihar. The company's AUM stands at Rs. 1,028.66 Cr. as on December 31, 2021 which grew from Rs. 982.74 Cr. as on March 31, 2020 and from Rs. 679.73 Cr. as on March 31, 2019. Dvara KGFS mainly operates in rural and semi-urban centers with agriculture and allied activities accounting for around 40 percent of the AUM as on December 31, 2021. Acuité notes the inherent risks in nature of the microfinance business accentuated by the economic impact of COVID-19, rendering the portfolio vulnerable to asset quality risks. Against this backdrop, weakening in asset quality is seen with PAR 30+ dpd rising to 19.60 percent and Gross Non-Performing Asset (GNPA) at 8.41 percent as on December 31, 2021 (PAR 30+ dpd at 11.38 percent and GNPA at 7.73 percent as on March 31, 2021) as compared to PAR 30+ dpd at 3.33 percent and GNPA at 3.18 percent as on March 31, 2020. Dvara KGFS has restructured its loan book outstanding at Rs. 125 Cr. for 9M FY2022 under RBI approved restructuring framework and had also introduced a scheme to help selective borrowers with small ticket top-up/emergency loans. Dvara KGFS also wrote off Rs. 73.76 Cr. of portfolio majorly comprising 365+ dpd overdues. These steps along with collection efforts has aided in improvement in collection efficiency (against scheduled demand for current month) at 97.62 percent as on January 31, 2021 but the total collection efficiency (including overdues) remained low at 43.82 percent during the same period. Dvara KGFS has made provisions to mitigate some of the asset quality risks.

Acuité believes Dvara KGFS's ability to demonstrate growth in loan assets while containing asset quality risks in the light of continuously evolving scenario will be crucial.

Earnings Profile

With growth in its AUM, Dvara KGFS's Net Interest Income (NII) improved to Rs. 135.96 crore in FY2021 from Rs. 106.54 crore in FY2020. NII for 9M FY2022 stood at Rs. 98.89 Cr. Net Interest Margin (NIM) improved to 13.88 percent for FY2021 from 13.70 percent for FY2020. NIM declined to 13.88 percent for FY2021. The company's PAT declined to Rs. 0.84 Cr. as on March 31, 2021 from Rs. 3.81 Cr. as on March 31, 2020 on account of increased operating expenses and impairment loss allowance (provisions) of Rs. 49.85 Cr. during FY2021. The PAT further declined as company reported a loss of Rs. 17.33 Cr. on account of continued higher operating expenses and write off of Rs. 73.76 Cr. Opex for 9M FY2022 further increased to 10.05 percent from 8.04 percent as on March 31, 2021. The decline in profit margins as described above coupled with increase in loan book resulted in decline in Return on Average Assets (RoAA) of Dvara KGFS to (1.98) percent for 9M FY2022 from 0.07 percent for FY2021.

Acuité believes the inherent risks of microfinance industry including exposure to marginalized borrowers have been exacerbated by localized lockdowns and economic disruptions in the wake of second wave of Covid-19. In this regard, the movement of delinquencies across different time buckets and its resultant impact on profitability metrics due to higher provisioning requirements would remain key monitorables.

Geographic concentration; susceptibility to risks inherent to microfinance segment

Dvara KGFS has its operations spreads across 7 states spanning 53 districts through its branch network of 296 branches as on December 31, 2021, despite the expansion geographic concentration of loan portfolio was seen in the state of Tamil Nadu with around 71 percent of the AUM as on December 31, 2021 followed by Odisha with 11 percent and Karnataka with 8 percent, the rest of the states Uttarakhand, Chhattisgarh, Jharkhand and Bihar comprised 11 percent of the AUM. In term of district-wise concentration the top 5 districts comprised 161 branches (out of 309 branches) with 57.47 percent of the total AUM outstanding as on March 31, 2021, reducing from 61.61 percent of total AUM outstanding as on March 31, 2020. Dvara KGFS has been gradually reducing its exposure to geographic concentration with addition of new branches in different districts and venturing in new states. The company started its operations in Karnataka in FY2019 and in Chhattisgarh and Jharkhand during FY2020.

Given the wider coverage of the virus across semi urban and rural areas in amidst second wave of covid, the risks of a sharper impact on the lives and livelihoods of the microfinance borrower is higher in the near term hence, the company's performance is expected to remain exposed to the occurrence of such events. Besides geography, the company will be exposed to any changes in the regulatory framework. The current lockdowns and economic disruptions might affect the credit profile of Dvara KGFS's borrowers which in turn could affect the company's earning profile.

Acuité believes that containing additional slippages while maintaining the growth in the loan portfolio and reducing geographic concentration will be crucial.

ESG Factors Relevant for Rating

Dvara Kshetriya Grameen Financial Services Private Limited (Dvara KGFS) belongs to the NBFC-MFI sector which facilitates lending to the unbanked population. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. The entity maintains adequate transparency in its business ethics practices as can be inferred from the entity's disclosures regarding related party transactions, vigil mechanism and whistle blower policy. The board of directors of the company comprise of 8 directors out of which 3 are independent directors and 3 are nominee directors which includes 1 female director who is the co-founder and chairperson of Dvara Trust. The audit committee is with the objective to monitor and provide an unbiased supervision of the management's financial reporting process. Dvara KGFS also maintains transparency in terms of disclosures pertaining to interest rate policy and its adherence to Fair Practice Code as disseminated by Reserve Bank of India's circular. Dvara KGFS aims to empower women by providing micro loans to help them generate additional income opportunities, hence making an economic contribution by way of financial inclusion. It continues to work on several community development initiatives and has also developed a social performance management system to facilitate financial stability of its staff and clients.

Rating Sensitivity

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metric
- Changes in regulatory environment

Material Covenants

Dvara KGFS is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

Liquidity: Adequate

Dvara KGFS's overall liquidity profile remains adequate with no negative cumulative mismatches in near to medium term as per ALM dated December 31, 2021. The company has maintained unencumbered Cash and bank balances of Rs. 45.41 Cr. and free deposits of Rs. 0.30 Cr as on December 31, 2021. As per ALM statement, the company has debt servicing obligations of around Rs. 500 Cr. over the period of one year. Dvara KGFS's borrowing (including term loans and NCD) tenure generally ranges between 2 to 6 years, with average maturity between 2.5 to 3 years, while the company provides loans (JLG loans) having a tenure of 1 to 2 years. Dvara KGFS's scheduled collection efficiency (demand due

for current month) for November, December 2021 and January 2022 were 96.41 percent, 97.82 percent and 97.62 percent respectively.

Outlook: Negative

Acuité believes that Dvara KGFS's credit profile will be under pressure on account of significant impairment in asset quality. The outlook may be revised to 'Stable' in case Dvara KGFS is able to demonstrate a significant improvement in asset quality and profitability. The rating may be downgraded if the company faces challenges in raising fresh equity or long term debt funding commensurate with its near term business requirements and higher than expected deterioration in asset quality/ profitability. Any decline in AUM or capitalization will also impart a negative bias to the rating.

Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	1206.41	1074.75
Total Income*	Rs. Cr.	138.78	110.22
PAT	Rs. Cr.	0.84	3.81
Networth	Rs. Cr.	295.44	293.68
Return on Average Assets (RoAA)	(%)	0.07	0.42
Return on Net Worth (RoNW)	(%)	0.29	1.66
Total Debt/Tangible Net Worth (Gearing)	Times	3.03	2.61
Gross NPA's	(%)	7.73	3.18
Net NPA's	(%)	1.94	1.12

*Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable):

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Commercial Paper: <https://www.acuite.in/view-rating-criteria-54.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
	Proposed Bank Facility	Long Term	250.00	ACUITE A- Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	25.00	ACUITE A- Stable (Reaffirmed)

01 Jul 2021	Non Convertible Debentures	Long Term	10.00	ACUITE PP-MLD A- Stable (Assigned)
	Non Convertible Debentures	Long Term	10.00	ACUITE PP-MLD A- Stable (Assigned)
	Proposed Commercial Paper Program	Short Term	25.00	ACUITE A2+ (Reaffirmed)
	Non Convertible Debentures	Long Term	10.00	ACUITE PP-MLD A- Stable (Assigned)
	Non Convertible Debentures	Long Term	20.00	ACUITE PP-MLD A- Stable (Assigned)
25 Jun 2021	Proposed Non Convertible Debentures	Long Term	50.00	ACUITE A- (Withdrawn)
	Proposed Commercial Paper Program	Short Term	25.00	ACUITE A2+ (Reaffirmed)
	Proposed Bank Facility	Long Term	250.00	ACUITE A- Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	50.00	ACUITE Provisional PP-MLD A- Stable (Assigned)
	Proposed Non Convertible Debentures	Long Term	25.00	ACUITE A- Stable (Reaffirmed)
16 Jun 2021	Proposed Bank Facility	Long Term	250.00	ACUITE A- Stable (Assigned)
	Proposed Non Convertible Debentures	Long Term	75.00	ACUITE A- Stable (Assigned)
	Proposed Commercial Paper Program	Short Term	25.00	ACUITE A2+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	INE179P07233	Principal protected market linked debentures	28-06-2021	Not Applicable	28-09-2022	10.00	PP-MLD ACUITE A- Negative Reaffirmed Stable to Negative
Not Applicable	INE179P07209	Principal protected market linked debentures	28-06-2021	Not Applicable	28-01-2023	10.00	PP-MLD ACUITE A- Negative Reaffirmed Stable to Negative
Not Applicable	INE179P07217	Principal protected market linked debentures	28-06-2021	Not Applicable	28-06-2023	10.00	PP-MLD ACUITE A- Negative Reaffirmed Stable to Negative
Not Applicable	INE179P07225	Principal protected market linked debentures	28-06-2021	Not Applicable	28-06-2024	20.00	PP-MLD ACUITE A- Negative Reaffirmed Stable to Negative
Not Applicable	Not Applicable	Proposed Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	236.99	ACUITE A- Negative Reaffirmed Stable to Negative
Not Applicable	Not Applicable	Proposed Non Convertible	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A- Negative Reaffirmed

		Debentures					Stable to Negative
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A2+ Assigned
Federal Bank	Not Applicable	Term Loan	28-02-2020	Not available	28-02-2023	4.67	ACUITE A- Negative Reaffirmed Stable to Negative
Federal Bank	Not Applicable	Term Loan	13-01-2021	Not available	13-01-2024	8.34	ACUITE A- Negative Reaffirmed Stable to Negative

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294041 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Shreyans Mehta Senior Analyst-Rating Operations Tel: 022-49294065 shreyans.mehta@acuite.in	

About Acuité Ratings & Research

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