Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
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Rating Rationale

March 12, 2022 | Mumbai

Dvara Kshetriya Gramin Financial Services Private Limited

'CRISIL BBB+/Stable' assigned to Subordinated Debt; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.335 Crore (Enhanced from Rs.325 Crore)**
Long Term Rating	**CRISIL BBB+/Stable (Reaffirmed)**

Rs.30 Crore Subordinated Debt	**CRISIL BBB+/Stable (Assigned)**
Rs.20 Crore Long Term Principal Protected Market Linked Debentures	**CRISIL PPMLD BBB+ r /Stable (Reaffirmed)**
Rs.50 Crore Non Convertible Debentures	**CRISIL BBB+/Stable (Reaffirmed)**
Rs.30 Crore Non Convertible Debentures	**CRISIL BBB+/Stable (Reaffirmed)**
Rs.40 Crore Non Convertible Debentures	**CRISIL BBB+/Stable (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **'CRISIL BBB+/Stable'** rating to the Rs 30 crore subordinated debt and reaffirmed its ratings on the long-term bank facilities and outstanding debt instruments of Dvara Kshetriya Gramin Financial Services Pvt Ltd (Dvara KGFS).

The rating centrally factors in the highly experienced profile of the company's board and management and continuous support of the founder-promoter, Dvara Trust (erstwhile IFMR trust); adequate capital position supported by steady equity infusion; and diversified resource profile. These strengths are partially offset by average asset quality with higher concentration in a single state (Tamil Nadu), low profitability with high operating costs, inherently modest credit risk profiles of the borrowers and potential risk from local socio-political issues inherent to the microfinance sector.

The prefix 'PPMLD' indicates that the principal amount of the debentures is protected, while the returns are market-linked. The suffix 'r' shows that the returns on the debentures have significant risks other than credit risk. Also, payments to investors are not fixed and are linked to external variables, such as commodity prices, equity indices, foreign exchange rates or equity valuation of the company.

After registering a two-year compounded annual growth rate of 30% until fiscal 2020, the growth momentum of Dvara KGFS moderated on account of the Covid-19 pandemic at the onset of fiscal 2021. Nevertheless, with disbursements picking up from the second quarter of fiscal 2021, the company’s assets under management (AUM) stood at Rs 1,108 crore, registering on-year growth of 12.7% in fiscal 2021. In the aftermath of the second wave of the pandemic, consolidated AUM declined by 7% (YTD) to Rs 1029 crore as on December 2021.

In terms of collection efficiency, the company’s collections (including overdues but excluding prepayments), which reached over 100% in March and April 2021 because of high overdue collections. However, the collections were severely impacted in May 2021 with the sharp spike in number of cases in the second wave of the pandemic due to various forms of lockdowns imposed by states to curb the spread of Covid-19. Nevertheless, from June 2021 onwards month-on-month collections improved to 93% to over 100% (between July 2021 to January 2022). The company’s outstanding restructured book as on December 31, 2021 stood at Rs 125.6 crore.

CRISIL Ratings has taken note of Dvara KGFS acquiring a 25.9% stake in Saija Finance Pvt Ltd (Saija), for Rs 7.57 crore. The acquisition was done with the strategic intent to foray into the geography of Bihar and deeper into Jharkhand and hence will help in the geographical diversification endeavour . Any further investment in the entity will be contingent upon Saija meeting certain performance metrics that will be outlined by the Dvara KGFS board. Besides, acquisition of the entire remaining stake will be subject to shareholder and regulatory approvals. At this juncture the total investment by Dvara is just

9.3% of its networth and does not impact the financial risk profile. However, any additional support to Saija in the form of equity or loans or guarantees will be a key monitorable and rating sensitivity factor.

Analytical Approach
CRISIL Ratings has evaluated the standalone business and financial risk profile of Dvara KGFS.

Key Rating Drivers & Detailed Description
Strengths:
*** Experienced board and management profile**
The management has experience of more than two decades in the rural financing industry. The board comprises Ms Bindu Ananth, Mr Samir Shah and other eminent members. The company started the management ramp-up in 2018, after which it appointed the chief executive officer (CEO), deputy CEO, chief financial officer (CFO), deputy CFO, chief risk officer, chief human resources officer, chief technology officer and several other key members. These members of the management have significant senior-level experience in the micro-finance institution (MFI) and non-banking finance company (NBFC) space and have helped strengthen the company's systems and processes. The management has been in the microfinance industry over the past several years and has developed a strong understanding of the underlying cash flow and various financial product requirements of its customers. Dvara Trust has been in the rural financing space since 2008 and has incubated the business model, systems and processes of Dvara KGFS. Dvara Trust is also the founder of Northern Arc Capital Ltd (previously, IFMR Capital Finance Ltd) and holds around a 9.5% stake in the entity. The promoter will support Dvara KGFS for the equity requirement that might arise over the medium term by paring down stake in other companies owned by the trust.

*** Adequate capitalisation**
Capitalisation is strong for the ongoing scale of operations. Networth and adjusted gearing were Rs 278 crore and 3.7 times, respectively, as on December 31, 2021, against Rs 296 crore and 4.0 times, respectively, as on March 31, 2021. External investors, such as Nordic Microfinance, Stakeboat Capital, Leapfrog Investment and Accion International, put capital of Rs 137 crore into Dvara KGFS in fiscals 2018 and 2019. The rating centrally factors in the steady capital infusion by Dvara Trust and other investors that has supported the company's operations which is expected to continue. Besides, Dvara Trust, erstwhile IFMR trust, is the single largest shareholder and holds 32.1% stake in the company. This is followed by Leapfrog Financial Inclusion India (II) Ltd and Accion Africa-Asia Investment Company holding 23.0% and 21.7% respectively. On a steady state basis, the company is expected to operate at adjusted gearing of 5-5.5 times in the long term. Any material increase in gearing will remain a key rating sensitivity factor.

*** Diverse resource profile**
The resource profile includes more than 40 lenders, comprising banks, small finance banks, NBFCs and financial institutions. The company also has relationships with NBFCs and banks to act as their business correspondent. Dvara KGFS has also been active in raising funds through securitisation; as on December 31, 2021, the company had total outstanding securitised book (DA+PTC) of Rs 24.3 crore (Rs 23.8 crore as of March 2019). As on December 31, 2021, the resource profile comprised term loans (78%), NCDs (14%), commercial paper (3%) and securitisation (PTCs) and DA (4%). In the first nine months of fiscal 2022, average cost of borrowing stood at around 13.6% compared with 12.9% in fiscal 2021. The company plans to target incremental funding from banks, which will help reduce borrowing costs. It is expected to raise funding through external commercial borrowings over the medium term, which will also significantly reduce the cost of borrowing and open up more avenues of raising funds from the overseas debt market.

Weakness:
*** Average profitability**
Operating expenses as a percentage of total assets improved to 8.6% in the first half of fiscal 2022, decreasing from 9.6% in fiscal 2020. Some part of this can be attributed to muted growth in the first half of fiscal 2021 as well as first half of fiscal 2022. The company reported a net loss of Rs 17 crore in the first nine months of fiscal 2022, as compared with net profit of Rs 1 crore in fiscal 2021. This is primarily because of the Rs 76 crore of write-off done by the company during the third quarter of fiscal 2022. The company was carrying a provision of Rs 51.4 crore against the same. The company continues to carry a total provision of Rs 72.1 crore as of December 31, 2021. At a pre-provisioning level, the company reported profit of Rs 32.2 crore in the first nine months of fiscal 2022 compared with Rs 53 crore in fiscal 2021. The company is in the growth phase, with a high number of branches opened in fiscal 2020 to cater to newer geographies. As these branches take time to reach operating profitability levels, the company's profitability has remained constrained. Overall AUM per branch stood at around Rs 3.5 crore as on December 31, 2021, which is lower than other companies engaged in joint liability group lending (JLG). The overall profitability is expected to improve as these branches increase their scale over the next 1.5-2.0 years. The subdued profitability is also attributed to the company had adopted IND AS accounting from fiscal 2020 and several related adjustments were done to arrive at the financial statements. The effect of these adjustments will generally normalise in the next 2-3 years' time.

Profitability will also depend on the overall credit costs, which will be incurred on account of the pandemic-related lockdown. The company carries a total provision of Rs 72.1 crore as on December 2021 (7.0% of the book as on December 2021) for the current overdue loans and expected stress in the overall book, which includes the restructured portfolio of Rs 125.6 crore. Management of recoveries once normalcy is restored in business operations and the ability to correct and maintain asset quality on a steady-state basis remains a key monitorable.

*** Moderate in asset quality**

The company has, in the past, faced asset quality issues on account of the Uttarakhand floods (2013), Odisha fraud (2016) and Cyclone Gaja (2019). This led to increase in harder bucket delinquencies of above 90 days. The company's 90+ dpd (excluding the historic delinquent portfolio) moderated to 11.5% (estimated) and 5.8% as of September and March 2021, respectively, compared with 0.3% a year earlier. The company had been able to improve its systems over the past two years given its knowledge and understanding of the sector and new tools for credit evaluation and fraud management. This improvement was led by the new leadership, which had been inducted over the past 2-3 years. However, the onset of the second wave has resulted in weakening of the asset quality. Nevertheless, with the write-off of Rs 76 crore done in the third quarter of fiscal 2022, the 90+ dpd has improved to 8.4% as of December 31, 2021. This also includes delinquencies from the restructured book of Rs 126 crore. Furthermore, reported GNPA (gross non-performing asset), on ECL basis, stood at 9.7% due to the impact of the Reserve Bank of India (RBI) clarification released in November 2021 with respect to single day NPA recognition and upgradation of NPA accounts only after all dues are cleared. However, the recent revised RBI clarification to defer implementation of upgradation norms till September 30, 2022, will give the company reasonable transition time to recalibrate processes, especially revamp their collection infrastructure and teams, and persuade borrowers to align with the new dispensation norms. The company is expected to focus on recoveries in order to reduce delinquencies in the >60 days bucket and thus curb incremental slippages.

Collection efficiency improved to over 100% in April 2021 from around 84% in September 2020. However, with the onset of the second wave, the collections had reduced to 81% in May 2021. The company was able to improve the collection efficiency from July 2021 onwards to over 100% as of January 2022. The ability of the company to sustain collections and eventually reach pre-pandemic levels on a steady-state basis will also remain a key monitorable.

*** Exposure to risks linked to concentration of operations**

Higher concentration in a particular geography exposes companies to local disruptive occurrences related to natural disasters and man-made events. As the borrower profile has substantial levels of correlations in the income profile, there is a high probability of delinquencies across same geography borrowers on account of the disruptive events. High concentration of portfolio exposes the company to state-specific and geography-specific credit issues. Any high-level impact of the disruptive events in these areas will most likely impact capitalisation. Presently, around 69% of the overall portfolio is based in Tamil Nadu. However, comfort can be drawn from the fact that this declined from 90% as on March 31, 2019. The company is focusing on decreasing the concentration further over the medium term. The acquisition of Saija was also done with an intent to diversify into Bihar and deeper into Jharkhand. Their ability to diversify and reduce the concentration further will remain a key rating sensitivity factor.

*** Inherently modest credit risk profiles of the borrowers**

Despite Dvara KGFS operating as an NBFC (not NBFC-MFI), a significant portion of the portfolio comprises loans given to individuals under the JLG mechanism. Its customers generally have below-average credit risk profiles with lack of access to formal credit. Such borrowers are typically farmers, tailors, cattle owners/traders, small vegetable vendors, teashop owners and dairy farmers. The income flow of these households could be volatile and dependent on the performance of the local economy. With slowdown in economic activity in light of the Covid-19 pandemic, there could be potential pressure on the cash flows of such borrowers at a household level, thereby restricting their repayment capability**.**

*** Potential risk from local socio-political issues in the microfinance sector**

The microfinance sector has witnessed two major disruptive events in the past decade. The first was the crisis promulgated by the ordinance passed by the Government of Andhra Pradesh in 2010 and the second was demonetisation in 2016. In addition, the sector has faced issues of varying intensity in several geographies. Promulgation of the ordinance on MFIs by the Government of Andhra Pradesh in 2010 demonstrated their vulnerability to regulatory and legislative risks. The ordinance triggered a chain of events that adversely affected the business models of MFIs by impairing their growth, asset quality, profitability and solvency. Similarly, the sector witnessed high levels of delinquencies post demonetisation and the subsequent socio-political events. For Dvara KGFS, while the impact of demonetisation was relatively lesser as compared to peers, it did witness increase in hard bucket delinquencies as a consequence of fraud issues in Odisha in fiscal 2016 and Cyclone Gaja in 2019. This indicates the fragility of the business model against external risks. As the business involves lending to the poor and downtrodden sections of the society, MFIs will remain exposed to socially sensitive factors, including charging of high interest rates and, consequently, tighter regulations and legislation.

Liquidity: Adequate

The company has liquidity cover of 1.2 time for a two-month period after assuming 75% collections. Cash and equivalents, including liquid investments, stood at Rs 88.4 crore as on January 31, 2021, against debt obligation of Rs 150.1 crore for the two months through March 2022. Liquidity is also supported by the steady level of collections (around Rs 60 crore) that the company has been reporting for the last 2-3 months. Liquidity is further cushioned by need-based and timely funding support from the parent and investors.

Outlook : Stable

Dvara KGFS is expected to benefit from the experience of its promoter and management in the micro lending industry. CRISIL Ratings also expects the company to maintain adequate capitalisation.

Rating Sensitivity factors

Upward factors

- Improvement in geographical diversification, with concentration in single largest state declining below 40% with maintaining sound asset quality metrics
- Improvement in return on assets of above 2.5% on a sustainable basis
- Significant improvement in capitalization profile

Downward factors

- Significant delay in asset quality recovering to historic level
- Weakening of earnings profile, resulting in stressed profitability and capital position
- Inability to maintain adjusted gearing below 5 times on a steady state basis
- High level churn in the senior management of the organization

About the Group

Dvara KGFS was set up in fiscal 2008 by Dvara Trust for extending unsecured and secured loans to rural areas in the country. The company was founded by Ms Bindu Ananth and Mr Nachiket Mor. Dvara KGFS focuses on extending multiple financial products for the lending, savings and insurance requirements of individuals in rural areas. The company positions itself as a rural wealth manager providing loans and financial products to customers. It largely extends JLG and unsecured micro enterprise loans, which comprise more than 95% of the total loans. The JLG loans are up to a ticket size of Rs 50,000 and the micro enterprise loans up to Rs 5 lakh. The company lends at interest rates of 24-25% for the JLG loans and 26-28% for the micro enterprise loans.

During fiscal 2019, the Business correspondents and Corporate Agency Business of the IFMR Rural Channels and Services Private Limited (Holding Company of Dvara KGFS) and IFMR Holdings Private Limited (Ultimate Holding Company) were amalgamated with the company

Key Financial Indicators

Particulars	Unit	Dec 2021	Mar 2021	Mar 2020	Mar 2019
Total managed assets	**Rs crore**	**1243**	**1370**	**1193**	**842**
Total income	**Rs crore**	196	**245**	**207**	**161**
Profit after tax	**Rs crore**	**-17**	**0.9**	**3.8**	**32$**
Return on managed assets	**%**	**-1.8****	**0.1**	**0.4**	**4.0$**
Gross NPA (90+ dpd)	**%**	**8.4**	**7.6**	**2.4**	**2.5**
Adjusted gearing (including off-book)	**Times**	**3.2**	**3.5**	**3.3**	**3.9**

***annualised*

$includes one-time tax write-back of Rs 14.1 crore on account of scheme of demerger approved by National Company Law Tribunal (profit excluding this stood at Rs 18.3 crore and return on assets of 2.4%) and including the Supreme Court stay on recognition on NPAs in September 2020 (excluding this, it stood at 2.5%)

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating
INE179P07175	Long-term principal-protected market-linked debentures	17-May-21	BSE SENSEX Linked	30-Sep-24	20	Highly complex	CRISIL PPMLD BBB+ r/Stable
NA	Non-convertible debentures*	NA	NA	NA	50	Simple	CRISIL BBB+/Stable
NA	Non-convertible debentures*	NA	NA	NA	30	Simple	CRISIL BBB+/Stable
NA	Non-convertible debentures*	NA	NA	NA	5	Simple	CRISIL BBB+/Stable
INE179P08017	Subordinated debt	29-Jun-16	15.80%	29-Jun-22	18	Simple	CRISIL BBB+/Stable
INE179P08025	Subordinated debt	28-Jul-16	15.80%	28-Jul-22	12	Simple	CRISIL BBB+/Stable
INE179P07167	Non-convertible debentures	18-Nov-20	14.25%	30-Mar-23	8	Simple	CRISIL BBB+/Stable

INE179P07159	Non-convertible debentures	18-Nov-20	14.25%	30-Mar-23	27	Simple	CRISIL BBB+/Stable
NA	Cash credit	NA	NA	NA	0.5	Simple	CRISIL BBB+/Stable
NA	Cash credit	NA	NA	NA	10.0	Simple	CRISIL BBB+/Stable
NA	Term loan	NA	NA	12-Dec-21	2.33	Simple	CRISIL BBB+/Stable
NA	Term loan	NA	NA	31-Jan-22	4	Simple	CRISIL BBB+/Stable
NA	Term loan	NA	NA	31-Dec-21	12.5	Simple	CRISIL BBB+/Stable
NA	Term loan	NA	NA	30-Mar-24	22.2	NA	CRISIL BBB+/Stable
NA	Term loan	NA	NA	04-Mar-25	25.0	NA	CRISIL BBB+/Stable
NA	Proposed long term bank loan facilities	NA	NA	NA	258.47	NA	CRISIL BBB+/Stable

**yet to be issued*

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund Based Facilities	LT	335.0	CRISIL BBB+/Stable		--	22-12-21	CRISIL BBB+/Stable	28-12-20	CRISIL BBB+/Stable		--	--
			--		--	22-09-21	CRISIL BBB+/Stable		--		--	--
			--		--	02-09-21	CRISIL BBB+/Stable		--		--	--
			--		--	22-06-21	CRISIL BBB+/Stable		--		--	--
Non Convertible Debentures	LT	120.0	CRISIL BBB+/Stable		--	22-12-21	CRISIL BBB+/Stable	28-12-20	CRISIL BBB+/Stable		--	--
			--		--	22-09-21	CRISIL BBB+/Stable		--		--	--
			--		--	02-09-21	CRISIL BBB+/Stable		--		--	--
			--		--	22-06-21	CRISIL BBB+/Stable		--		--	--
Subordinated Debt	LT	30.0	CRISIL BBB+/Stable		--		--		--		--	--
Long Term Principal Protected Market Linked Debentures	LT	20.0	CRISIL PPMLD BBB+ r /Stable		--	22-12-21	CRISIL PPMLD BBB+ r /Stable		--		--	--
			--		--	22-09-21	CRISIL PPMLD BBB+ r /Stable		--		--	--
			--		--	02-09-21	CRISIL PPMLD BBB+ r /Stable		--		--	--
			--		--	22-06-21	CRISIL PPMLD BBB+ r /Stable		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	**0.5**	**IDFC FIRST Bank Limited**	**CRISIL BBB+/Stable**
Cash Credit	**10**	**Indian Bank**	**CRISIL BBB+/Stable**
Proposed Long Term Bank Loan Facility	**258.47**	**Not Applicable**	**CRISIL BBB+/Stable**

Term Loan	4	Ujjivan Small Finance Bank Limited	CRISIL BBB+/Stable
Term Loan	12.5	IDFC FIRST Bank Limited	CRISIL BBB+/Stable
Term Loan	22.2	Bank of India	CRISIL BBB+/Stable
Term Loan	2.33	Fincare Small Finance Bank Limited	CRISIL BBB+/Stable
Term Loan	25	Indian Bank	CRISIL BBB+/Stable

This Annexure has been updated on 12-Mar-2022 in line with the lender-wise facility details as on 22-Sep-2021 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Finance Companies

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Note for Media:

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