Dvara Kshetriya Gramin Financial Services Private Limited

December 29, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	245.75 (Enhanced from 141.47)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Long Term / Short Term Bank Facilities	56.25 (Reduced from 160.53)	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Revised from CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable / A Three Plus)
Total Bank Facilities	**302.00 (₹ Three Hundred Two Crore Only)**		
Non-Convertible Debentures	16.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Non-Convertible Debentures	29.79 (Reduced from 49.79)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Non-Convertible Debentures	70.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Total Long Term Instruments	**115.79 (₹ One Hundred Fifteen Crore and Seventy-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities and debt instruments of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS) factors in the improvement in the scale of operations with growth in the asset under management (AUM) of Rs. 609 crore as on March 31,2019 to Rs. 1318 crore as on September 30,2022 which is also supported by the multiple equity raise during the said period. The geographical concentration of loan portfolio has witnessed improvement since FY18 as the company expanded its reach to states other than Tamil Nadu partly through the business correspondence with Saija Finance Pvt Ltd in FY22, which led to growth in the states of Bihar, Jharkhand and Uttar Pradesh. The product concentration also witnessed improvement since FY18 due to growth in the Enterprise Loans as compared to the JLG loans. The rating continues to factor in the experience of the board and senior management team, commensurate loan appraisal, risk management and MIS System and comfortable capital adequacy.

The ratings, however, remain constrained by moderate profitability levels, moderate resource profile, and inherent risks associated with its customer segment including socio-political intervention risk and regulatory risk. The rating continues to remain constrained due to moderate asset quality of the book albeit improvement in H1FY23.

Rating Sensitivities

Positive Factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Improvement in the scale of operations and profitability on a sustained basis with ROTA > 2.5%.
- Improvement in the borrowing costs wherein the average costs of funds are less than 11% on sustained basis.
- Further improvement in geographical and product diversification.
- Significant improvement in the capitalization.

Negative Factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Inability to bring down Gross Stage 3 assets to less than 7% as of March 2023 and less than 4% thereafter
- Deterioration in the capital adequacy levels below 18% on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced board of Directors and senior management team

Dvara KGFS is promoted by Dvara Trust (Formerly IFMR Trust), and the board consists of representatives from holding Trust. The

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

day-to-day operations are managed by the senior management team and are supervised by the board consisting of Nine directors, including two non-executive directors representing promoter, three independent directors, three nominee directors and one investor director. The board and senior management Team of Dvara KGFS have significant experience in NBFC Sector & Rural Banking. Mr LVLN Murty, MD & CEO of Dvara KGFS, has more than two decades of diverse experience, and Mr Vijayakumar G, CFO, has more than two decades of experience in various financial institutions. CARE Ratings Ltd (CARE) expects the founding promoter, Dvara Trust (formerly known as IFMR Trust) to provide need based financial support, going forward also.

Well-established IT and presence of risk management systems

Dvara KGFS has well-established structure to monitor the operations at different levels. It has a defined credit appraisal, collection and monitoring system and has also induced credit discipline amongst the borrowers through regular training programs. Dvara KGFS predominantly operates under the JLG lending model. Dvara KGFS also accesses reports regularly from High Mark to check the eligibility of the individual. For own-book JLG loan portfolio, appraisal is done internally and for loans raised for Business Correspondent (BC), in addition to the internal appraisal, second appraisal is done by BC. Dvara KGFS has also formed risk function to take care of enterprise wide risk and credit function to take care of credit function in micro enterprise loans. The internal audit team carries out risk scoring of branches based on a defined set of parameters covering different functional areas to assess the performance of the branch. All the branches are equipped with biometric recognition systems, which act as authorization for the transactions. The KGFS model leverages on the robust IT systems through the use of Core Banking System (CBS) and Customer Management System (CMS), which operate in a real-time basis. Such systems enable the company to monitor the portfolio performance on a real-time basis. The company has also formed an in-house IT and data analytics team headed by Chief Technology Officer. The company has also enabled online payment system for the repayment of customers during the moratorium period.

Business model of KGFS

Dvara KGFS has a network of brick and mortar branches which act as the front end-distribution entities in their locality. This helps the KGFS to achieve the primary goal of being a local financial institution offering financial products and services in a focused geography. The core of the KGFS model consists of the village level branch which serves as a customer touch point, where the origination happens. These branches are fully supported by the Head Office (HO) through a series of hubs. Each branch covers a radius of 5-25 km depending on the terrain. Separate credit team is in place, and credit appraisal will be done by the credit team at KGFS hubs for non-JLG products.

Dvara KGFS also offers third-party wealth management services like systematic gold investment plan, Insurance and foreign inward remittances. Besides this, Dvara KGFS also acts as a Business Correspondent for Axis bank, MAS Financial Services, ESAF Small Finance Bank and Northern Arc Capital Limited. Recently, Dvara KGFS has become Aadhaar-enabled payments partner with Bankit to enable cash withdrawal and balance enquiry for the customers. During FY22, the company acquired 25.9% stake in Saija Finance Pvt Ltd, an MFI registered with RBI, which has enabled Dvara to improve the reach with increased branch network in the states of Uttar Pradesh, Bihar, Jharkhand, Punjab and Haryana.

Comfortable capitalization levels

As on March 31,2022, the total Capital Adequacy ratio (CAR) stood comfortable at 25.33% and Tier 1 CAR stood at 24.93% (March 31,2021- Total CAR: 26.29%, Tier 1 CAR: 25.40%) which is over and above the regulatory requirement.

During H1FY23, the company received capital in the form of compulsory convertible preference shares (CCPS) of Rs. 23.50 crore from two of the existing investors. As a result, the tangible net worth stood at Rs. 293 crore as on September 30,2022. (March 31,2022: Rs. 262 crore). The company is expected to receive Rs 6.50 from Dvara Trust before 31st March 2023 under the above preferential issuance. The company is looking at raising capital of around Rs. 150 crore in FY24. The overall gearing of the company stood at 3.62 times as on September 30,2022 (March 31,2022: Gearing: 3.58 times). CARE expects the overall gearing level of the company to remain below 5 times.

Improvement in the scale of operations

As on September 30,2022, the AUM of the company stood at Rs. 1318 crore witnessing a growth of 17% from Rs. 1108 crore as on March 31,2022 and a CAGR of 18.7% since March 31,2019. Post the slowdown in the business due to Covid-19, the disbursement gained momentum wherein the company disbursed Rs. 880 crore during FY22 with a growth of 32% as compared to Rs. 669 crore during FY21. Disbursements stood at Rs. 649 crore during H1FY22 of which 82% was towards on book lending.

Improvement in the geographical and product concentration of loan portfolio

As on March 31,2022, Dvara KGFS had presence across 8 states (Tamil Nadu, Odisha, Karnataka, Chhattisgarh, Uttarakhand Jharkhand, Bihar, Uttar Pradesh) through 295 branches and 2243 employees. (March 2021: 6 states, 309 branches and 2057 employees). There was rationalization of branch network during H1FY22 which led to reduction in the number of branches. Dvara KGFS has taken continuous efforts to improve the top state concentration and share of Tamil Nadu has improved from 74% of the AUM as on March 31, 2021 to 67% of the AUM as on March 31,2022, further reduced to 61% as on September 30,2022.

The share of the top three states also improved from 91% of the AUM as on March 31,2021 to 87% as on March 31,2022 and further reduced to 82% as on September 30,2022, however, it continues to remain high.
Product profile of Dvara KGFS consists of JLG loan, Enterprise loan, Jewel Loan, Personal loan, Crop loan and Consumer durables loan with a ROI of upto 28%. Apart from Jewel loan (provided only in specific branches of Tamil Nadu), all other products were unsecured. The company increased the share of Enterprise loan from 9% as on March 31,2021 to 19% as on March 31,2022. As on March 31, 2022, JLG Loans constituted 79% of the AUM as against 86% as on March 31, 2021.

Key Rating Weaknesses

Moderate profitability albeit improvement in H1FY23 lead by lower credit costs

During FY22, the net interest margin (NIM) improved to 13.23% from 10.76% during FY21. The operating expense rose to 8.65% in FY22 (FY21:7.19%) owing to rise in the employee expense by 28% in FY22. Credit costs also rose to 5.03% in FY22 (FY21: 4.45%) due to higher write offs during FY22. On account of the same, the ROTA stood at 0.05% in FY22 (FY21: 0.07%).
During H1FY23 (April 01 to September 30), even though there was a contraction in the NIM to 11.06% (on annualized basis), the company reported a ROTA of 0.79% owing to substantial decline in the credit costs to 3.62% in H1FY23 (H1FY22: 7.17%) resulting from improved asset quality and growth in the other income to 3.24% in H1FY23 (H1FY22: 0.98%) due to rise in income earned through transfer of assets, business correspondence and wealth management services extended to the customers. CARE expects profitability as reflected in ROTA to improve going forward primarily supported by reduction in credit cost and improved scale.

Moderate resource profile

The funding profile of Dvara KGFS comprised of higher share of borrowings from NBFCs which led to higher costs of funds for the company. As on March 31,2022, the share of NBFC borrowings stood at 71% of the total borrowings which reduced to 54% as on September 30,2022. The reduction in the reliance on the NBFC was due to incremental funding through external commercial borrowings via term loans and non-convertible debenture. The weighted average cost of debt stood at 12.8% as on March 31,2022. (As on March 31,2021: 12.92%). The weighted average cost of debt increased to 13.17% as on September 30,2022. The company's ability to raise funds at competitive rates, going forward, would be a key rating monitorable.

Moderate asset quality albeit improvement as on September 30,2022

As on September 30,2022, the gross stage 3 assets (GS3) improved to 6.78% from the deterioration witnessed during the COVID-19 period due to which the GS3 stood at 15.73% as on September 30,2021. The net stage 3 assets (NS3) stood at 3.35% as on September 30,2022 as compared to 6.85% as on September 30,2021. Due to better collection efforts and write offs during FY22, H1FY23, the quality of the book has improved. As on March 31,2022, the GS3 and NS3 stood at 9.29% and 4.37% respectively (As on March 31,2021: GS3:9.49% NS3:4.44%).
The restructured portfolio outstanding stood at Rs. 110.7 as on March 31,2022 and declined to Rs. 83.1 crore as on September 30,2022 forming 6.4% of the portfolio outstanding.
The overall collection efficiency stood at 98% during March 2022 and 99% during September 2022.

Inherent Risk associated with the customer segment

MFI/JLG lending is exposed to the inherent risk associated with unsecured lending and marginal profile of borrowers exposing it to elevated asset quality issues. The credit view will continue to factor in risks associated with unsecured lending, socio-political intervention, geographic concentration and operational risks related to cash-based transactions. The ability of the company to limit incremental slippages in the challenging macro environment conditions and improve asset quality would be critical to the earnings profile of the company

Liquidity: Adequate

Liquidity remains adequate with no cumulative ALM mismatches in any of the time brackets as on September 30, 2022. The company had contractual inflows from advances of Rs. 834 crore upto one year against which the company had contractual debt obligation of Rs. 590.3 crore as on September 30,2022. Dvara KGFS's Cash & Bank balances of Rs.126 crore as on September 30, 2022, adds comfort.

Analytical approach: Standalone

Applicable Criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Non-Banking Financial Companies

About the Company

Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS) is a non-deposit taking NBFC engaged in providing financial services in remote areas. The company is primarily engaged in lending loans through JLG model. Apart from JLG loans, the company also provides jewel loans, enterprise loans, consumer durable loans, etc., and liability products including gold investment plan, various insurance products and foreign inward remittances.
Dvara KGFS has presence in eight states, i.e., Karnataka, Odisha, Tamil Nadu, Uttarakhand, Chhattisgarh, Jharkhand organically through 296 branches and in Uttar Pradesh, Bihar (inorganically) as on March 31,2022.
As on September 30, 2022, on diluted basis, Dvara Trust holds 30.7%, Accion Africa-Asia Investment Company holds 23.32%, Leapfrog Financial Inclusion India (II) Ltd. holds 22.0%, Nordic Microfinance Initiative holds 18.0%, Stakeboat Capital Fund - 1 holds 5.80% and Dvara KGFS Trust holds 0.20%.

Brief Financials (Rs. Crore)	FY21 (A)	FY22 (A)	H1FY23 (Prov.)
Total Operating Income	246	287	168
PAT	1	1	5
Total Assets	1,276	1,291	1,417
Net NPA/stage III (%)	4.44	4.37	3.35
ROTA (%)	0.07	0.05	0.80

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	December, 2025	245.75	CARE BBB+; Stable
Fund-based-LT/ST	-	-	-	-	56.25	CARE BBB+; Stable / CARE A2
Debentures-Non-Convertible Debentures-II	INE179P08033	30-May-19	13.71%	30-May-24	16.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures-III	INE179P07118	01-Dec-19	13.50%	30-Nov-22	0.34	CARE BBB+; Stable
	-	01-Dec-19	13.50%	30-Nov-22	0.90	
	INE179P07126	01-Jan-20	13.50%	31-Dec-22	0.20	
	-	01-Jan-20	13.50%	31-Dec-22	2.17	
	-	25-Feb-20	13.50%	25-Feb-22	0.20	
	INE179P07134	19-Aug-20	10.90%	18-Feb-22	25.00	
	Proposed	-	-	-	0.98	
	INE179P07142	-	-	-	-	Withdrawn
Debentures-Non-Convertible Debentures-IV	Proposed	-	-	-	70.00	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	245.75	CARE BBB+; Stable	-	1)CARE BBB; Stable (30-Dec-21)	1)CARE BBB; Stable (07-Jan-21) 2)CARE BBB; Stable (26-May-20)	1)CARE BBB; Positive (04-Oct-19)
2	Fund-based-LT/ST	LT/ST*	56.25	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (30-Dec-21)	1)CARE BBB; Stable / CARE A3+ (07-Jan-21) 2)CARE BBB; Stable / CARE A3+ (26-May-20)	1)CARE BBB; Positive / CARE A3+ (04-Oct-19)
3	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (04-Oct-19)
4	Debentures-Non Convertible Debentures	LT	16.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (30-Dec-21)	1)CARE BBB; Stable (07-Jan-21) 2)CARE BBB; Stable (26-May-20)	1)CARE BBB; Positive (04-Oct-19) 2)CARE BBB; Stable (03-Jun-19)
5	Debentures-Non Convertible Debentures	LT	29.79	CARE BBB+; Stable	-	1)CARE BBB; Stable (30-Dec-21)	1)CARE BBB; Stable (07-Jan-21) 2)CARE BBB; Stable (26-May-20)	1)CARE BBB; Positive (06-Nov-19)
6	Debentures-Non Convertible Debentures	LT	70.00	CARE BBB+; Stable	-	-	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

		Detailed explanation
i	The Capital Adequacy ratio shall be equal to 15% at all points in time	-
ii	Debt to tangible networth ratio should not exceed 6.0x, at all times	-

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based-LT/ST	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Ravi Shankar R
Phone: +99622 08636
E-mail: ravi.s@careedge.in

Relationship contact
Name: Pradeep Kumar V
Phone: +91-98407 54521
E-mail: pradeep.kumar@careedge.in

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