CRISIL Ratings

Rating Rationale

December 12, 2023 | Mumbai

Dvara Kshetriya Gramin Financial Services Private Limited

'CRISIL BBB+/Stable' assigned to Non Convertible Debentures; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.385 Crore (Enhanced from Rs.335 Crore)**
Long Term Rating	**CRISIL BBB+/Stable (Reaffirmed)**

Rs.200 Crore Non Convertible Debentures	**CRISIL BBB+/Stable (Assigned)**
Rs.20 Crore Long Term Principal Protected Market Linked Debentures	**CRISIL PPMLD BBB+/Stable (Reaffirmed)**
Rs.5 Crore (Reduced from Rs.40 Crore) Non Convertible Debentures	**CRISIL BBB+/Stable (Reaffirmed)**
Rs.10 Crore Non Convertible Debentures	**CRISIL BBB+/Stable (Reaffirmed)**
Rs.50 Crore Non Convertible Debentures	**CRISIL BBB+/Stable (Reaffirmed)**
Rs.30 Crore Non Convertible Debentures	**CRISIL BBB+/Stable (Reaffirmed)**
Rs.30 Crore Subordinated Debt	**CRISIL BBB+/Stable (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
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 200 crore non-convertible debentures (NCDs) of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS) and has reaffirmed its ratings on the long-term bank facilities and outstanding debt instruments at 'CRISIL BBB+/CRISIL PPMLD BBB+/Stable'.

The ratings centrally factor in the highly experienced profile of the company's board and management and continuous support of the founder-promoter, Dvara Trust (erstwhile, IFMR trust). The ratings also factor in the adequate capital position of Dvara KGFS, supported by steady equity infusion and diversified resource profile. These strengths are partially offset by average asset quality, low net profitability due to high operational costs, risks linked to concentration of operations, and susceptibility of asset quality to local socio-political issues.

The prefix 'PPMLD' indicates the principal amount of the debentures is protected while the returns are market-linked. 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.

Analytical Approach

CRISIL Ratings has evaluated the standalone business and financial risk profiles 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 others. The company started ramping up its management in 2018, after which it appointed the chief executive officer (CEO), chief business officer (CBO), chief financial officer (CFO), deputy CFO, chief risk officer, chief human resources officer, chief technology officer and several other key members. These members have significant senior-level experience in the micro-finance institution (MFI) and non-banking finance company (NBFC) space and have helped to strengthen 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 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 9.9% stake in the entity. The promoter will support Dvara KGFS for the equity requirement that might arise over the medium term by paring down its stake in other companies owned by the trust.

- **Adequate capitalisation**
  Capitalisation has been adequate for the ongoing scale of operations. Networth and adjusted gearing were Rs 364 crore and 5.2 times, respectively, as on September 30, 2023, against Rs 344 crore and 4.5 times, respectively, as on March 31, 2023. However, the company had high level of liquidity of Rs 252 crore owing to higher draw-down done during end of Q2 fiscal 2024. Adjusting for the same, the gearing stood at 4.2 times as of September 2023. Nevertheless, with the steady increase in

accretions, the company has been able to strengthen its capital position and the same was visible in recent months i.e. as of November 2023 the adjusted gearing (gross of liquidity) stood at 4.4 times. The ratings also centrally factor in the steady capital infusion by Dvara Trust and other investors that has supported the company's operations. The capital infusion is expected to continue. External investors such as Nordic Microfinance, Stakeboat Capital, Leapfrog Investment and Accion International have infused a total of Rs 150.5 crore so far in Dvara KGFS, in the form of compulsorily convertible preference shares (CCPS), the latest being a Rs 23.5 crore infusion by Accion and Nordic Microfinance in September 2022 and Rs 6.5 crore by Dvara Trust in March 2023. Besides, Dvara Trust, erstwhile IFMR trust, is the single largest shareholder and holds 36% stake in the company, followed by Leapfrog Financial Inclusion India (II) Ltd and Accion Africa-Asia Investment Company (21.7% and 20.5%, respectively). On a steady-state basis, adjusted gearing is expected to be below 5.5 times in the long term, and any material increase in gearing will remain a key rating sensitivity factor.

CRISIL Ratings has also taken note of the recent measures by Reserve Bank of India (RBI) covering the Banking and NBFC sector. Firstly, on the asset side for NBFCs, there is an increase in risk weights for unsecured consumer loans (including credit card receivables), by 25 percentage points to 125% from 100% earlier. This regulation applies to all retail loans except housing loans, vehicle loans, educational loans, loans against gold and microfinance/SHG loans. The increase in risk-weighted assets will lead to a decrease in the capital adequacy ratios but is not likely to materially impact the ratios.

Secondly, there is an increase in risk weights for Bank's exposure to NBFCs by 25 percentage points (over and above the risk weight associated with the given external rating) in all cases where the extant risk weight as per external rating of NBFCs is below 100%. Herein, loans to HFCs, and loans to NBFCs which are eligible for classification as priority sector are excluded. This development may potentially lead to an increase in cost of bank borrowings for NBFC sector. This could lead to diversification in the borrowings mix with higher share of capital market instruments and securitisation, amongst others. Ability of NBFCs to pass on the potentially higher borrowing costs will be monitored.

- **Diversified resource profile**
  The company has more than 50 lenders comprising banks, small finance banks, NBFCs and domestic and foreign financial institutions. It 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 September 30, 2023, total outstanding securitised book (direct assignment + pass through certificates) stood at Rs 639.5 crore (Rs 23.8 crore as of March 2019). As on September 30, 2023, the resource profile comprised of term loans (43%), NCDs (14%), and securitisation (PTCs and DA; 33%). The cost of borrowings remain high in the range of 13-14%, however, this is offset by the higher yield at which the company operates. In the first half of fiscal 2024, average cost of borrowing stood at 13.6% against 13.3% in fiscal 2023. Plans to target incremental funding from banks and foreign financial institutions will help reduce borrowing costs. The company is expected to raise funding through external commercial borrowings and other instruments over the medium term, which will also significantly reduce borrowing cost and open up more avenues of raising funds from the overseas debt market.

Weaknesses:

- **Average asset quality**
  Asset quality was badly affected during the second wave of the pandemic, which resulted in 90+ days past due (dpd) reaching a peak of 14.1% (highest since its inception) as on November 30, 2021. With conditions returning to normal and the company writing off portfolio worth Rs 75 crore, the 90+ dpd improved to 8.2% as on March 31, 2022. Furthermore, reported gross non-performing assets, on expected credit loss basis, stood at 9.2% due to the impact of revised IRAC (income recognition and asset classification) norms issued by the Reserve Bank of India in November 2021. These norms are related to single-day NPA (non-performing asset) recognition and upgradation of NPA accounts only after all previous dues, along with arrears (if any), are cleared. As far as collection efficiency is concerned, with the stability in operations, it improved to 99% by end of March 2023. As a result of improvement in collections and the company undertaking write-off of Rs 16.3 crore during the first half of fiscal 2024, 90+ dpd improved to 3.1% as of September 2023. The 90+ dpd during fiscal 2023 stood at 3.4% as on March 31, 2023. However, 90+ dpd for portfolio originated post covid shown steady improvement and stood at 1.2% as of September 30, 2023. Nevertheless, considering current overdue position, the ability of the company to sustain collections and eventually reach pre-pandemic level will remain a key rating sensitivity factor.

- **Moderate profitability constrained by high operational costs**
  Profitability has remained under pressure due to elevated credit costs (related to the impact of the pandemic) and high operational expenses however, the profitability is improving from previous level to RoMA of 1.8% (annualized) as of September 30, 2023 from 0.8% during fiscal 2023. While credit costs are expected to settle due to stability in collection efficiency, operating expenses remain elevated, resulting in negative impact on profitability. Operating expenses as a percentage of total assets increased to 8.3% during the first half of fiscal 2024. The operating expenses during fiscal 2023 stood at 9.1% partially attributed to service fee payments made to Saija during fiscal 2023 as Dvara KGFS had appointed them as business correspondent partner. Apart from this, the company also opened several branches till the end of fiscal 2020 (just prior to the start of the pandemic). These branches are taking longer to reach operating efficiency, which constrains profitability. Overall, AUM per branch for Dvara KGFS stood at Rs 5.1 crore as on September 30, 2023, which has been relatively lower than companies engaged in joint liability group (JLG) lending. The operating expense saw elevation due to various acquisitions done by the company during last 1-2 years. However, with the scale-up in operations, the operating expense is expected to steadily improve from present level.

  At pre-provisioning level, the company reported pre-provisioning operating profit (PPOP) of Rs 60 crore during the first half of fiscal 2024 against Rs 79 crore during fiscal 2023. However, with high credit costs of 3.0% (annualised), net profit fell to Rs 21 crore during the first half of fiscal 2024. Hence, apart from operating expense, the management of recoveries and the ability to correct and maintain asset quality on a steady-state basis remains key monitorables.

- **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 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 53% of the overall portfolio is based in Tamil Nadu, although 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 the intention of diversifying into Bihar and deeper into Jharkhand. Their ability to diversify and reduce the concentration further will remain a key rating sensitivity factor.

- **Given the large microfinance book, susceptibility of asset quality to local socio-political issues remains high**
  The microfinance sector has witnessed three 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, second - demonetisation in 2016 and lastly, Covid-19 outbreak in March 2020. 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 level of delinquencies post-demonetisation and the subsequent socio-political events. In the recent past, it did witness a marginal uptick in early bucket delinquencies because of the issues in North Karnataka and since March 2020, collections across most states have remained weak on account of Covid-19 and allied challenges. This indicates the fragility of the business model against external risks. As the business involves lending to the poor and downtrodden sections of 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 2.8 times for a two-month period after assuming 75% collections. Cash and equivalent, including liquid investments, was Rs 345.77 crore as on October 31, 2023, against debt obligation of Rs 222.7 crore for the 3 months through January 2024. Liquidity is also supported by the steady level of collections that the company has been reporting for the last 2-3 months.

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 to below 40% while maintaining sound asset quality metrics
- Improvement in return on assets to above 3% on sustainable basis
- Significant improvement in the capitalization profile

Downward factors
- Significant weakening in asset quality or earnings profile, leading to stressed profitability and capital position
- Inability to maintain adjusted gearing below 5 times on steady-state basis

About the Company
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. The company 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 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 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 enterprise loans.

During fiscal 2019, the business correspondents and corporate agency business of the IFMR Rural Channels and Services Pvt Ltd (holding company of Dvara KGFS) and IFMR Holdings Pvt Ltd (ultimate holding company) were amalgamated with the company.

Key Financial Indicators

Particulars	Unit	Sep 2023	Mar 23	Mar 2022	Mar 2021	Mar 2020
Total managed assets	Rs crore	2465.3	2125.8	1577.5	1370	1193
Total income	Rs crore	256	382	286.8	245	207
Profit after tax (PAT)	Rs crore	20.9	14.4	-2.8*	0.8	3.8
Return on managed assets	%	1.8**	0.8	-0.2	0.1	0.4
Gross NPA (90+ dpd)	%	3.6	4.0	8.2	7.6	2.4
Adjusted gearing (including off-book)	Times	5.2	4.5	3.4	3.1	2.7

**including share of net loss of Rs 4.29 crore of associate, excluding which Dvara had reported a PAT of Rs 1.7 crore*
*** annualised*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating
NA	Non-convertible debentures*	NA	NA	NA	170	Simple	CRISIL BBB+/Stable
INE179P07324	Non-convertible debentures	30-Sep-23	13.5	07-Apr-26	25	Complex	CRISIL BBB+/Stable
INE179P07282	Non-convertible debentures	12-Aug-22	11%	12-Feb-26	23.3	Simple	CRISIL BBB+/Stable
INE179P08041	Non-convertible debentures	21-Jul-22	16	21-Jan-28	5	Simple	CRISIL BBB+/Stable
INE179P07175	Long-term principal-protected market-linked debentures	17-May-21	BSE SENSEX Linked	30-Sep-24	20	Highly complex	CRISIL PPMLD BBB+/Stable
INE179P07258	Non-convertible debentures	25-Apr-22	11%	24-Oct-25	38.1	Simple	CRISIL BBB+/Stable
INE179P07266	Non-convertible debentures	09-Jun-22	14%	07-Mar-25	22	Complex	CRISIL BBB+/Stable
INE179P07274	Non-convertible debentures	25-Jul-22	15%	25-Jul-25	10	Simple	CRISIL BBB+/Stable
NA	Non-convertible debentures*	NA	NA	NA	1.6	Simple	CRISIL BBB+/Stable
NA	Cash credit	NA	NA	NA	1.88	NA	CRISIL BBB+/Stable
NA	Cash credit	NA	NA	NA	8.39	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	30-Oct-24	11.67	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	05-Jul-25	19.28	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	31-Mar-25	16.07	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	17-May-24	5	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	12-Feb-27	29.64	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	30-Mar-24	4.46	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	31-Dec-25	124.99	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	01-Jul-26	150	NA	CRISIL BBB+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	13.62	NA	CRISIL BBB+/Stable

*Yet to be issued

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	385.0	CRISIL BBB+/Stable	26-09-23	CRISIL BBB+/Stable	26-09-22	CRISIL BBB+/Stable	22-12-21	CRISIL BBB+/Stable	28-12-20	CRISIL BBB+/Stable	--
			--	03-08-23	CRISIL BBB+/Stable	02-08-22	CRISIL BBB+/Stable	22-09-21	CRISIL BBB+/Stable		--	--
			--	13-06-23	CRISIL BBB+/Stable	12-03-22	CRISIL BBB+/Stable	02-09-21	CRISIL BBB+/Stable		--	--
			--	24-05-23	CRISIL BBB+/Stable		--	22-06-21	CRISIL BBB+/Stable		--	--
			--	10-03-23	CRISIL BBB+/Stable		--		--		--	--
			--	07-02-23	CRISIL BBB+/Stable		--		--		--	--
Non Convertible Debentures	LT	295.0	CRISIL BBB+/Stable	26-09-23	CRISIL BBB+/Stable	26-09-22	CRISIL BBB+/Stable	22-12-21	CRISIL BBB+/Stable	28-12-20	CRISIL BBB+/Stable	--
			--	03-08-23	CRISIL BBB+/Stable	02-08-22	CRISIL BBB+/Stable	22-09-21	CRISIL BBB+/Stable		--	--
			--	13-06-23	CRISIL BBB+/Stable	12-03-22	CRISIL BBB+/Stable	02-09-21	CRISIL BBB+/Stable		--	--
			--	24-05-23	CRISIL BBB+/Stable		--	22-06-21	CRISIL BBB+/Stable		--	--

			--	10-03-23	CRISIL BBB+/Stable		--		--		--	--
			--	07-02-23	CRISIL BBB+/Stable		--		--		--	--
Subordinated Debt	LT	30.0	CRISIL BBB+/Stable	26-09-23	CRISIL BBB+/Stable	26-09-22	CRISIL BBB+/Stable		--		--	--
			--	03-08-23	CRISIL BBB+/Stable	02-08-22	CRISIL BBB+/Stable		--		--	--
			--	13-06-23	CRISIL BBB+/Stable	12-03-22	CRISIL BBB+/Stable		--		--	--
			--	24-05-23	CRISIL BBB+/Stable		--		--		--	--
			--	10-03-23	CRISIL BBB+/Stable		--		--		--	--
			--	07-02-23	CRISIL BBB+/Stable		--		--		--	--
Long Term Principal Protected Market Linked Debentures	LT	20.0	CRISIL PPMLD BBB+/Stable	26-09-23	CRISIL PPMLD BBB+/Stable	26-09-22	CRISIL PPMLD BBB+ r /Stable	22-12-21	CRISIL PPMLD BBB+ r /Stable		--	--
			--	03-08-23	CRISIL PPMLD BBB+/Stable	02-08-22	CRISIL PPMLD BBB+ r /Stable	22-09-21	CRISIL PPMLD BBB+ r /Stable		--	--
			--	13-06-23	CRISIL PPMLD BBB+/Stable	12-03-22	CRISIL PPMLD BBB+ r /Stable	02-09-21	CRISIL PPMLD BBB+ r /Stable		--	--
			--	24-05-23	CRISIL PPMLD BBB+/Stable		--	22-06-21	CRISIL PPMLD BBB+ r /Stable		--	--
			--	10-03-23	CRISIL PPMLD BBB+/Stable		--		--		--	--
			--	07-02-23	CRISIL PPMLD BBB+/Stable		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	1.88	Axis Bank Limited	CRISIL BBB+/Stable
Cash Credit	8.39	Indian Bank	CRISIL BBB+/Stable
Proposed Long Term Bank Loan Facility	13.62	Not Applicable	CRISIL BBB+/Stable
Term Loan	29.64	The Federal Bank Limited	CRISIL BBB+/Stable
Term Loan	4.46	Bank of India	CRISIL BBB+/Stable
Term Loan	124.99	State Bank of India	CRISIL BBB+/Stable
Term Loan	50	State Bank of India	CRISIL BBB+/Stable
Term Loan	100	State Bank of India	CRISIL BBB+/Stable
Term Loan	19.28	Suryoday Small Finance Bank Limited	CRISIL BBB+/Stable
Term Loan	16.07	Indian Bank	CRISIL BBB+/Stable
Term Loan	11.67	Kotak Mahindra Bank Limited	CRISIL BBB+/Stable
Term Loan	5	IDFC FIRST Bank Limited	CRISIL BBB+/Stable

Criteria Details

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

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