

Press Release

Dugar Finance and Investments Limited (DFIL)

May 22, 2017

Rating Reaffirmed

Total Instruments Rated*	Rs. 15.00 Cr (Enhanced from Rs. 12.00 Cr)
Long Term Rating	SMERA BB/Stable (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of **SMERA BB (read as SMERA double B)** assigned to the Rs. 15.00 crore long term bank facilities of Dugar Finance and Investment Limited (DFIL). The outlook is **'Stable'**.

DFIL is a Non-Deposit Taking Non-Banking Finance Company (NBFC-ND) registered with the Reserve Bank of India (RBI) incorporated in 1987 is managed and promoted by Mr. Ramesh Dugar. It provides vehicle financing, hire & purchase and finance lease in the states of Tamil Nadu, Maharashtra and Gujarat.

The rating reaffirmation reflects the comfortable capital adequacy ratio and healthy asset quality of the company. The rating continues to draw support from DFIL's experienced management and long track-record of operations. Notwithstanding the growth in asset book, the rating continues to be constrained by DFIL's modest scale of operations, exposure to geographical concentration risk and moderation in Net Interest Margin (NIM).

List of Key Rating Drivers and their detailed description

Strengths:

Experienced Management: SMERA believes that DFIL will continue to benefit from its promoters' longstanding experience in the financial services industry. Mr. Duggar has experience of over three decades in the industry. DFIL's ability to leverage its promoters' relationships with its customers shall enable the company to maintain its asset quality and grow its loan book.

Prudent Capital Structure: DFIL's credit risk profile continues to be supported by the company's comfortable capital adequacy ratio of 38.90 per cent on 31st March, 2016 (38.56 per cent on 31st March, 2015) and modest networth base of Rs. 13.43 crore on 31st March, 2016 (Rs. 12.10 crore on 31st March, 2015). The absence of long term debt servicing commitments shall continue to support DFIL's credit risk profile. The capital adequacy ratio further improved to 39.17 per cent on 31st December, 2016.

Nil Gross Non-Performing Assets (NPAs): DFIL's credit risk profile continues to be supported by its healthy asset quality – marked by nil gross non-performing assets as on 31st March, 2016.

Notwithstanding headwinds faced in recovery on account of demonetization, DFIL continued to report nil NPAs as on 31st December, 2016 as well. The healthy asset quality of the company resulted in robust Return on Average Assets (RoAA) of 4.38 per cent in FY2016 as compared to 4.11 per cent in FY2015.

However, the rating also adequately factors in the high proportion of overdue assets as a proportion of the outstanding loan book. SMERA notes that despite reporting zero Gross NPAs, 10.64 per cent of DFIL's loan book remained overdue for more than 60 days past due. Inability to improve its collection efficiency can result in substantial deterioration in DFIL's Gross NPA and Net NPA ratio.

Weaknesses:

Modest Scale of Operations: DFIL's credit risk profile continues to be constrained by its modest scale of operations marked by an outstanding loan book of Rs. 34.11 crore on 31st March, 2016 as compared to Rs. 30.11 crore on 31st March, 2015. Ability to grow its loan book while maintaining its asset quality shall be instrumental in improving its credit profile.

Geographical concentration in the loan book: The company's loan portfolio is also exposed to risks associated with the high degree of geographical concentration arising out of its limited branch spread. The company has operations currently in Tamil Nadu, Maharashtra and Gujarat. As on 31st January, 2017 over 64 per cent of the loan book was concentrated in Tamil Nadu. DFIL's ability to geographically diversify its loan portfolio by increasing its branch spread shall be a key credit monitorable.

Analytical approach: SMERA has taken a standalone view of the above entity

Applicable Criteria

- Non-Banking Finance Entities: <https://www.smera.in/criteria-nbfc.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that DFIL will maintain a Stable risk profile over the medium term on account of its experienced management, healthy asset quality and comfortable capitalization levels. The outlook may be revised to Positive in case of sustained increase in loan Book while maintaining its asset quality. The outlook may be revised to Negative in case of substantial increase in Gross NPA and/or decline in profitability indicators.

About the Rated Entity

Dugar Finance & Investments Limited, incorporated in the year 1987, is RBI certified Non deposit accepting - Non Banking Finance Company engaged in the business of providing finance lease for Light Motor Vehicles and LCVs.

The company reported net profit of Rs. 1.44 crore on net interest income of Rs.3.81 crore in FY2015-16, as compared with net profit of Rs.1.11 crore on net interest income of Rs.3.80 crore in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: NA

Rating History for the last three years:

Name of Instrument /Facilities	FY2018 (Current)			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	10.00 (Enhanced from Rs. 9.00 cr)	SMERA BB/Stable (Reaffirmed)	18 Dec, 2015	SMERA BB/Stable (Upgraded from SMERA BB-/Stable)	20 Aug, 2014	SMERA BB-/Stable (Assigned)	-	-
Proposed Cash Credit	LT	5.00 (Enhanced from Rs. 3.00 cr)	SMERA BB/Stable (Reaffirmed)	18 Dec, 2015	SMERA BB/Stable (Upgraded from SMERA BB-/Stable)	20 Aug, 2014	SMERA BB-/Stable (Assigned)	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A.	10.00 (Enhanced from Rs. 9.00 cr)	SMERA BB/Stable (Reaffirmed)
Proposed Cash Credit	N.A	N.A	N.A.	5.00 (Enhanced from Rs. 3.00 cr)	SMERA BB/Stable (Reaffirmed)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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