

## Press Release

### Dugar Finance and Investments Limited (DFIL)

12 February, 2018



### Rating Upgraded

<b>Total Bank Facilities Rated*</b>	Rs.20.00 Cr.
<b>Long Term Rating</b>	SMERA BB+/Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

SMERA has upgraded the long term rating on the Rs.15.00 Crore bank facilities of Dugar Finance and Investments Limited (DFIL) to **'SMERA BB+' (read as SMERA double B plus)** from **'SMERA BB' (read as SMERA double B)**. Further, SMERA has also assigned long term rating of **'SMERA BB+' (read as SMERA double B plus)** on the Rs.5.00 crore proposed bank facilities of Dugar Finance and Investments Limited. The outlook is **'Stable'**.

The rating upgrade reflects sustained growth in the loan book of DFIL while maintaining its asset quality. The rating continues to be supported by the comfortable capital adequacy ratio of the company, experienced management and geographical diversification.

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

### Key rating drivers

#### Strengths

**Experienced management:** SMERA believes that DFIL will continue to benefit from the over three decades of experience of Mr. Dugar in the financial services 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 39.37 per cent on 31st March, 2017 (38.90 per cent on 31 March, 2016) and modest net worth base of Rs.15.25 crore on 31 March, 2017 (Rs. 13.43 crore on 31st March, 2016). The absence of long term debt servicing commitments shall continue to support DFIL's credit risk profile. The capital adequacy ratio further improved to 39.86 per cent on 31 December, 2017.

**Healthy asset quality:** DFIL's credit risk profile continues to be supported by its healthy asset quality – marked by nil gross non-performing assets (GNPA) as on 31st March, 2016 as compared to 0.12 crore GNPA as on 31<sup>st</sup> March 2017. The healthy asset quality of the company

resulted in robust Return on Average Assets (RoAA) of 4.55 per cent in FY2017 as compared to 4.38 per cent in FY2016.

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 low gross NPAs, 3.36 per cent of DFIL's loan book remained overdue for more than 90 days past due as on 31<sup>st</sup> March 2017. 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:** The credit risk profile continues to be constrained by its modest scale of operations marked by an outstanding loan book of Rs. 37.83 crore on 31<sup>st</sup> December, 2017 as compared to Rs. 37.79 crore on 31<sup>st</sup> March, 2017. The outstanding loan book as on 31<sup>st</sup> March 2016 stood at Rs.33.88 crore. 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, Karnataka and Gujarat. As on 31 December, 2017 over 45 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. The entity started operations in Karnataka during FY2018 reducing the portfolio concentration in Tamil Nadu from 72.19 per cent in FY2017 to 44.85 per cent in 9MFY2018.

**Analytical approach:** SMERA has taken a standalone view of the DFIL.

### Outlook: Stable

SMERA believes that DFIL will maintain a Stable outlook over the medium term on account of its experienced management, healthy asset quality and comfortable capitalisation levels. The outlook may be revised to 'Positive' in case of sustained increase in loan Book while maintaining its asset quality. Conversely, 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 Financials

	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	39.14	34.90	30.78
Total Income	Rs. Cr.	6.36	5.52	5.14
PAT	Rs. Cr.	1.68	1.44	1.11
Net Worth	Rs. Cr.	15.25	13.43	12.10
Return on Assets (RoA)	(%)	4.55	4.38	4.11
Return on Net Worth(RoNW)	(%)	11.75	11.28	10.94
Total Debt/Tangible Net Worth (Gearing)	Times	0.65	0.67	0.62
Gross NPA	(%)	0.74	0.00	0.61
Net NPA	(%)	0.69	0.00	0.56

**Any other information:** Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Non - Banking Financing Entities - <https://www.smera.in/criteria-nbfc.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

### Note on complexity levels of the rated instrument

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

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

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
22-May-2017	Cash Credit	Long Term	10.00	SMERA BB/Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	5.00	SMERA BB/Stable (Reaffirmed)
18-Dec-2015	Cash Credit	Long Term	9.00	SMERA BB/Stable (Upgraded)
	Proposed Cash Credit	Long Term	3.00	SMERA BB/Stable (Assigned)
20-Aug-2014	Cash Credit	Long Term	6.00	SMERA BB-/Stable (Assigned)
	Proposed Cash Credit	Long Term	3.00	SMERA BB-/Stable (Assigned)

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50	SMERA BB+/Stable (Upgraded)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA BB+/Stable (Upgraded)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB+/Stable (Assigned)

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**ABOUT SMERA**

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