

Press Release

Dugar Finance and Investments Limited

April 15, 2019

Rating Upgraded and Assigned



Total Bank Facilities Rated*	Rs.25.00 Cr. (Enhanced from Rs.20.00 Crore)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB+/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 22.50 crore bank facilities and has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 2.50 crore bank facilities of Dugar Finance and Investments Limited (DFIL). The outlook is '**Stable**'.

The upgrade in rating reflects growth in its scale of operations while maintaining the profitability and asset quality parameters. Acuite expects DFIL to maintain this asset quality and growth in scale of operations while maintaining its key operating parameters and diversifying its portfolio geographically.

DFIL is a Non-Deposit taking Non-Banking Finance Company (NBFC-ND) registered with the Reserve Bank of India (RBI), incorporated in 1987. DFIL is engaged in providing vehicle finance on hire purchase and lease. The company began its operations in 1987 in Tamil Nadu, led by Mr. Ramesh Dugar and Mrs. Sonali Dugar and has since expanded its presence to Maharashtra, Karnataka, Gujarat and Andhra Pradesh through its 15 branches.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of DFIL to arrive at the rating.

Key Rating Drivers

Strengths

Established presence and experienced management:

DFIL's promoters have over three decades experience in the financial service sector. Mr. Ramesh Dugar was the former Chairman of South Indian Hire Purchase Association and currently holds the position of Vice President of Madras Hire Purchase Association. The Directors are supported by Mr. R. Nagarajan, Ex-Chief General Manager of State Bank of India, Chennai, having over five decades experience in the banking and financial service sector.

Further, DFIL has a long track record of operations in the vehicle financing segment. It has presence in Tamil Nadu for over three decades. The company has 15 branches spread across 5 states. The overall asset portfolio is well diversified with ~37 percent of its portfolio from Tamil Nadu, ~22 percent from Maharashtra, ~18 percent from Gujarat, while Karnataka and Andhra Pradesh contributed ~23 percent of the total portfolio as on December 31, 2018.

Acuite believes that DFIL will continue to benefit from its established position and the promoters' strong understanding in the financial sector.

Prudent Capital Structure

DFIL has comfortable capital adequacy ratio of 38.38 per cent as on December 31, 2018 (39.86 per cent on March 31, 2018) and modest net worth of Rs.19.18 crore on December 31, 2018 (Rs. 17.05 crore on March 31, 2018). The gearing (debt to equity) has remained comfortable at 0.63 for FY2018 as against 0.65 in FY2017.

Acuite believes that the capital structure will remain stable, notwithstanding the expected increase in the debt levels over the near to medium term.

Healthy Earning Profile and improvement in asset quality

DFIL has comfortable profitability as reflected in its reported Return on Average Assets (RoAA) at 4.71 percent as on FY2018 as against 4.55 percent as on FY2017. The company's profitability is driven by its ability to maintain competitive borrowing costs which results in adequate net interest margin of 18.90 percent in FY2018 as against 18.35 percent in FY2017. Further, the stringent credit assessment and monitoring processes in place has enabled the company's asset quality to improve significantly. Portfolio at Risk (PAR) 90+ days past due stood at 1.73 percent as on March 31, 2018 as against 5.33 percent as on March 31, 2017. The company has demonstrated improvement in collection efficiency which stood at 73.45 percent for February, 2019 as against 62.97 percent for February, 2018.

Acuite believes that DFIL will maintain a healthy asset quality level on the back of its stringent credit assessment and monitoring process over the near to medium term.

Weaknesses

Modest scale of operations

DFIL's loan portfolio (Hire purchase installments including unmatured finance charges) stood at Rs. 42.26 crore in FY 2018 as against Rs. 38.19 crore in FY 2017, the outstanding loan book as on December 31, 2018 stood at Rs. 50.66 crore. The major growth was from Maharashtra, Gujarat and Karnataka which contributed to 52.95 percent (Rs.22.28 crore) of its total loan portfolio as against 27.82 percent (Rs. 10.51 crore) in FY2017. Further the company expanded its number of branches to 15 branches as on December 31, 2018 as against 7 as on March 31, 2018. While there has been an improvement in the loan portfolio, the scale of operations remain modest.

Acuite believes the company's ability to grow its loan book while maintaining its asset quality will remain a key rating sensitivity.

Intense competition

The company faces competition from its peer companies which will have a bearing on its ability to maintain its net interest margins and thereby profitability. The company will have to generate adequate returns and maintain its operating costs to maintain optimal level of Return on Average Assets.

Liquidity Position:

Acuite believes that the liquidity of the company is likely to remain adequate over the near to medium term on account of healthy net cash accruals and no major repayment obligations in the near term. The company maintains unencumbered cash and bank balance of Rs. 0.29 crore as on December 31, 2018.

Outlook: Stable

Acuite 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 - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Total Assets	Rs. Cr.	43.34	39.14	34.90
Total Income (Net of Interest Expense)	Rs. Cr.	4.96	4.40	3.90
PAT	Rs. Cr.	1.94	1.68	1.44
Net Worth	(%)	17.05	15.25	13.43
Return on Average Assets (RoAA)	(%)	4.71	4.55	4.38
Return on Net Worth (RoNW)	(%)	12.03	11.75	11.28
Total Debt/Tangible Net Worth (Gearing)	Times	0.63	0.65	0.67
Gross NPA	(%)	0.79	0.74	-
Net NPA	(%)	0.71	0.69	-

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Non-Banking financial Companies - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-Feb-2018	Cash Credit	Long Term	12.50	ACUITE BB+ / Stable (Upgraded)
	Proposed Cash Credit	Long Term	2.50	ACUITE BB+ / Stable (Upgraded)
	Proposed Cash Credit	Long Term	5.00	ACUITE BB+ / Stable (Upgraded)
22-May-2017	Cash Credit	Long Term	10.00	ACUITE BB/ Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	5.00	ACUITE BB/ Stable (Reaffirmed)
18-Dec-2015	Cash Credit	Long Term	9.00	ACUITE BB/ Stable (Upgraded)
	Proposed Cash Credit	Long Term	3.00	ACUITE BB/ Stable (Upgraded)
20-Aug-2014	Cash Credit	Long Term	6.00	ACUITE BB-/ Stable (Assigned)
	Proposed Cash Credit	Long Term	3.00	ACUITE BB-/ Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BBB- / Stable (Upgraded from ACUITE BB+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BBB-/Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00 (Enhanced from Rs.7.50 crore)	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)

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About Acuité Ratings & Research:

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