

Press Release

Dugar Finance and Investments Limited

July 08, 2020

Rating Reaffirmed and Assigned



Total Facilities Rated	Rs.30.00 crore
Total Bank Facilities Rated	Rs.30.00 crore (Enhanced from Rs.25.0 crore)
Long Term Rating	ACUITE BBB- / Stable (Reaffirmed)

*Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.28.50 Cr. bank facilities of Dugar Finance and Investments Limited (DFIL). The outlook is '**Stable**'.

Acuité has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.1.50 Cr. bank facilities of Dugar Finance and Investments Limited (DFIL). The outlook is '**Stable**'.

About DFIL:

DFIL, incorporated in 1987, is a Chennai based Non deposit taking Non-Banking Finance Company (ND-NBFC) promoted by Mr. Ramesh Dugar and his wife Mrs. Sonali Dugar. The company is engaged in providing small commercial vehicle finance on hire purchase and lease and extending loan against property (LAP) towards SME borrowers.

The day to day operations are managed by Mr. S. Rangaraj, CEO of DFIL. The company presently operates through a network of 19 branches spread across Tamilnadu, Maharashtra, Gujarat, Karnataka and Andhra Pradesh as on March 31, 2020.

Analytical Approach:

Acuité has considered a standalone view on DFIL's business and financial risk profile to arrive at the rating.

Acuité has been guided by recent SEBI circular dated 30th March, 2020 (Circular No: SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/53) while arriving at the rating. Acuité has also relied on the recent RBI circular dated 27th March, 2020 (Circular No: RBI/2019-20/186 in this regard. The company has confirmed to Acuité that they have not sought moratorium from their CC lenders and have continued to make interest payments for March, April and May 2020. Further DFIL also confirmed that they received moratorium from all their term loan lenders for April and May 2020 and have resumed its scheduled repayments from June 2020.

Acuité believes that, this slippage of payment to term loan lenders for April and May 2020 is attributable to the ongoing crisis and hence has not construed the non-payment of principal for April and May 2020 as a credit event while arriving at the rating decision. Since Acuité policy regarding this "Transitory relaxation from compliance with certain provisions under SEBI (Credit Rating Agencies) Regulations, 1999" is as follows: <https://www.acuite.in/transitory-relaxation-from-compliance-with-certain-provisions-under-SEBI.htm>

Key Rating Drivers

Strengths

• Experienced Management:

DFIL commenced its lending operations in 1987 upon registration as a ND- NBFC. DFIL is engaged in

providing vehicle finance for small commercial vehicles on hire purchase and lease and extending Loans against property (LAP) to Small and Medium Enterprise (SME) borrowers. The company presently operates through a network of 19 branches spread across Tamilnadu, Maharashtra, Gujarat, Karnataka and Andhra Pradesh as on March 31, 2020. DFIL is promoted by Mr. Ramesh Dugar (Managing Director) and his wife Mrs. Sonali Dugar. The promoters have over three decades of experience in financial services. Mr. Ramesh Dugar was the former Chairman of South Indian Hire Purchase Association and currently holds the position of Treasurer -with Hindustan Chamber of Commerce and Vice Chairman of All India Manufacturers Organisation.

DFIL's Board of Directors include various seasoned professionals such as Mr. R. Nagarajan, Ex-Chief General Manager of State Bank of India, Chennai, having over four decades of experience in the banking and financial service sector. The day to day operations of DFIL are managed by Mr. S. Rangaraj (CEO) who has over three decades of experience in financial services sector.

DFIL has a long track record of operations of over three decades in the small commercial vehicle financing segment. DFIL's loan book stood at Rs.56.77 Cr. as on March 31, 2020 (provisional) as against Rs.49.02 Cr. as on March 31, 2019. Of the overall loan portfolio as on March 31, 2020, small commercial vehicle finance on hire purchase and lease accounted for ~85 percent and remaining for loan against property (LAP) towards SME borrowers. Going forward the company plans to maintain a similar product mix with focus on vehicle financing.

Acuité believes that DFIL will continue to benefit from its experienced management and established presence in the financial services industry.

• **Prudent Capital Structure**

DFIL is closely held by Mr. Ramesh Dugar, his wife Mrs. Sonali Dugar and family with ~99.7 percent holding and the remaining held by friends. DFIL has comfortable capital adequacy ratio of 38.32 per cent as on March 31, 2020 (36.48 per cent on March 31, 2019). The company has a modest networth of Rs.22.17 Cr. as on March 31, 2020 (provisional) vis. a vis. Rs.18.84 Cr. as on March 31, 2019. The increase in networth in FY 2020 is supported by strong net cash accruals and promoter infusion of Rs.0.30 Cr. DFIL's outstanding borrowings stood at Rs.13.3 Cr. as on March 31, 2020, comprising ~79 percent of cash credit facility and remaining term loans. The company's gearing stood at 0.60 times as on March 31, 2020(provisional) as against 0.65 times as on March 31, 2019.

Acuité expects the company to maintain prudent capital structure over the medium term.

Weaknesses

• **Expectations of elevated stress in asset quality**

DFIL's key product offerings are spread across vehicle financing for small commercial vehicles on hire purchase and lease, followed by LAP towards SME borrower base. DFIL has been in operations since 1987. Over the years, DFIL has built a portfolio of Rs. 56.77 Cr.as on March 31, 2020 from Rs.49.02 Cr. as on March 31, 2019 and Rs.42.08 Cr. as on March 31, 2018. Though there has been a growth in the portfolio, the level of operations remains modest. Around 85 percent of DFIL's portfolio of Rs. 56.77 Cr. as on March 31, 2020 (provisional) accounts for small commercial vehicle financing on hire purchase and lease and remaining for LAP portfolio towards MSME borrowers. Under vehicle financing segment, DFIL provides financing for private passenger vehicles and Light/small Commercial Vehicles. Majority of its borrowers, in the vehicle financing segment, comprise self-employed individuals, owners or drivers delivering goods to sugar mills, textile mills, cement factories amongst others. In case of LAP portfolio, majority of borrowers comprise businessmen, traders, manufacturers and small local business operators. The activities of most of these SME units have been impacted because of the on-going lockdowns leading to restrictions on movement of men and material. While the credit profile of these borrowers have been impacted, the magnitude of impairment will be known over the next one to two quarters.

DFIL's borrower profile comprise majorly loans extended to self-employed individuals. The serviceability of these loans is directly dependent on the level of economic activity in the region of their operations. Since majority of DFIL's portfolio comprise of commercial vehicle financing segment and self-employed borrowers, further stress on asset quality is likely to be expected.

DFIL has maintained a healthy asset quality, with Gross Non-Performing Assets (GNPA) i.e. PAR 90+ days past due (dpd) levels at 1.25 percent as on March 31, 2020 (provisional) vis. a vis.1.70 percent as on March 31, 2019. However, any prolonged time taken for resumption of normal activities, may

lead to long term stress on the credit profile of the borrowers, resulting in elevated asset quality pressures and increase in credit cost.

Acuité believes that ability of DFIL to maintain its asset quality and containing its credit costs will be a key rating monitorable.

Rating Sensitivities

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability parameters
- Changes in regulatory environment

Material Covenants:

DFIL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others. As per confirmation received from client via mail dated June 24, 2020, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity Position: Adequate

DFIL's overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term, as per ALM statement dated March 31, 2020. DFIL's borrowings of Rs.13.3 Cr. as on March 31, 2020 mainly comprise cash credit facilities of ~79 percent and balance term loans from banks. DFIL's gearing as on March 31, 2020 (provisional) was around 0.60 times. DFIL's collections during May and June 2020 were Rs.1.76 Cr. and Rs. 1.46 Cr. respectively, i.e. ~58 percent and ~62 percent of the scheduled collection for May and June 2020, respectively. The collections are currently subdued and any improvement in collections are expected to be gradual. Acuité believes that the liquidity of the company is likely to remain adequate since DFIL has no major repayment obligations over the near term. DFIL had unencumbered cash and bank balance of ~Rs.8.0 Cr. as on April 01, 2020.

Further, DFIL is in talks with various lenders to raise long term debt under the TLTRO route and through the special liquidity facility. The ability of DFIL to raise long term funding (equity/debt) and timely rollover of DFIL's CC facilities will support its stable liquidity profile.

Outlook: Stable

Acuité believes that DFIL will maintain a Stable outlook over the medium term on account of its experienced track record 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 deterioration in asset quality or decline in liquidity buffers.

About the Rated Entity - Key Financials:

Parameters	Unit	FY20 (Prov)	FY19(Actual)
Total Assets	Rs. Cr.	57.55	50.41
Total Income*	Rs. Cr.	6.66	5.90
PBT	Rs. Cr.	3.03	2.41
Net Worth	Rs. Cr.	22.17	18.84
Return on Average Assets (RoAA)^	(%)	5.61	5.14
Return on Average Net Worth(RoNW)^	(%)	14.77	13.43
Total Debt/Tangible Net Worth (Gearing)	Times	0.60	0.65
Gross NPA (90+dpd)	(%)	1.25	1.70
Net NPA (90+dpd)	(%)	1.20	1.64

* Total income equals to Net interest income plus other income

^calculated on PBT basis

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

None

Any other information

Not Applicable

Applicable Criteria

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
15-April-2019	Cash Credit	Long Term	12.50	ACUITE BBB- / Stable (Upgraded from ACUITE BB+/Stable)
	Cash Credit	Long Term	0.50	ACUITE BBB-/Stable (Assigned)
	Term loans	Long Term	2.00	ACUITE BBB-/Stable (Assigned)
	Proposed Bank Facility	Long Term	10.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
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)

***Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
-	Cash Credit	NA	NA	NA	15.00 (Enhanced from Rs.12.5 Cr)	ACUITE BBB- / Stable (Reaffirmed)
-	Cash Credit	NA	NA	NA	1.50 (Enhanced from Rs.0.5 Cr)	ACUITE BBB- / Stable (Reaffirmed)
-	Term loan	Not Available	NA	Not Available	1.32	ACUITE BBB- / Stable (Reaffirmed)
-	Term loan	Not Available	NA	Not Available	1.50	ACUITE BBB- / Stable (Assigned)
-	Proposed bank facility	NA	NA	NA	10.68	ACUITE BBB- / Stable (Reaffirmed)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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