

Press Release

Dugar Finance and Investments Limited

October 01, 2021

Rating Reaffirmed



Total Facilities Rated*	Rs. 30.00 Cr.
Total Bank Facilities Rated	Rs. 30.00 Cr.
Long Term Rating	ACUITE BBB-/ Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 30.00 Cr bank facilities of Dugar Finance and Investments Limited (DFIL). The outlook is '**Stable**'

The rating factors in DFIL's experienced management and operational track record. The rating is further supported by comfortable capitalization levels of 38.94 percent as on March 31, 2021 and low gearing levels of 0.95 times as on March 31, 2021. The rating is however constrained by DFIL's limited scale of operations with loan portfolio of Rs 65.70 Cr as on August 2021. The rating also takes into account deterioration in the company's credit profile as reflected in its on-time portfolio which stood at 63.49 percent as on August 2021. Accordingly, further stress on asset quality is likely to be expected (1.32 percent as on August 31, 2021 as against 1.26 percent as on March 31, 2020). The rating is further constrained by the company's geographically concentrated operations in the state of Tamil Nadu (35.40 percent of the total portfolio as on March 2021) followed by Maharashtra (26.02 percent of the total portfolio as on March 2021). Going forward, the company's ability to raise capital (both equity & debt), contain delinquencies across different time buckets and profitably scale up its operations would remain key monitorables. Any challenges in attaining optimal collection efficiency and/or arranging for long term funding could impact the liquidity profile.

About the company

Incorporated in 1987, DFIL is a Chennai, Tamil Nadu, based non-banking finance company (NBFC) promoted by Mr. Ramesh Dugar and his wife Mrs. Sonali Dugar. The company is engaged in extending vehicle financing on hire purchase and lease and 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 20 branches spread across Tamil Nadu, Maharashtra, Gujarat, Karnataka and Andhra Pradesh as on March 31, 2021.

Analytical Approach

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

Key Rating Drivers

Strengths

- Established track record of lending with focus on vehicle financing on hire purchase and lease

DFIL commenced its lending operations in 1987 upon registration as a Non-deposit taking Non-Banking Finance Company (NBFC-ND). The company mainly operates in Tamil Nadu, Maharashtra, Karnataka, Gujarat and Andhra Pradesh with a network of 20 branches as on March 31, 2021. The company is promoted by Mr. Ramesh Dugar 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 Vice President of Madras Hire Purchase Association. The day to day operations of DFIL are managed by Mr. S. Rangaraj.

DFIL's Board of Directors are supported by 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.

Further, DFIL has a long track record of operations in the vehicle financing segment. It has presence in Tamil Nadu for over three decades. DFIL's loan book stood at Rs.60.08 Cr. as on March 31, 2021 as against Rs. 56.12 Cr. as on March 31, 2020. Of the overall loan portfolio as on March 31, 2021, vehicle financing segment accounted for 86.14 percent (~60 percent passenger vehicles and ~40 percent light commercial vehicles) and remaining loan against property (LAP) towards SME borrowers. Going forward the company plans to maintain a similar product mix.

Acuité believes that DFIL will continue to benefit from its established presence in the financial services industry along with the experienced promoters.

- **Healthy Capitalization levels**

The company's loan portfolio marginally improved to Rs 65.70 Cr. as on August 2021 as against Rs 56.18 Cr as on March 31, 2020. The net worth stood at Rs 24.04 Cr as on March 2021 as against Rs 21.49 Cr as on March 2020. While the company's promoters infused Rs 0.30 Cr during FY2021, this resulted in improvement in the capitalization levels with overall Capital Adequacy Ratio of 38.94 percent as on March 2021 (entire Tier I Capital).

Acuité expects the company to sustain its financial position on the back of its healthy capitalization buffers and maintaining a prudent capital structure.

Weaknesses

- **Expectations of stress in Asset Quality.**

DFIL's key product offerings are spread across vehicle financing on hire purchase and lease followed by Loan against property towards SME borrower base. Around 86.14 percent of DFIL's portfolio of Rs. 60.08 crore as on March 31, 2021 accounts for vehicle financing on hire purchase and lease and remaining for LAP portfolio towards MSME borrowers. Under vehicle financing segment, DFIL provides financing for passenger vehicles and Light Commercial Vehicles. Majority of the DFIL's borrowers comprise self-employed individuals in the vehicle financing segment, owners or drivers delivering goods to sugar mills, textile mills, and cement factories among others. In case of LAP portfolio towards SME borrowers, majority of borrowers comprise businessmen, traders and small local business operators. The activities of most of these small SME units have been impacted because of the on-going lockdown and there are restrictions on movement of men and material. DFIL's overall credit profile is susceptible to concentration towards vehicle financing segment which in turn are facing their own risks and challenges. Further, majority of DFIL's portfolio is extended to self-employed individuals, the serviceability of these loans is directly dependent on the level of economic activity in the region. Since majority of DFIL's portfolio comprise of vehicle financing segment, further stress on asset quality is likely to be expected (1.32 percent as on August 2021 vis. a. vis 1.31 percent as on March 31, 2020).

The company reported unencumbered cash and bank balance of Rs 0.18 Cr as on March 31, 2021 (Rs 0.20 Cr as on August 2021). Further, the company's on-time portfolio stood at 63.49 percent as on August 2021. Any challenges in attaining optimal collection efficiency and/or arranging for long term funding to bridge the near term mis-matches could impact the liquidity profile.

Acuité believes that containing additional slippages and the ability to raise long term debt to support its business growth will be crucial.

- **Limited scale of operations with geographically concentrated portfolio.**

The company has limited scale of operations with an outstanding portfolio of Rs 65.70 Cr as on August 31, 2021 as against Rs 56.18 Cr as on March 31, 2020. While the company has been focusing on loan portfolio growth over last few months, it continues to remain modest.

The company has maintained moderate profitability as reflected in its Return on Average Assets (ROAA) which stood at 4.71 percent as on March 2021 (P.Y 4.58 percent) and Net Interest Margin which stood at

12.74 percent as on March 2021 (P.Y 12.23 percent) . The company reported PAT of Rs 2.81 Cr for FY2021 .

Further, DFIL has presence in five states with concentration in Tamil Nadu (35.40 percent of the overall portfolio as on March 31, 2021) and Maharashtra (26.02 percent of the overall portfolio as on March 31, 2021). This exposes the company to geographical concentration risk. Thus, the company's performance is expected to remain exposed to competitive landscape in these regions and occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework thereby impacting credit profile of DFIL.

Acuité believes that geographic concentration in its portfolio coupled with the limited scale of operations will continue to weigh on the company's credit profile over the near to medium term.

Liquidity Position-Stretched

DFIL's overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term as per ALM dated March 31, 2021. The company is in talks with lenders to raise long term debt. The company's liquidity position is supported by unencumbered Cash and Bank Balance of Rs 0.18 Cr as on March 31, 2021). While the company has been able to show momentum in the collection efficiency during Q1FY22, future liquidity position will hinge upon the company's ability to raise resources while continuing to achieve optimal portfolio collections.

Rating Sensitivity

- Ability to raise capital, both debt and equity.
- Profitably scale up in operations.
- Movement in Asset Quality and Collection efficiency.
- Liquidity and provisioning buffers.

Material Covenants

DFIL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

Outlook-Stable

Acuité believes that DFIL will maintain a Stable outlook over the medium term on account of its experienced management and established track record in vehicle financing. 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 deterioration in AUM or profitability indicators.

About the Rated Entity - Key Financials

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	61.50	58.02
Total Income*	Rs. Cr.	7.52	6.53
PAT	Rs. Cr.	2.81	2.48
Net Worth	Rs. Cr.	24.04	21.49
Return on Average Assets (RoAA)	(%)	4.71	4.58
Return on Average Net Worth (RoNW)	(%)	12.36	12.32
Debt/Equity	Times	0.95	0.98
Gross NPA	(%)	1.31	1.26
Net NPA	(%)	1.24	1.20

*Total income equals to Net Interest Income plus other income.

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-52.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.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 (Up to last three years)

Date	Name of the Facilities	Term	Amount (Rs Cr)	Ratings/Outlook
8-July-2020	Cash Credit	Long Term	15.00	ACUITE BBB-/ Stable (Reaffirmed)
	Cash Credit	Long Term	1.50	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	1.32	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	1.50	ACUITE BBB-/ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	10.68	ACUITE BBB-/ Stable (Reaffirmed)
15-April-2019	Cash Credit	Long Term	12.50	ACUITE BBB-/ Stable (Upgraded)
	Cash Credit	Long Term	0.50	ACUITE BBB-/ Stable (Upgraded)
	Term Loan	Long Term	2.00	ACUITE BBB-/ Stable (Upgraded)
	Proposed Cash Credit	Long Term	10.00	ACUITE BBB-/ Stable (Upgraded)
12-Feb-2018	Term Loan	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 (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Date of Maturity	Size of the Issue (Rs. Cr.)	Rating/Outlook
Union Bank of India	Cash Credit	28-Dec-2020	Not Applicable	3-June-2022	15.00	ACUITE BBB-/ Stable (Reaffirmed)
AU Small Finance Bank	Cash Credit	2-July-2021	Not Applicable	1-July-2022	1.50	ACUITE BBB-/ Stable (Reaffirmed)
AU Small Finance Bank	Term Loan	15-Oct-2018	Not Available	15-Dec-2021	0.36	ACUITE BBB-/ Stable (Reaffirmed)
AU Small Finance Bank	Term Loan	29-May-2019	Not Available	18-Sept-2022	0.61	ACUITE BBB-/ Stable (Reaffirmed)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	12.53	ACUITE BBB-/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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