

Press Release

Dugar Finance and Investments Limited

November 07, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	30.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 50.00 Cr bank facilities of Dugar Finance and Investments Limited (DFIL). The outlook is '**Stable**'

Rationale for the rating

The rating factors in DFIL's experienced management and operational track record. The company has track record of more than three decades in Vehicle Financing. The net worth stood at Rs 28.04 Cr as on March 2022 as against Rs 24.04 Cr as on March 2021. Capital infusion by promoters of Rs 0.70 Crs during FY2022 aided with internal accruals have contributed to company's Capital adequacy ratio of 35.11 percent as on March 31, 2022. The company's gearing stood at 1.38 times as on March 31, 2022. The rating also factors Growth in AUM and Improved earnings profile. AUM has improved by 33.72 percent to Rs 80.34 Crs as on March 31, 2022. While the company has been focusing on loan portfolio growth over last few months, it continues to remain moderate. The company has reported a PAT of Rs 3.45 Crs as on March 31, 2022 compared to Rs 2.81 Crs as on March 31, 2021. The company has reported interest Income of Rs 12.12 Crs as on March 31, 2022 as compared to Rs 10.25 Crs as on March 31, 2021. DFIL's earnings profile has improved owing to growth in AUM and disbursement levels.

The rating is constrained by moderate asset quality, albeit improving. Moderate asset quality is reflected in its ontime portfolio which stood at 72.34 percent as on March 2022 as compared to 61.40 percent as on March 2021. Higher Delinquencies in the softer buckets (upto 30 dpd) was observed which stood at 12.31 percent as on March 31, 2022. However, these delinquencies in the upto 30 dpds have gradually reduced since March-2022 which stood at 11.20 percent as on June 30, 2022 and 10.31 percent as on September 30, 2022. The company had contained slippages for 90+ dpd and was thus able to manage its GNPA levels at 1.03 percent as on March 31, 2022.

The ability of DFIL to maintain the growth in its Assets Under Management (AUM) while maintaining its profitability margins and containing its delinquencies across different time buckets will be key monitorable.

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 21 branches spread across Tamil Nadu, Maharashtra, Gujarat, Karnataka and Andhra Pradesh as on March 31, 2022.

Analytical Approach

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

Key Rating Drivers

Strength

Established track record of operations 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 21 branches as on March 31, 2022. 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 ₹80.34 Cr. as on March 31, 2022 as against ₹60.08 Cr. as on March 31, 2021. Of the overall loan portfolio as on March 31, 2022, vehicle financing segment accounted for 85.03 percent (~60 percent passenger vehicles and ~40 percent light commercial vehicles) and remaining loan against property (LAP) towards SME borrowers.

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 and improvement in earnings profile;

The company's loan portfolio stood at ₹89.91 Cr. as on September 2022 as against ₹80.34 Cr. as on March 31, 2022. The net worth stood at ₹28.04 Cr. as on March 2022 as against ₹24.04 Cr. as on March 2021. Capital infusion by promoters of ₹0.70 Crs during FY2022 aided with internal accruals have contributed in company's Capital adequacy ratio of 35.11 percent as on March 31, 2022. Reduction in Cost of borrowing has positively affected Net Interest Margins. NIM has improved from 12.74 percent as on March 31, 2021 to 13.62 percent as on March 31, 2022. The company has reported a PAT of ₹3.45 Crs as on March 31, 2022 compared to ₹2.81 Crs as on March 31, 2021. The company has reported Interest Income of ₹12.12 Crs as on March 31, 2022 as compared to ₹10.25 Crs as on March 31, 2021. DFIL's earnings profile has improved owing to growth in AUM and disbursement levels.

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

Weakness

Moderate Asset quality albeit improving

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 85.03 percent of DFIL's portfolio of Rs. 80.34 crore as on March 31, 2022 accounts for vehicle financing on hire purchase and lease and remaining for LAP portfolio towards MSME borrowers. . Moderate asset quality is reflected in its on time portfolio which stood at 72.34 percent as on March 2022 as compared to 61.40 percent as on March 2021. Higher Delinquencies in the softer buckets (up to 30 dpd) was observed which stood at 12.31 percent as on March 31,2022. However, these delinquencies in the upto 30 dpds have gradually reduced since March-2022 which stood at 11.20 percent as on June 30,2022 and 10.31 percent as on September 30,2022. Delinquencies in greater than 30 to 90 dpd have reduced from 14.31 percent as on March 31,2022 to 13.60 percent as on June 30,2022 and 13.58 percent as on Sep 30 2022. The company has no delinquencies under 180+dpd bucket.The company considers 90+dpd as its Gross NPA over and above the regulatory framework of keeping 180+dpd days as GNPA. The company had contained slippages for 90+ dpd and was thus able to manage its GNPA levels at 1.03 percent as on March 31,2022.

The ability of DFIL to contain delinquencies across different time buckets will be key monitorable.

Limited scale of operations

DFIL commenced its lending operations in 1987. The company's outstanding portfolio has improved by 33.72 percent to at Rs 80.34 Cr as on March 31, 2022, as against Rs 60.08 Cr as on March 31, 2021. While the company has been focusing on loan portfolio growth over last few months, it continues to remain moderate. DFIL has presence in five states that is Tamil Nadu, Maharashtra, Gujarat, Karnataka and Andhra Pradesh. The company's LAP Portfolio is mainly present in Tamil Nadu. 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 the limited scale of operations will continue to weigh on the company's credit profile over the near to medium term.

Rating Sensitivity

- Profitably scale up in operations.
- Movement in Asset Quality and Collection efficiency.
- Liquidity and provisioning buffers.

Material Covenants

None

Liquidity Position

Adequate

DFIL's overall liquidity profile remains adequate with no negative cumulative mismatches in near to medium term as per ALM dated March 31, 2022. The company's liquidity position is supported by unencumbered Cash and Bank Balance of Rs 0.45 Cr as on September 30, 2022).

Outlook:

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 significant 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.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22(Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	82.36	61.50
Total Income*	Rs. Cr.	9.70	7.52
PAT	Rs. Cr.	3.45	2.81
Net Worth	Rs. Cr.	28.04	24.04
Return on Average Assets (RoAA)	(%)	4.80	4.71
Return on Average Net Worth (RoNW)	(%)	13.25	12.36
Debt/Equity	Times	1.38	0.95
Gross NPA	(%)	1.03	1.31
Net NPA	(%)	0.96%	1.24

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

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Oct 2021	Cash Credit	Long Term	1.50	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	12.53	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.36	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.61	ACUITE BBB- Stable (Reaffirmed)
08 Jul 2020	Term Loan	Long Term	1.50	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	1.32	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	1.50	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	10.68	ACUITE BBB- Stable (Reaffirmed)
15 Apr 2019	Cash Credit	Long Term	12.50	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Proposed Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Cash Credit	Long Term	0.50	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Term Loan	Long Term	2.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Dec 8 2021 12:00AM	Not Applicable	Dec 7 2022 12:00AM	Simple	24.79	ACUITE BBB- Stable Reaffirmed
A U Small Finance Bank	Not Applicable	Cash Credit	Sep 22 2022 12:00AM	Not Applicable	Sep 21 2023 12:00AM	Simple	0.75	ACUITE BBB- Stable Reaffirmed
Karur Vysya Bank	Not Applicable	Cash Credit	Dec 6 2021 12:00AM	Not Applicable	Dec 5 2022 12:00AM	Simple	2.80	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	16.95	ACUITE BBB- Stable Assigned
A U Small Finance Bank	Not Applicable	Term Loan	Sep 30 2022 12:00AM	Not available	Oct 18 2025 12:00AM	Simple	1.50	ACUITE BBB- Stable Assigned
Karur Vysya Bank	Not Applicable	Term Loan	Dec 6 2021 12:00AM	Not available	Jan 5 2025 12:00AM	Simple	1.55	ACUITE BBB- Stable Assigned
A U Small Finance Bank	Not Applicable	Term Loan	Feb 28 2022 12:00AM	Not available	Mar 18 2025 12:00AM	Simple	1.66	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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