May 22, 2015

Facility	Amount (Rs. Crore)	Rating
Cash Credit	10.00	SMERA BB+/Stable (Assigned)

SMERA has assigned a rating of **'SMERA BB+' (read as SMERA double B plus)** to the Rs.10.00 crore bank facility of Digamber Capfin Limited (DCL). The outlook is **'Stable'**. The rating derives comfort from the company's experienced management, healthy asset quality, comfortable capitalisation level and diversified geographical presence. However, the rating is constrained by the company's small-scale operations and low profitability.

DCL, incorporated in 1995, is a Rajasthan-based non-deposit taking NBFC-MFI. DCL benefits from its experienced management. The promoters of the company have around 20 years of experience in microfinance operations. DCL's healthy asset quality is reflected in on-time collection rate of ~99 per cent over the past three years. The company has comfortable capitalisation with capital adequacy ratio (CAR) of 27.12 per cent as on March 31, 2014. SIDBI has infused capital of Rs.3.00 crore in DCL (by way of optionally convertible preference shares under India Microfinance Equity Fund in January 2015). SMERA believes the aforementioned funding will help DCL to expand its scale of operations while maintaining moderate leverage.

DCL has geographically diversified operations spread across five states (i.e. Rajasthan, Madhya Pradesh, Maharashtra, Gujarat and Chhattisgarh) in India. The company has robust technology systems.

DCL has small-scale operations marked by net loan portfolio of Rs.38.31 crore as on January 31, 2015. The company's weak profitability is reflected in low return on average assets (ROAA) of 0.60 per cent and muted return on average TNW of 2.42 per cent in FY2013–14 (refers to financial year, April 01 to March 31).

Rating sensitivity factors:

- Ability to scale up operations while maintaining healthy asset quality
- Improvement in operating efficiency

Outlook: Stable

SMERA believes DCL will maintain a stable business risk profile over the medium term. The outlook may be revised to 'Positive' in case the company registers significant growth in loan portfolio while maintaining healthy asset quality and achieving sustained improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's asset quality or profitability.

About the company

DCL, incorporated in 1995, is a Rajasthan-based non-deposit taking NBFC-MFI. DCL started microfinance operations in September 2009 under the Joint Liability Group (JLG) model. The company has 40 branches across five states in India. DCL is promoted by Mr. Rajiv Jain (Managing Director) and Mr. Amit Jain (Executive Director).

For FY2013–14, DCL reported profit after tax (PAT) of Rs.0.16 crore on operating income of Rs.2.66 crore, as compared with PAT of Rs.0.27 crore on operating income of Rs.1.94 crore in FY2012–13. The company's net worth stood at Rs.7.06 crore as on March 31, 2014, as compared with Rs.6.05 crore a year earlier. DCL's loan portfolio stood at Rs.25.13 crore as on March 31, 2014 compared with Rs.21.87 crore a year earlier.

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