Press Release

Digamber Capfin Limited

November 14, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 205.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable

** Refer Annexure for details*

Acuité has assigned its long-term rating of '**ACUITE BBB' (read as ACUITE triple B)** on the Rs. 205.00 crore bank facilities of Digamber Capfin Limited. The outlook is **'Stable'**.

Digamber Capfin Limited (DCL), incorporated in 1995, is a Rajasthan based Non-Banking Financial Company Microfinance Institution (NBFC - MFI), offering credit and other financial products to the rural and semi- urban poor. It lends under joint liability group (JLG) model (10-20 members) and also provides loans to individual people. The JLG model focuses on lending to women borrowers for income generation purposes, with the ticket size ranging from Rs.15, 000 to 50, 000 and tenure ranging from 12-48 months. Under individual lending, the company finances traders or shopkeepers with average ticket size of Rs. 30,000-1,00,000 and tenure of 30-48 months.

DCL is promoted by two professionally qualified first generation entrepreneurs, Mr. Rajiv Jain and Mr. Amit Jain, who have experience of more than 2 decades in the financial services industry.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of IFL.

Key Rating Drivers

Strengths

- **Comfortable profitability**

DCL's comfortable profitability is reflected in its return on average assets (RoAA) of 3.6 percent in FY18 as against 1.2 percent in the previous year. The improvement is mainly because of the benefits derived from the economies in the scale of operations; operating cost to total assets declined to 5.8 percent in FY18 from 7.4 percent in FY17. This helped offset the rise in provisioning costs during the year as the company wrote-off NPAs of around Rs. 2.1 Cr and also provided additional Rs. 2.0 Cr towards provisions for NPA's during the year.

DCL's profitability is mainly driven by the healthy net interest margin of 13.0 percent in FY18 (11.3 percent in FY17). Its profitability is also supported by the competitive borrowing cost of 11-12 percent supported by more than 55% of funding from banking channels at competitive rates and balance from financial institutions.

DCL has expanded its geographical presence to 3 more states in H1FY19 which will lead to a moderate increase in operating expenses in FY19. Nevertheless, the steady growth in the portfolio will help manage the increase in operating expenses.

Acuité believes that DCL's ability to steadily increase the scale of operations while maintaining asset quality will remain a key monitorable.

- **Adequate asset quality**

DCL has adequate asset quality as reflected in its gross non-performing assets (NPA; recognized on 90+ dpd basis) of 1.43 percent as on March 31, 2018 as against industry average of 4.7 percent. The gross NPAs increased from 0.29 percent as on March 31, 2017 as the collection from borrowers was severely impacted post demonetization in November 2016 as the income generating ability of the small borrowers was affected, due to non-availability of adequate liquidity in the system. A major chunk of the stressed portfolio was in 60+ dpd bucket for the period ending March 2017, which slipped into NPAs in the subsequent year.

As a prudent measure, the company increased focused on collections during demonetization and implemented legal process to streamline the same. The company has adequate processes in place to identify the credit profile of the borrowers and monitor delinquencies at the earliest. The company also decided to prudently write-off part of the NPAs which helped in lowering the outstanding NPAs. The company reported gross NPAs of 1.77% as on September 30, 2018.

The incremental asset quality remains adequate as reflected in the steady improvement in the on-time portfolio at 98.2 percent as on September 30, 2018 (98.0 percent as on March 31, 2018) from 96.3 percent as on March 31, 2017. The portfolio quality in the 0-90 days portfolio at risk (PAR) bucket also remains adequate with very negligible delinquencies as on September 30, 2018.

Acuité believes that DCL's ability to maintain prudent lending practices and follow strong systems and processes while increasing the loan portfolio will remain a key sensitivity factor.

- **Steady scale-up in loan portfolio**

DCL is a mid-sized NBFC-MFI and doubled its assets under management (AUM) to Rs. 274.8 Cr as on March 31, 2018 from Rs.137.1 Cr as on March 31, 2017. The AUM increased to Rs.300.68 Cr as on September 30, 2018. The growth is mainly attributable to the aggressive penetration in existing markets along with expansion into newer regions. DCL operates out of 87 branches spread across 8 states with a member base of roughly 1,40,000. The average ticket size has increased with the increase in the scale of operations to Rs. 21,465 as of September 30, 2018 from Rs. 12,117 as on March 31, 2016.

DCL has strong growth plans over the medium term and will look at alternate avenues to support the same, especially given the tight liquidity conditions in the near term. It is looking to sell-down a large portion of the AUM to banks during the current financial year to support its growth plans.

The company operates mainly in Rajasthan, Madhya Pradesh, and Haryana, with Rajasthan constituting nearly two-thirds of the portfolio resulting in geographical concentration in the loan portfolio. DCL's ability to significantly expand its operations in new geographies will remain a key monitorable.

Weaknesses

- **Average capitalisation**

DCL's capitalisation is average, with modest networth in relation to the scale of operations resulting in very high gearing as compared to peers.

DCL had a net worth (excluding optionally convertible preference shares) of Rs.30.6 Cr as on March 31, 2018 as against Rs.17.5 Cr as on March 31, 2017. The gearing stood high at 8.8 times as on March 31, 2018 against 8.1 times in the previous year. The overall capital adequacy ratio (CAR) declined to 18.47% as on March 31, 2018 from 18.65% as on March 31, 2017 on account of the steady growth in business. As on September 2018, DCL's CAR stood improved at 20.07%.

While the promoters have infused capital regularly in the past two years and plans to infuse in future as well, it remains moderate. The promoters have infused Rs. 11.49 Cr in the past two years and are expected to infuse additional Rs. 4 Cr in the current year.

In order to support the future growth plans, DCL plans to carry out direct assignments with banks during FY 2019 which will reduce own capital requirement while augmenting the AUM at the same time. In view of the same, DCL's gearing is expected to improve to around 6 times in the near term.

Furthermore, steady accretion to networth will also support the company's capitalisation; DCL's average return on tangible net worth was at 34.6 percent in FY18 as against 10.7 percent in the previous year.

Acuité believes that DCL's ability to infuse significant equity capital over the next few years is critical to support its strong growth plans and will remain a key rating sensitivity factor. This will enable the company to maintain its gearing in line with that of its peers and also provide cushion against asset ride risks over the medium term.

Outlook: Stable

Acuité believes that DCL will maintain a 'Stable' outlook in the medium term on account of the steady growth in loan book, adequate asset quality and comfortable profitability. The outlook may be revised to 'Positive' in case of significant increase in scale of operations and improvement in capitalisation while maintaining asset quality and overall profitability. The outlook may be revised to 'Negative' in case of deterioration in asset quality along with pressure on profitability, or significant weakening of capitalisation.

About the Rated Entity - Key Financials

	Unit	FY18	FY17	FY16
Total Assets	Rs. Cr.	306	162	93
Total Income (Net of Interest Expense)	Rs. Cr.	29	14	7
PAT	Rs. Cr.	8	2	1
Net Worth (excluding optionally convertible preference shares)	Rs. Cr.	31	17	10
Return on Average Assets (RoAA)	(%)	3.6	1.2	0.8
Return on Net Worth (RoNW)	(%)	34.6	10.7	10.5
Total Debt/Tangible Net Worth (Gearing)	Times	8.8	8.1	7.7
Gross NPA	(%)	1.4	0.3	0.2
Net NPA	(%)	0.1	0.1	0.00

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

None

Any other information

None

Applicable Criteria

Non-Banking Financing Entities: https://www.acuite.in/view-rating-criteria-10.htm
Application of Financial Ratios and Adjustments: https://www.acuite.in/view-rating-criteria-40.htm
Default Recognition: https://www.acuite.in/view-rating-criteria-17.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
27-6-16	Cash Credit	Long Term	10.00	ACUITE BB+/ Stable (Suspended)
22-5-15	Cash Credit	Long Term	10.00	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.)	Rating/ Outlook
Cash Credit	NA	NA	NA	60.00	ACUITE BBB/ Stable (Assigned)
Cash Credit	NA	NA	NA	25.00	ACUITE BBB/ Stable (Assigned)
Term Loan	NA	NA	NA	16.87	ACUITE BBB/ Stable (Assigned)
Term Loan	NA	NA	NA	6.29	ACUITE BBB/ Stable (Assigned)
Term Loan	NA	NA	NA	26.33	ACUITE BBB/ Stable (Assigned)
Term Loan	NA	NA	NA	20.63	ACUITE BBB/ Stable (Assigned)
Term Loan	NA	NA	NA	15.00	ACUITE BBB/ Stable (Assigned)
Term Loan	NA	NA	NA	10.00	ACUITE BBB/ Stable (Assigned)
Term Loan	NA	NA	NA	9.35	ACUITE BBB/ Stable (Assigned)
Proposed Bank facilities	NA	NA	NA	15.53	ACUITE BBB/ Stable (Assigned)

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