Press Release

Digamber Capfin Limited

March 28, 2019

Rating Reaffirmed, Withdrawn and Assigned

Total Bank Facilities Rated*	Rs. 275.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed and Assigned)

** Refer Annexure for details*

Rating Rationale

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

Also, Acuité has assigned the long term rating of '**ACUITE BBB**' **(read as ACUITE triple B)** to the Rs. 70.00 crore bank facilities of DCL. The outlook is **'Stable'**.

Further, Acuité has withdrawn the long term rating of '**ACUITE BBB**' **(read as ACUITE triple B)** to the Rs. 10.00 crore bank facilities of DCL.

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 areas. 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.

Analytical Approach

Acuité has considered the standalone financial and business risk profiles of DCL to arrive at the rating.

Key Rating Drivers

Strengths

- **Comfortable profitability**

  DCL's comfortable profitability is reflected in its return on average assets (RoAA) of 4.37 percent as on February 28, 2019 (Provisional) as against 3.56 percent in FY18 and 1.77 percent in the previous year. The improvement is mainly because of the benefits derived from the economies in the scale of operations. This has helped offset the rise in provisioning costs as the company wrote-off NPAs of around Rs. 2.10 Crore and also provided additional Rs. 2.00 Crore towards provisions for NPA's during the FY 2018.

  DCL's profitability is mainly driven by the healthy net interest margin of 12.95 percent in FY18 (11.33 percent in FY17). Its profitability is also supported by the competitive borrowing cost of 11-12 percent supported by more than 80 percent of funding from banking channels at competitive rates and balance from financial institutions.

  DCL has expanded its geographical presence to 3 more states in FY19 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 (GNPA; recognised 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 focus 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 1.72 percent as on February 28, 2019(Provisional) as against 1.77 percent as on September 30, 2018.

  The incremental asset quality remains adequate as reflected in the steady improvement in the on-time portfolio at 98.25 percent as on February 28, 2019(Provisional) from 97.95 percent as on March 31, 2018. The portfolio quality in the 0-90 days portfolio at risk (PAR) bucket also remains adequate with very negligible delinquencies as on February 28, 2019 (Provisional).

  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. 274.80 Crore as on March 31, 2018 from Rs.137.10 Crore as on March 31, 2017. The AUM increased to Rs. 342.70 Crore as on February 28, 2019 (Provisional). The growth is mainly attributable to the aggressive penetration in existing markets along with expansion into newer regions. DCL operates out of 95 branches spread across 8 states with an active member base of 1.71 lacs as on February 28, 2019 (Provisional).

  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 net worth 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. 47.73 Crore as on February 28, 2019 (Provisional) as against Rs. 30.56 Crore as on March 31, 2018. With continues capital infusion by the promoters, the gearing has improved to 6.45 times as on February 28, 2019 (Provisional) as against 8.82 times as on March 31, 2018. The overall capital adequacy ratio (CAR) declined to 18.47 percent as on March 31, 2018 from 18.65 percent as on March 31, 2017 on account of the steady growth in business. As on February 2019, DCL's CAR stood improved at 21.70 percent%.

  While the promoters have infused capital regularly in the past two years and plan to infuse in future as well, it remains moderate. In order to support the future growth plans, DCL has already entered in the direct assignments with banks and further has plans to carry out such assignments 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 in the near term.

Furthermore, steady accretion to net worth will also support the company's capitalisation; DCL's average return on tangible net worth was at 34.63 percent in FY18 as against 10.73 percent in FY17.

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 side risks over the medium term.

Liquidity Position

The company has adequate inflows (including bank balance and liquid assets) over the expected outflows in a years' time as reflected by ALM as on December 31, 2018. The company maintains favourable liquidity position with its long term borrowings repayable over 2-10 years as against the average tenure of its loan portfolio of 12-48 months. The company maintains adequate liquidity buffer at all times to meet its immediate disbursement requirements.

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

Particulars	Unit	FY18	FY17	FY16
Total Assets	Rs. Cr.	305.18	162.17	92.99
Total Income (Net of Interest Expense)	Rs. Cr.	29.49	14.43	7.29
PAT	Rs. Cr.	8.32	1.5	0.55
Net Worth (excluding optionally convertible preference shares)	Rs. Cr.	30.59	17.46	10.48
Return on Average Assets (RoAA)	(%)	3.56	1.17	1.19
Return on Net Worth (RoNW)	(%)	34.63	10.73	10.54
Total Debt/Tangible Net Worth (Gearing)	Times	8.82	8.13	7.72
Gross NPA	(%)	1.43	0.29	0.24
Net NPA	(%)	0.14	0.14	0.00

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.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-40.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
14-Nov-2018	Cash Credit	Long Term	60.00	ACUITE BBB / Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	16.87	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	6.29	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	26.33	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	20.63	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	15.00	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	9.35	ACUITE BBB / Stable (Assigned)
	Proposed Bank Facility	Long Term	15.53	ACUITE BBB / Stable (Assigned)
27-Jun-2016	Cash Credit	Long Term	10.00	ACUITE BB+/ Stable (Suspended)
22-May-2015	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.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB/ Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	14.79	ACUITE BBB/ Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.14	ACUITE BBB/ Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	24.09	ACUITE BBB/ Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	18.02	ACUITE BBB/ Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB (Withdrawn)
Term loans	Not Applicable	Not Applicable	Not Applicable	11.25	ACUITE BBB/ Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/ Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	8.37	ACUITE BBB/ Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB/ Stable (Assigned)

Term loans	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB/ Stable (Assigned)
Proposed Term loans	Not Applicable	Not Applicable	Not Applicable	4.84	ACUITE BBB/ Stable (Reaffirmed)

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About Acuité Ratings & Research:
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