

Press Release

Davinta Financial Services Private Limited

June 12, 2020



Rating Assigned

Facility	Issuer Rating
Long Term Rating	ACUITE BB+ (IR)/ Outlook: Stable

Erratum: In the original Press Release dated December 31, 2019, the hyperlinks to the relevant rating criteria referred to an earlier version which have now been updated in this version

Rating Rationale

Acuité has assigned the long-term issuer rating of '**ACUITE BB+ (IR)**' (**read as ACUITE double B plus Issuer Rating**) to Davinta Financial Services Private Limited (DFSPL). The outlook is '**Stable**'.

About DFSPL:

Incorporated in April, 2018 Davinta Financial Services Private Limited (DFSPL) is a Bangalore based Type II NBFC. The company is engaged in extending loans to individuals for various income generating activities since June 2019. The company is promoted by Mr. Mr. Raj B Vattikuti (Chairman) and Mr. Ravi Garikipati (CEO).

Mr. Raj Vattikuti is the promoter of Bangalore based Vattikuti India foundation which is a not for profit organization and Mr. Ravi Garikipati brings on board his fintech expertise.

DFSPL plans to operate through a fintech based model wherein the core lending software is being developed internally and the target borrower base will be individuals in the underserved areas of rural India. The company has presence in two states namely Assam and Karnataka and operates through a network of 48 merchants.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Entrepreneurial experience of the management:**

DFSPL commenced its lending operations since June 2019. The company is founded by Mr. Raj Vattikuti and Mr. Ravi Garikipati, having vast entrepreneurial experience in the fields of social service, science and technology.

The company's board comprises four members namely, Mr. Raj Vattikuti (Chairman), Mr. Ravi Garikipati (CEO), Mr. Joseph Neri (Director) and Mr. Ashwini Mehra (Director).

Mr. Raj B Vattikuti (Co-founder and Chairman) is an entrepreneur and philanthropist. He holds an honorary doctorate in business administration from Bryant College. Mr. Vattikuti is accredited with establishment of Covansys Inc. in 1985, the creation of the Vattikuti Foundation in 1997, Synova in 1998, and Altimetrik in 2013. The day to day operations are managed by Mr. Ravi Garikipati (Co-founder & CEO). He is an entrepreneur with extensive experience in technology and executive leadership roles. He is a board member and advisor to many late stage startups and an active angel investor. Mr. Ravi has also served at Flipkart as a Chief Technology Officer wherein, he executed shared technology and services vision helping Flipkart through scalable cloud infrastructure, multi-tenant platforms and optimised application architecture. He holds a number of patents in omni-channel predictive experience. Mr. Garikipati also held various senior engineering management positions at Oracle and Covansys.

The business model of DFSPL dovetails with the other venture of the promoters like Vattikuti India foundation in Karnataka and Assam, the key target areas of DFSPL. The company plans to take support of the NGOs in the states as enablers to educate the borrowers and map these borrowers through an app operated by merchants. The merchants will be operating as agents of the company to enable documentation, monitoring and collection of the loans extended by DFSPL.

The promoters are contemplating additional equity infusion by March 2020.

Acuité believes that the promoter's strategy of supporting the initial stage of operations through equity infusion coupled with proven synergies of the business with other social initiatives will support the business profile of the company.

Weaknesses

- **Initial stage of operations:**

DFSPL commenced lending operations in June 2019. The company provides unsecured personal loans to individuals as against Joint liability group and Self-Help group model adopted by micro-finance institutions. DFSPL's company's loan portfolio stood at Rs. 12.76 crores as on October 31, 2019. Along with NGO's operating in particular area the company identifies income generating activities, it then appoints a merchant/ trader with an established presence in that area for sourcing, documentation and collection while the back office at Bangalore undertakes monitoring and underwriting activities. The onus of collection lies on the merchant who is then incentivized on the collection amount done by him.

The company's loan portfolio stood at Rs. 12.76 crores as on October 31, 2019. The average tenure of loans extended by DFSPL is upto 12 months and the portfolio is yet to complete one cycle. The company is also operating as a business correspondent to Avanti Finance Private Limited and has an off-book exposure of Rs. 3.10 crore as on October 31, 2019.

DFSPL's borrowers comprise economically challenged section of the society who has limited resilience to economic shocks. DFSPL's business model based on merchant network is yet to be tested in terms of its scalability and sustainability. The inherent risks applicable to regular unsecured lending will also apply to this model. The company's ability to manage the credit and operational risk associated with this model is yet to be demonstrated for a sufficient period of time.

Acuité believes that the company's ability to demonstrate a healthy growth in its loan portfolio while maintaining its asset quality would be a key monitorable.

Rating Sensitivity:

- Change in ownership pattern.
- Movement in asset quality, profitability, loan book and gearing.
- Diversification across different states.

Material Covenants- Not applicable

Liquidity: Adequate

DFSPL is in its initial stage wherein the operations are completely supported by long term capital in the form of equity and compulsory convertible preference capital and no debt obligations. The company has marketable investments in the form of units of debt based mutual funds to the tune of ~Rs. 10.90 crore as on October 31, 2019.

Acuité believes that the liquidity of the company is likely to remain adequate over near to medium term.

Outlook: Stable

Acuité believes that DFSPL will maintain a 'Stable' outlook over near to medium term supported by the entrepreneurial background of the promoters and expected support in the form of equity. The outlook may be revised to 'Positive' in case of significant growth in its AUM while maintaining asset quality. Conversely, the outlook may be revised to 'Negative' in case of any headwinds faced by the company in scaling-up its operation or maintaining asset quality.

About the Rated Entity - Key Financials

Particulars	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	2.16	Not applicable
Total Income*	Rs. Cr.	0.14	Not applicable
PAT	Rs. Cr.	(0.10)	Not applicable
Networth	Rs. Cr.	2.14	Not applicable
Return on Average Assets (RoAA)	(%)	(9.62)	Not applicable
Return on Net Worth (RoNW)	(%)	(9.68)	Not applicable
Total Debt/Tangible Net Worth (Gearing)	Times	0.00	Not applicable
Gross NPA's	(%)	0.00	Not applicable
Net NPA's	(%)	0.00	Not applicable

* Total income equals to Net interest income plus other income

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

Not Applicable

Any other information

Not Applicable

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/criteria-complexity-levels.htm>

Rating History (Upto last three years)

None

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Issuer Rating	Not Applicable	Not Applicable	Not Applicable	-	ACUITE BB+/ Stable (Assigned)

Contacts

Analytical	Rating Desk
Vinayak Nayak Vice President - Rating Operations Tel: 022-49294071 vinayak.nayak@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 - 49294011 rating.desk@acuite.in
Shreyans Mehta Analyst - Rating Operations Tel: 022-49294062 shreyans.mehta@acuite.in	

About Acuité Ratings & Research:

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