

Press Release

Dvara Kshetriya Gramin Financial Services Private Limited

June 25, 2021



Rating Reaffirmed & Assigned

Total Facilities Rated*	Rs. 350.00 Cr.
Total Bank Facilities	Rs. 250.00 Cr.
Long Term Rating	ACUITE A-/ Stable (Reaffirmed)
Proposed Non-Convertible Debentures	Rs. 25.00 Cr.
Long Term Rating	ACUITE A-/ Stable (Reaffirmed)
Proposed Non-Convertible Debentures	Rs. 50.00 Cr.
Long Term Rating	ACUITE A- (Withdrawn)
Proposed PP-MLD	Rs. 50.00 Cr.
Long Term Rating	ACUITE Provisional PP-MLD A-/ Stable (Assigned)
Proposed Commercial Paper	Rs. 25.00 Cr.
Short Term Rating	ACUITE A2+ (Reaffirmed)

*Refer annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 250.00 Cr. bank facilities of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS). The outlook is '**Stable**'.

Acuité has reaffirmed the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 25.00 Cr. proposed non-convertible debentures of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS). The outlook is '**Stable**'.

Acuité has withdrawn the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 50.00 Cr. proposed non-convertible debentures of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS).

Acuité has assigned the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 25.00 Cr. proposed commercial paper program of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS).

Further, Acuité has assigned the long term rating of '**ACUITE Provisional PP-MLD A-**' (read as **ACUITE Provisional Principal Protected Market Linked Debentures A minus**) on the Rs. 50.00 Cr. proposed principal protected market linked non-convertible debentures of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS). The outlook is '**Stable**'.

The rating on the Rs. 50.00 cr. proposed PP-MLD NCD issue of Dvara KGFS is provisional and the final rating is subject to:

- Appointment of SEBI registered debenture trustee
- Execution of signing of Trust Deed
- Receipt of final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions of term sheet.

The rating factors in Dvara KGFS's experienced management, support from marquee investors, diversified and strong resource raising ability. The rating factors in continuous support of founder-promoter Dvara Trust (erstwhile IFMR Trust). The rating also takes into consideration Dvara KGFS's established presence in its areas of operations and demonstrated growth of its AUM which stood at Rs. 1,107.79 Cr. as on March 31, 2021. The rating also factors in the company's healthy capitalization levels marked by Capital Adequacy Ratio (CAR) of 24.49 percent as on March 31, 2021 (provisional) and has demonstrated the ability to attract funding from Banks and NBFC/FI's as reflected in Dvara KGFS's diversified funding profile. The company has maintained a conservative leverage of 3.03 times as on March 31, 2021.

These strengths are partially offset by relatively geographically concentrated portfolio in the state of Tamil Nadu with ~73.66 percent of the AUM as on March 31, 2021. Acuite notes the inherent risks in nature of the microfinance business accentuated by the economic impact of COVID-19, rendering the portfolio vulnerable to asset quality risks. Acuite understands that Dvara KGFS had granted blanket moratorium to its borrowers from April to August 2020. Against this backdrop, weakening in asset quality is seen with GNPA at 7.73 percent as on March 31, 2021. Dvara KGFS has restructured its loan book of ~Rs. 29.33 Cr. in the month of February and March 2021 under RBI restructuring framework and has provided for provisions to mitigate some of the asset quality risks.

About Dvara KGFS

Chennai based, Dvara Kshetriya Grameen Financial Services Private Limited (previously Pudhuaru Financial Services Private Limited) is a non-deposit taking, systemically important non-banking finance company ('NBFC-ND-SI'). The company is co-founded by Ms. Bindu Ananth, chairperson of Dvara Trust and Dvara KGFS. Dvara KGFS is promoted by Dvara Trust (erstwhile IFMR Trust) which holds ~32.12 percent of shareholding as on January 31, 2021, the rest is held by Accion International, LeapFrog Investment, Stakeboat Capital and Nordic Microfinance Initiative. Dvara KGFS is engaged in extending loans and financial products. It majorly provides loans under Joint Liability Group (JLG) model and also provides micro-enterprise loans, personal loans, jewel loans, consumer loans and crop loans.

Dvara KGFS operates through its network of 309 branches spread across 6 states as on March 31, 2021.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Dvara KGFS to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management team supported by diverse and reputed investors**

Dvara KGFS commenced its operations in 2008, under the name Pudhuaru Financial Services Private Limited and was later re-branded as Dvara KGFS in 2018. The company offers a range of financial services and loan products under its 'Wealth Management Approach' through its branch based Kshetriya Gramin model. Dvara KGFS has presence in 53 districts with a network of 309 branches having an AUM of Rs. 1,107.79 Cr. as on March 31, 2021.

Dvara KGFS's management team has vast experience in the field of microfinance, social transformation and banking. The board is led by Ms. Bindu Ananth (Chairperson) and Mr. Samir Shah (Director). Ms. Bindu is the co-founder and Chairperson of Dvara Trust. She was Board Chair of Northern Arc Capital from 2009 – 2018. Ms. Bindu also acquired experience in microfinance segment while her stint at ICICI Bank. Mr. Samir was ex-Managing Director & CEO at NCDEX and has around two decades of experience at Thomson Reuters where he held positions in various capacities including the position of the Global Head of Business Planning and Operations; he also led Reuters' India operations as the Managing Director in South Asia. The board is also supported by independent directors like Mr. S Viswanathan a senior banking professional with around four decades of experience in Credit Risk, Corporate Banking, Stressed Asset Management, Private Banking and Compliance. He has led the Private Banking vertical, the Mid Corporate segment and Compliance at ING Vysya Bank. The investors also have board representations and Dvara KGFS benefits from their expertise.

The management has demonstrated its ability to attract funding in the form of Equity, CCPS from marquee

investors like Accion International, LeapFrog Investment, Stakeboat Capital and Nordic Microfinance Initiative. These investors held around 67.68 percent of total shareholding as on January 2021 and rest 32.32 percent is held by founder-promoter Dvara Trust. The company has raised capital amounting to Rs. 137 Cr. during FY2020.

Acuite believes that the company's growth prospects will be supported by the management's experience in the industry, along with their demonstrated track record of resource raising ability.

- **Adequate financial position with diversified funding mix**

Dvara KGFS's capital structure is marked by networth of Rs. 293.68 Cr. as on March 31, 2020 (Rs. 164.85 Cr. as on March 31, 2019) and a gearing of 2.61 times as on March 31, 2020 (3.56 times as on March 31, 2019). The improvement in networth is on account of capital infusion of Rs. 137 Cr. in FY2020. As on March 31, 2021 the networth stood at Rs. 295.44 Cr. with gearing levels at 3.03 times. The company has adequate capitalization levels marked by Capital Adequacy Ratio (CAR) at 24.49 percent as on March 31, 2021 (provisional). Dvara KGFS has strong lender profile comprising Banks and NBFC/FIs, with total debt of Rs. 606.83 Cr. outstanding as on February 28, 2021. Dvara KGFS's borrowing profile comprised Term loans (77.46 percent), NCD's (17.59 percent) and Sub-debt (4.94 percent) as on February 28, 2021. The ability to raise debt for microfinance activities remains challenging due to a very selective and cautious approach adopted by Banks and NBFC/FIs. However, Dvara KGFS has demonstrated access to funding from both banks and large NBFC/FIs as reflected in its sanctions to the tune of around Rs. 280 Cr. as on February 2021.

Acuite believes that the company's comfortable capitalization levels along with demonstrated resource raising ability will support its growth plans over the medium term.

- **Healthy growth in AUM**

Dvara KGFS commenced its operations in 2008, in Tamil Nadu. Over the years the company has expanded its presence by further penetration in Tamil Nadu and expanding into new states like Odisha, Karnataka and Uttarakhand. In addition to organic growth, in FY2019 Dvara KGFS acquired the business of Varam Capital Private Limited an existing NBFC-MFI to expand its presence in the state of Chhattisgarh. The company disbursed loans amounting to around Rs. 669 Cr. in FY2021. Dvara KGFS's AUM has grown from Rs. 679.73 Cr. as on March 31, 2019 to Rs. 1,107.79 Cr. as on March 31, 2021. The AUM of Rs. 1,107.79 Cr. comprised owned portfolio of Rs. 825.37 Cr. (74.51 percent of AUM) and off book exposure of Rs. 282.42 Cr. (25.49 percent of AUM). Dvara KGFS takes off book exposure through Business Correspondence (BC), Direct Assignment (DA) and Pass through Certificate (PTC) transactions. Dvara KGFS has BC partnership with Axis Bank, ESAF Small Finance Bank, MAS Financial Services and Northern Arc Capital. The company also entered into DA & PTC transactions in FY2020 and FY2021.

Acuite expects Dvara KGFS to maintain the growth momentum in a sustainable manner while diversifying its geographical reach.

Weaknesses

- **Moderation in asset quality**

Dvara KGFS largely extends JLG loans and micro enterprise loans which comprise 86.04 percent and 9.48 percent of the AUM respectively as on March 31, 2021. The operations of Dvara KGFS are spread across the states of Tamil Nadu, Odisha, Karnataka, Uttarakhand, Chhattisgarh and Jharkhand. The company's AUM stands at Rs. 1,107.79 Cr. as on March 31, 2021 which grew from Rs. 982.74 Cr. as on March 31, 2020 and from Rs. 679.73 Cr. as on March 31, 2019. Dvara KGFS mainly operates in rural and semi-urban centers with agriculture and allied activities accounting for around 41.78 percent of the AUM as on March 31, 2021. Acuite notes the inherent risks in nature of the microfinance business accentuated by the economic impact of COVID-19, rendering the portfolio vulnerable to asset quality risks. Acuite understands that Dvara KGFS had granted blanket moratorium to its borrowers from April to August 2020. Against this backdrop, weakening in asset quality is seen with PAR 30+ dpd rising to 11.38 percent and Gross Non-Performing Asset (GNPA) at 7.73 percent as on March 31, 2021 as compared to PAR 30+ dpd at 3.33 percent and GNPA at 3.18 percent as on March 31, 2020. Dvara KGFS has restructured its loan book of ~29.33 Cr. in the month of February and March 2021 under RBI approved restructuring framework and had

also introduced a scheme to help selective borrowers with small ticket top-up/emergency loans. These steps along with collection efforts has aided in improvement in collection efficiency (against scheduled demand for current month) at 98.99 percent as on March 31, 2021 but the total collection efficiency (including overdues) remained low at 50.21 percent during the same period. Dvara KGFS has made provisions to mitigate some of the asset quality risks.

Acuite believes Dvara KGFS's ability to demonstrate growth in loan assets while containing asset quality risks in the light of continuously evolving scenario will be crucial.

Earnings Profile

With growth in its AUM, Dvara KGFS's Net Interest Income (NII) improved to Rs. 106.54 crore in FY2020 from Rs. 78.08 crore in FY2019. NII for FY2021 improved to Rs. 135.96 Cr. Net Interest Margin (NIM) improved to 13.70 percent for FY2020 from 12.63 percent for FY2019. NIM further marginally improved to 13.88 percent for FY2021. The company's PBT however declined to Rs. 5.39 Cr. as on March 31, 2020 from Rs. 16.13 Cr. as on March 31, 2019 on account of increased operating expenses and impairment loss allowance (provisions) of Rs. 21.77 Cr. during FY2020. The company continued to provide for higher impairment loss allowance (provisions) for FY2021 at around Rs. 50 Cr. on account of increase in GNPA, resulting in lower PBT of Rs. 0.61 Cr. as on March 31, 2021. Dvara KGFS's acquisition of Varam Capital and on-going branch expansions resulted in high operating costs as reflected in operating expenses to earning assets percentage at 9.08 percent for FY2020 and 8.60 percent for FY2019. Opex for FY2021 further marginally improved to 8.04 percent. The decline in profit margins as described above coupled with increase in loan book resulted in decline in Return on Average Assets (RoAA) of Dvara KGFS to 0.07 percent for FY2021 from 0.42 percent for FY2020 and from 4.29 percent for FY2019.

Acuite believes the inherent risks of microfinance industry including exposure to marginalized borrowers have been exacerbated by localized lockdowns and economic disruptions in the wake of second wave of Covid-19. In this regard, the movement of delinquencies across different time buckets and its resultant impact on profitability metrics due to higher provisioning requirements would remain key monitorables.

• Geographic concentration; susceptibility to risks inherent to microfinance segment

Dvara KGFS has its operations spreads across 6 states spanning 53 districts through its branch network of 309 branches as on March 31, 2021, despite the expansion geographic concentration of loan portfolio was seen in the state of Tamil Nadu with around 73.66 percent of the AUM as on March 31, 2021 followed by Odisha with 9.54 percent and Karnataka with 7.52 percent, the rest of the states Uttarakhand, Chhattisgarh and Jharkhand comprised 9.28 percent of the AUM. In term of district-wise concentration the top 5 districts comprised 161 branches (out of 309 branches) with 57.47 percent of the total AUM outstanding as on March 31, 2021, reducing from 61.61 percent of total AUM outstanding as on March 31, 2020. Dvara KGFS has been gradually reducing its exposure to geographic concentration with addition of new branches in different districts and venturing in new states. The company started its operations in Karnataka in FY2019 and in Chhattisgarh and Jharkhand during FY2020.

Given the wider coverage of the virus across semi urban and rural areas in amidst second wave of covid, the risks of a sharper impact on the lives and livelihoods of the microfinance borrower is higher in the near term hence, the company's performance is expected to remain exposed to the occurrence of such events. Besides geography, the company will be exposed to any changes in the regulatory framework. The current lockdowns and economic disruptions might affect the credit profile of Dvara KGFS's borrowers which in turn could affect the company's earning profile.

Acuite believes that containing additional slippages while maintaining the growth in the loan portfolio and reducing geographic concentration will be crucial.

Rating Sensitivity

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metric
- Changes in regulatory environment

Material Covenants

Dvara KGFS is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

Liquidity: Adequate

Dvara KGFS's overall liquidity profile remains adequate with no negative cumulative mismatches in near to medium term as per ALM dated March 31, 2021. The company has maintained unencumbered Cash and bank balances of Rs. 94.96 Cr., as on March 31, 2021. The borrowing profile of Dvara KGFS of Rs. 606.82 Cr. as on February 28, 2021 (provisional) comprised Term loans (77.46 percent), NCD's (17.59 percent) and Sub-Debt (4.94 percent). As per ALM statement, the company has debt servicing obligations of around Rs. 483 Cr. over the period of one year. Dvara KGFS's borrowing (including term loans and NCD) tenure generally ranges between 2 to 6 years, with average maturity between 2.5 to 3 years, while the company provides loans (JLG loans) having a tenure of 1 to 2 years. Dvara KGFS's scheduled collection efficiency (demand due for current month) for January, February and March 2021 were 96.83 percent, 97.59 percent and 98.99 percent respectively.

Outlook: Stable

Acuite believes that Dvara KGFS will maintain a 'Stable' outlook over the near to medium owing to established track record of management in lending and their resource raising ability along with demonstrated growth in loan portfolio. The outlook may be revised to 'Positive' in case of higher than envisaged growth in loan portfolio while improving profitability and asset quality metrics. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in asset quality or profitability metrics or in case of any deterioration in capital structure or capitalization levels.

About the Rated Entity - Key Financials

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	1206.41	1074.75
Total Income*	Rs. Cr.	138.78	110.22
PAT	Rs. Cr.	0.84	3.81
Networth	Rs. Cr.	295.44	293.68
Return on Average Assets (RoAA)	(%)	0.07	0.42
Return on Net Worth (RoNW)	(%)	0.28	1.66
Total Debt/Tangible Net Worth (Gearing)	Times	3.03	2.61
Gross NPA's	(%)	7.73	3.18
Net NPA's	(%)	1.94	1.12

* Total income equals to Net interest income plus other income

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

Not Applicable

Any other information

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUTE A-/ Stable

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

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>
- Commercial Paper - <https://www.acuite.in/view-rating-criteria-54.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-June-2021	Proposed Bank Facility	Long Term	250.00	ACUITE A-/ Stable (Assigned)
	Proposed Non-Convertible Debentures	Long Term	75.00	ACUITE A-/ Stable (Assigned)
	Proposed Commercial Paper	Long Term	25.00	ACUITE A2+ (Assigned)

*Annexure – Details of instruments rated

Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/ Outlook
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	250.00	ACUITE A-/Stable (Reaffirmed)
Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A-/Stable (Reaffirmed)
Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A- (Withdrawn)
Proposed PP-MLD	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE Provisional PP-MLD A-/Stable (Assigned)
Proposed Commercial Paper	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A2+ (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,000 credit 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 Mumbai.

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