



RATING RATIONALE

4 Mar 2024

Dvara Kshetriya Gramin Financial Services Private Limited

Brickwork Ratings reaffirms the ratings for the Non-Convertible Debentures of Rs. 39.46 crs. of Dvara Kshetriya Gramin Financial Services Private Limited

Particulars

Instrument*	Amount (Rs. Crs.)		Tenure	Rating#	
	Previous	Present		Previous (Nov. 02, 2022)	Present
NCD	7.56	7.02	LT	BWR BBB+ /Stable (Reaffirmed)	BWR BBB+ /Stable (Reaffirmed)
Proposed NCD	32.44	32.44			
Total	40.00	39.46	INR Thirty Nine Crores and Forty Six Lakhs Only		

* Details of Bank Loans/NCD is provided in Annexure-I&II

Please refer to BWR website www.brickworkratings.com/ for definition of the ratings.

Rating action/Outlook

Brickwork Ratings (BWR) reaffirms 'BWR BBB+' /Stable ratings for the NCD issues of Rs. 39.46 Crs. of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS or the company), as tabulated above. The NCDs amounting to Rs. 0.54 crs were redeemed in full in FY-23. Confirmation of redemption has been received from the Debenture Trustees on record. Withdrawal of rating for this is under process.

The rating reaffirmation, inter alia, factors in the continuing strong support from sponsors, comfortable capitalisation and resources, and adequate liquidity profile. The rating also takes cognizance of the business transfer arrangement of the Saija Finance Pvt. Ltd, (Saija BTA), an MFI operating in the North and East parts of the country, which gives Dvara KGFS an expanded functioning geographical spread. The employees of SFPL have been retained and this affords continuity of operations. The ratings are, however, constrained by the inherent risk of the rural retail finance portfolio and the lendings to micro enterprises, average asset quality and the earnings profile.

The AUM exhibited an upward trend reporting a surge of 1129.64 crores in FY22 to Rs. 1769.84 in FY23. This trend continued in H1FY24 also marking an increase in AUM to Rs. 1950.15 crs. The exceptional growth in AUM in FY-23 is partly attributable to Saija BTA.

PAT witnessed a significant jump from Rs. 0.57 crores in FY22 to Rs. 14.36 crores in FY23 primarily due to increased interest income and income from fees and commissions. The exceptional surge in PAT in relative terms is also attributed to enhanced recovery of bad debts, rising from Rs. 2.43 crores in FY-22 to Rs. 10.51 crores in FY-23.



The stable outlook for Dvara KGFS indicates a low likelihood of change over the medium term. The company's ability to continue its momentum of improving the overall collections (including overdue collections) and simultaneously reduce the gross non performing assets substantially over the near term shall be a key monitorable.

Key Covenants of the instruments rated - Nil

Key Rating Drivers

- **Credit Strengths:-**

Leveraging Technology

The incorporation of new technology initiatives such as KGFS Mitra, KGFS Direct, MyKGFSWhatsApp, KGFS Assist, etc., along with the maintenance of a robust IT infrastructure, is extensively employed for customer management. These initiatives establish digital touchpoints across the branch network, enabling direct communication with customers and potential leads for various activities such as lead generation, overdue calling, agent onboarding, and activation. This strategy aids the company in expanding into new markets, streamlining the collection of loan payments swiftly, efficiently, and economically, ultimately contributing positively to asset quality and thereby profitability.

In addition, under the KGFS Partnerships initiative, the company collaborates with other group companies to originate business and provide better products and services to customers. The company helps improve the credit profile of low-income households across segments through its associates by inculcating a habit of investing small amounts in gold, digitally encouraging them to file taxes regularly and avail a broader range of financial services.

KGFS Mitra received the Silver Award in the new product launch category at the Indian Marketing Awards 2022. Furthermore, the company also won the Best Omnichannel CX Initiative award under the IT and Digital group in August 2022 in Banking Frontier NBFC 2022. These accolades substantiate the claim of Dvara KGFS as a leading tech-savvy rural NBFC.

Experienced Board and Management

Dvara KGFS is an RBI registered NBFC-ND-SI incorporated on March 04, 1993. Mr. L V L N Murty, CEO and IIM graduate, has diverse experience of over 25 years. He possesses varied expertise in areas such as sales, channel distribution, operations, strategy, micro-finance, remittance, and customer protection. He is ably complemented by Ms. Shilpa Bhattar, the CFO, a Chartered Accountant, and a seasoned treasury professional with more than 19 years of expertise. The remaining management and board composition are composed of seasoned industry veterans with significant experience, poised to guide the company along a trajectory of growth. In addition, the company is supported by a robust entity, Dvara Trust, which holds a stake of more than 30% as of December 2023.

Business growth on track

On the business front, the company has consistently reported credit growth, partially attributed to Saija BTA. The company experienced a growth to Rs. 1769.84 crores, compared to Rs. 1129.64



crores in FY-22. The Asset Under Management (AUM) growth story continues into H1FY24, registering a sequential growth of 10.18% to Rs. 1950.15 crores, driven by the Joint Liability Group (JLG) segment, which constitutes approximately 80% of the loan book.

- **Credit Risks:-**

Inherent risk of high borrowing cost associated with ND-NBFC

The company faces high cost of borrowings which adversely impacts the NIM. As a mitigation, the company has passed on some of the cost to the borrowers since January 2023. However, it is crucial to recognize that passing on higher funding costs to borrowers may have potential long-term repercussions on asset quality. The company has also adopted digitalization as a means of controlling costs.

Moderate Asset Quality, expected to improve

In FY-22, the company reported a GNPA ratio of 9.29%. Notably, this figure significantly decreased to 4.03% in FY-23 and further dropped to 3.55% in H1FY24. However, the GNPA at 3.55% remains a point of monitoring amid the rise in lending rates. This concern is partially mitigated by factors such as a substantial share of the low credit risk JLG segment in the portfolio and shorter loan durations.

Customer Segment concentration

After the Saija BTA, the company has been able to address the issue of geographical concentration risk to a certain extent, expanding its presence to 10 states compared to 6 states earlier. The number of branches increased to 384 as of December 2023 from 295 branches in March 2022, marking a 30% jump in the branch network. The Saija BTA has helped the company to get an operating foothold in the North and East of the country.

However, this expansion has not translated into customer segment diversification, as Saija Finance also catered to the low-income strata with below-average credit risk profiles, who have low resilience to absorb any financial turmoil. There is no significant improvement in the average loan ticket size after Saija BTA which stands at Rs. ~25,000.

Analytical Approach

BWR has principally relied upon standalone audited results up to FY23, H1FY24 unaudited results, projections upto FY26, publicly available information and clarifications/information provided by the management.

Rating Sensitivities

Positive:

- An AUM level of at least Rs. 3000 crores by FY25.
- Improvement of at least 15% from the portfolio of erstwhile Saija Finance.
- Gearing at 4x or below will be a positive sensitivity.

Negative:

- Gearing of 5.5x and worse would be a negative sensitivity.



- GNPA above 5% would be a key negative rating sensitive factor.

Liquidity Indicators - Adequate

Dvara KGFS's Asset Liability Management (ALM) profile for the December 2023 quarter is comfortable, with no cumulative negative mismatch across all maturity buckets.

As of December 2023, the company's total liabilities amount to Rs. 1,737.09 crores, with an average borrowing cost of approximately 13.43%, equating to roughly Rs. 233 crores. Additionally, as of September 2023 (unaudited), the company holds unencumbered cash and cash equivalents totaling Rs. 252.50 crores, along with a bank balance of Rs. 147.95 crores. In total, the company has Rs. 400.45 crores available, which is considered sufficient to meet debt obligations and other operating expenses for the next 12 months.

Furthermore, the debt profile of Dvara KGFS is primarily dominated by long-term funds, such as term loans from banks and Non-Convertible Debentures (NCDs), ECBs.

Company Profile

Dvara KGFS is a Chennai-based, non-deposit taking, systemically important, Non-Banking Finance Company (NBFC-ND-SI) that was incorporated in August 2008. The company is co-founded by Bindu Ananth, the chairman of Dvara Trust and Dvara KGFS, who has two decades of extensive experience in the financial inclusion space. The company provides a range of financial products and services in the remote and rural areas of India. The key products offered are loans to women borrowers under Joint Liability Group (JLG) model (a high proportion of over 80% of the AUM as on March 2023), Enterprise Loans (EL), personal loans, jewel loans, consumer loans and crop loans. Furthermore, the company offers financial services including insurance products. Besides its own loan origination, the company carries out business correspondent/co-lending activity for banks and NBFCs. As of FY23, Dvara KGFS had an AUM of Rs. 1769.84 Crs., spread across 10 states (Tamil Nadu, Odisha, Karnataka, Chhattisgarh, Uttarakhand and Jharkhand, Bihar, Uttar Pradesh, Haryana and Punjab) and 378 branches.

As per the Scale Based Regulation of RBI, the entity is in the middle layer of the NBFC classification.

Key Financial Indicators

Particulars	Units	FY-22 (Audited)	FY-23 (Audited)	H1FY24 (Unaudited)
AUM	Rs in Crs.	1129.64	1769.84	1950.15
PAT	Rs in Crs.	0.57	14.36	20.87
Gearing	Times	3.25	4.25	4.90
CRAR	%	25.33	22.79	23.49
GNPA	%	8.24	4.03	3.55
NNPA	%	4.36	2.36	2.10



Non-cooperation with previous Credit Rating Agency

No outstanding non-cooperation rating with other Credit Rating Agencies.

Any other information

NA

Rating History for the previous three years (including withdrawal and suspended)

Date	Instrument	Amount (Rs. Crs.)	Ratings
October 01, 2020	NCDs	40.00	BWR BBB+/Stable (Assigned)
October 29, 2021	NCDs	40.00	BWR BBB+ /Stable (Reaffirmed)
November 02, 2022	NCDs	40.00	BWR BBB+ /Stable (Reaffirmed)

Complexity levels of the instruments

NCD - Complex

The BWR complexity levels are available at [www.brickworkratings.com / download / ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

Hyperlink/Reference to applicable criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)

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Dvara Kshetriya Gramin Financial Services Private Limited

**ANNEXURE - I
Bank Loans - Not applicable**

**ANNEXURE -II
INSTRUMENT (NCD/Bonds/CPs) Details**

Instrument	Issue Date	Maturity Date	ISIN Particulars	O/s balance
NCD	01-Apr-2021	31-Mar-2024	INE179P07183	Rs. 1.15 crs.
NCD	03-May-2021	3-May-2024	INE179P07191	Rs. 0.10 crs.
Various NCDs	between 2019-2021	between 2022-2024	Unallocated ISIN NCDs in physical form.	Rs. 5.77 crs.
Total				Rs. 7.02 crs.
(INR Seven Crores and Two Lakhs Only)				

The NCDs amounting to Rs. 0.54 crs. have been fully redeemed.

- The remaining NCDs are proposed and have not yet been issued. Management intends to maintain the ratings for the proposed facilities for the present.
- The total amount to be rated is Rs. 39.46 crs.

**ANNEXURE -III
LIST OF ENTITIES CONSOLIDATED**

NOT APPLICABLE.



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