CRISIL Ratings

Rating Rationale

March 05, 2024 | Mumbai

Dugar Finance and Investments Limited

'CRISIL BBB-/Stable' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.85 Crore**
Long Term Rating	**CRISIL BBB-/Stable (Assigned)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **'CRISIL BBB-/Stable'** rating to the long-term bank facilities of Dugar Finance and Investments Limited (DF&IL).

The rating takes into consideration the company's long track record with experienced management team, adequate capitalisation and healthy earnings profile. These strengths are partially offset by small scale of operations with geographical concentration and inherent vulnerability of asset quality metrics given the segment of operations.

DF&IL started its operations in 1987 as non-banking financial company headquartered in Chennai, Tamil Nadu. The company has been operating in two segments viz vehicle loans and loan against property (LAP). As of September 30, 2023, the company's portfolio stood at around Rs 129 crore as compared to Rs 108 crore as on March 31, 2023. The company has presence across six states -- Tamil Nadu, Maharashtra, Gujarat, Karnataka, Madhya Pradesh and Andhra Pradesh.

Analytical Approach

CRISIL Ratings has evaluated the business, financial and management risk profiles of DF&IL on standalone basis.

Key Rating Drivers & Detailed Description

Strengths:

- **Long track record with experienced team:** DF&IL was incorporated in 1987 and has been in operations for over 3 decades offering vehicle loans and LAP loans to automobile ancillary suppliers. The promoter and directors have deep understanding of the automobile/commercial vehicle market, given their long presence. The company is promoted by Mr Ramesh Dugar, who has held key positions in various industry forums including South India Hire Purchase Association, -Hindustan Chamber of Commerce, etc. Mr Ramesh Dugar is presently managing entire operations of DF&IL and designated as Managing Director. Mr Ramesh Dugar is accompanied by Mrs Sonali Dugar who also overlooks the operations of the company. The board of director also comprises of industry veterans. Mr Ramachandran Nagarajan, Independent Director is a retired Chief General Manager from State Bank of India having over 35 years of experience in credit and risk assessment field. Within executive management, the company has Mr S Rangaraj as Chief Executive Officer who has been associated with BFSI and manufacturing sector for over 30 years. Apart from this the company also have dedicated team focusing on collections and recoveries. The management team along with the strong board should support in strategy and scale up in the portfolio.

- **Healthy earnings profile:** The company has exhibited a good track record of profitability. During fiscal 2023, the company reported profit after tax (PAT) of Rs 4.5 crore with return on assets (RoA) of 4.6% as against PAT of Rs 3.4 crore and RoA of 4.7% during fiscal 2022. During the first half fiscal 2024, the company reported PAT of Rs 3.6 crore with RoA of 5.8%. The company has been able to maintain RoA at a healthy level of over 4.5% consistently during last 4-5 years. Operating costs remained around 7% during fiscal 2023 (7.1% during fiscal 2022). However, during the first half fiscal 2024, operating costs were low at around 5% (annualised). Nevertheless, since the company is in a growth phase and as it increases its branch network further, operating expenses are likely to remain elevated in the near to medium term. On credit costs front, the company has been able to maintain strong control since its delineucny level has remained fairly low at below 1%. Accordingly, the credit costs have remained very low between 0.1-0.2% during the past three years. Ability of the company to manage its operating and credit costs while scaling up its operations will continue to remain a key monitorable.

- **Adequate capitalization:** DF&IL reported networth of Rs 36.5 crore as on September 30, 2023 (Rs 32.9 crore as on March 31, 2023) and gearing at 2.6 times (2.3 times). For the the past five years, promoters have infused funds (in form of equity) of over Rs 2.5 crore. Going forward, the promoters plan to infuse another equity of Rs 4-5 crore over medium term. Additionally, the company has been consistently profitable, and accretions have also been supporting capital position for the planned scale of operations. During the past five years (from fiscal 2020 till H1 fiscal 2024) the company added accretion of over Rs 16.5 crore. Gearing should remain under 4 times over the medium term, considering the growth plans of the company.

Weaknesses:

- **Small scale of operations:** Despite being in operations for over three decades, scale remained modest with assets under management (AUM) of around Rs 129 crore as on September 30, 2023 (Rs 108 crore as of March 2023). The portfolio growth pace has picked up post pandemic and has been at over 25% during the last 2-3 years. Of the products offered, vehicle financing forms the major portion of the AUM (70%), followed by mortgage loans (30%). However, the company is now focusing on growing its portfolio and several steps are being taken on the expansion, especially in the vehicle segment.

- **High geographical concentration:** The company has been having high regional concentration within -- Tamil Nadu and Maharashtra. Over 90% of the portfolio is concentrated in these two states. Nevertheless, the company has been taking adequate measures to increase its geographic diversity. The company has steadily expanded its portfolio to Andhra Pradesh, Madhya Pradesh and Gujarat. Nevertheless, the proportion of these states remains low as of now. Therefore, the ability of the company to increase geographic diversity thereby maintaining asset quality will remain a key monitorable.

- **Inherent vulnerability of asset quality metrics given the segment of operations:** The asset quality metrics of the company remains inherently vulnerable to slippages given the segment in which it operates. Nevertheless, the company has put in place strong risk management systems and processes which have supported asset quality so far. The 90+ days past due (dpd) remained comfortable at 0.7-1.3% during the past four years (including the pandemic-affected year). The company has implemented robust underwriting and risk management procedures, helping to make informed decisions regarding loan approvals, interest rates and repayment terms. As the company scales up operations in the newer geographies, its ability to manage asset quality metrics will remain a key rating sensitivity factor.

Liquidity: Adequate

As on December 31, 2023, DF&IL had liquidity of Rs ~8.9 crore which includes cash/liquid investments and unutilised cash credit/working capital demand lines. The company's liquidity buffer (assuming nil collections) for debt repayments and operating expenses arising till March 2024 stood above 1.4 times. The company has month-on-month collections rate (current collections excluding overdue and prepayments) of Rs 3.5-4.9 crore during the last six months of current fiscal.

Outlook: Stable

DF&IL will continue to benefit from the experience management team and adequate capitalisation.

Rating Sensitivity factors

Upward factors

- Asset quality (90+ dpd) maintained below 3% on consistent basis.
- Further improvement in capital position, with gearing below 4 times.
- Significant scale up in business operations.

Downward factors

- Any adverse movement in asset quality with 90+dpd increasing beyond 5%, thereby impacting earnings profile.
- Stress in capitalisation metrics with gearing rising above 5 times while scaling up the portfolio.

About the Company

Incorporated in 1981, DF&IL was registered as a non-banking financial banking, headed by Mr Ramesh Dugar. The company is engaged in financing used commercial vehicles and passenger vehicles in Tamil Nadu, Andhra Pradesh, Gujarat, Madhya Pradesh and Maharashtra through its network of 27 branches as on September 30, 2023.

Key Financial Indicators

Particulars for the year/period ended	Unit	H1 2024	Mar-2023	Mar-2022	Mar-2021
Total reported assets	Rs.Crore	135	113	83	62
Total income	Rs.Crore	9.3	16.5	12.1	10.3
PAT	Rs.Crore	3.6	4.5	3.4	3.0
90+ dpd	%	0.7	0.7	1.0	1.3
Adjusted gearing	Times	2.6	2.3	1.9	1.5
Return on managed assets	%	5.8	4.6	4.7	4.5

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook

NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	85	NA	CRISIL BBB-/Stable

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	85.0	CRISIL BBB-/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	**85**	**Not Applicable**	**CRISIL BBB-/Stable**

Criteria Details

Links to related criteria
Rating Criteria for Finance Companies
CRISILs Bank Loan Ratings - process, scale and default recognition

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