DBFS Finance & Leasing (India) Ltd

August 10, 2018

Summary of rated instruments

Instrument	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long Term – Fund Based	20.00	20.00	[ICRA]BBB-(Stable); revised from [ICRA]BBB(Stable)
Total	**20.00**	**20.00**	

Rating action

ICRA has revised the rating outstanding on the Rs. 20.0 crore[1] long-term fund based bank facilities of DBFS Finance & Leasing (India) Ltd (DFLIL or the company)[2] from [ICRA]BBB (pronounced ICRA triple B) to [ICRA]BBB- (pronounced ICRA triple B minus). The outlook on the long-term rating is Stable.

Rationale

The revision in rating considers the weakening in DFLIL's credit profile owing to a sharp deterioration in asset quality. The company's 180+ dpd[3] increased to 7.0% as on March 31, 2018 from 0.0% as on March 31, 2017 due to slippages in a few large ticket loans and weak collections in the loan against property (LAP) segment, which accounted for 63% of the portfolio as on March 31, 2018. Consequently, the company's 180+ dpd as a % of net worth increased to 20.3% as on March 31, 2018 compared to 0.0% as on March 31, 2017. The rise in credit cost coupled with the slowdown in disbursements impacted the company's profitability, with PAT/ATA[4] declining to 0.3% (provisional) for FY2018 from 1.1% for FY2017. ICRA also takes note of the steps taken to tighten its sourcing norms and initiate legal action against delinquent borrowers. DFLIL's ability to recover overdues in a timely manner would be critical from a rating perspective.

The rating continues to factor in the company's status as an associate of Doha Bank QSC (DB; rated A3/ Stable/ P-2 by Moody's Investor Services Ltd) and the managerial and financial support received from DB. DB holds about 26% stake in DFLIL, while Doha Brokerage & Financial Services Limited(DBFS) holds about 62%; DB holds a 44% stake in DBFS.

The rating also takes note of the company's small scale (portfolio size of Rs. 36.2 crore as on March 31, 2018) with limited portfolio seasoning, its geographically concentrated operations and presence in relatively risky borrower segments. ICRA takes note of the company's recent foray into gold loan segment and its plan to achieve a portfolio size of about Rs.350 crore by March 2021. Given the sizeable growth plan, timely equity infusion from the investors remains critical to maintain an adequate capitalisation profile. Further, the company would need to augment its risk management systems, broad base its management team and diversify its funding profile to achieve the envisaged growth.

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[1] *100 lakh = 1 crore = 10 million*
[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*
[3] *DPD- Days past due*
[4] *PAT/ATA-Profit after tax/Average total assets*

Outlook: Stable

ICRA believes that DFLIL would continue to benefit from managerial and financial support from DB. The outlook may be revised to 'Positive' if the company grows and diversifies its portfolio while improving its asset quality and earnings profile. The outlook may be revised to 'Negative' in case there is a weaker than expected support from DB due to ownership changes or if there is a further deterioration in the DFLIL's asset quality, profitability or capitalisation profile.

Key rating drivers

Credit strengths

Managerial, operational and financial support from DB – DB holds about 26% stake in DFLIL, while Doha Brokerage & Financial Services Limited(DBFS) holds about 62%; DB holds a 44% stake in DBFS. DB has an established track record in banking with a strong retail franchisee in DB has extended credit facilities to DFLIL and has two DB nominee directors on DFLIL' board (out of nine), who have significant experience in the retail lending business and are instrumental in the DFLIL's strategic decisions. Nevertheless, the extent of support extended by DB in the operations of DFLIL is limited to credit meetings. DB is expected to support the company, in the event of a capital requirement, to support its growth plans. DFLIL also benefits from a shared infrastructure arrangement with DBFS. Common functionalities like administration, HR, legal and technology platforms are shared among the two entities.

Experienced senior management team commensurate with the current scale of operations: Mr. Prince George is the managing director of the company. He is the managing director of DBFS and holds directorships in DBFS Derivatives and Commodities Ltd, Doha Commodities DMCC and DBFS Wealth Management Pvt Ltd. ICRA notes that the company's senior management team has longstanding experience in retail financial services (equity, derivatives and commodities broking) but has limited experience in the lending business. While the management team is commensurate with the current scale of operations, the company's ability to broad-base the management team, set-up new branches and recruit and train employees will be critical to scale-up operations.

Adequate capitalization at present: As on March 31, 2018, DFLIL's net worth(provisional) stood at Rs. 12.5 crore (Rs. 12.4 crore as on March 31. 2017) and CRAR[5] at 37.3%. The gearing of the company was modest at 2.3x times (1.7x times as on March 31, 2017) as on March 31, 2018. Over the next three years (FY2019-2021), the company intends to grow its portfolio to Rs. 350.0 Crore (Rs 36.2 crore in March 2018), which would entail regular equity infusion to maintain gearing levels at around 4.5-5.0 times. ICRA expects timely capital infusion from DB for business expansion, going forward.

Credit challenges

Modest scale of operations with regional concentration: DFLIL is a small-sized NBFC providing loans against property (LAP), loans against shares (LAS), personal loans(PL), business loans(BL) and gold loans (GL). The company's portfolio stood at Rs. 36.2 crore as on March 31, 2018, of which LAP (63%) followed by LAS (32%) and the rest of the portfolio comprised of BL and PL at 2% and 3% respectively. The company started offering GL from Q1FY2019. DFLIL's operations are regionally concentrated across Kerala, Tamil Nadu and Karnataka which comprised 64%, 23% and 10% respectively of the loan portfolio as on March 31, 2018. Over the period FY2019-FY2021, the company plans to expand its branch network to around ~50 branches and grow its portfolio to around Rs. 350.0 crore by March 2021, with the share of secured portfolio (LAP and LAS) at ~50-60%.

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[5] *CRAR- Capital to risk weighted assets ratio*

Deterioration in asset quality: DFLIL's 180+ dpd increased to 7.0% as on March 31, 2018 as compared to 0.0% as on March 31, 2017. The 180+ dpd as % of net worth stood high at 20.3% as on March 31, 2018. The asset quality in the LAP segment (which comprised of 63% of the portfolio as on March 31, 2018) deteriorated and the 180+ dpd of this segment stood at 9.5% as on March 31, 2018. The weakening in asset quality was because of slippages in a few large ticket loans and partly due to impact of GST on borrower's cash flows. Also, DFLIL's customer profile consist of borrowers with moderate credit profile, which exposes the company to considerable credit risks, especially as ticket sizes offered were higher; loans with ticket size more than Rs.50.0 lakhs accounted for about 33% of the total loan portfolio as on March 31, 2018. ICRA notes that there is scope to strengthen the credit appraisal process and collection mechanism, which will be critical to contain slippages going forward.

Critical to tie-up funds to achieve envisaged growth plan: As on March 31, 2018 the borrowing mix of DFLIL comprised of banks (33%), financial institutions (6%), preference shares (4%) and Non-convertible debentures (58%). The NCDs issuance (Rs 15 crore) by the company during FY2018, were largely subscribed by the clients of DBFS, friends and relatives of the directors. Considering the significant growth plans, it would be crucial for DFLIL to secure incremental funding from diverse sources and at competitive rates.

Modest profitability: DFLIL's earnings profile deteriorated with net profitability declining to 0.3%(provisional) in FY2018 from 1.1% in FY2017 owing to lower margins and increase in credit costs. The company's margins (NIM)[6] declined to 7.8% in FY2018 from 8.4% in FY2017 on account of the increase in the cost of funds, credit cost and the leverage. The company's credit cost increased to 0.6% in FY2018 from 0.2% in FY2017 because of weakening asset quality. Going forward, the company's ability to contain its operating and credit costs and improve its operating efficiency is critical from the profitability perspective.

Analytical approach: For arriving at the rating, ICRA has factored in the management, operational and financial support from DB.

Links to applicable criteria:

ICRA's Credit Rating Methodology for Non-Banking Finance Companies

Impact of Parent or Group support on Issuer's Credit Rating

[6] *NIM-Net Interest Margin*

About the company:

Incorporated on September 07, 2007, DFLIL is a non-banking finance company, engaged in providing LAP, LAS, personal and business finance loans. As on March 31, 2018, the company's portfolio stood at Rs.36.2 crore, 95% of which is secured. Qatar-based Doha Bank holds about 26% stake in DFLIL. The daily operations are managed by Mr. Paul Thomas, Executive Director and Mr. Prince George, Managing Director.

DBFS is a SEBI-registered portfolio manager and has two wholly-owned subsidiaries –DBFS Derivatives and commodities Limited and DBFS Insurance Broking Private Limited, engaged in derivatives & commodities broking and insurance broking respectively. The other subsidiary -DBFS Securities Limited (97% is owned by DBFS) is engaged in equity broking business. The group has more than 200 retail branches spread across India and the Middle East.

As per the provisional financials for FY2018, DFLIL's net profit stood at Rs. 0.03 crore on a total asset base of Rs. 42.3 crore compared to Rs 0.1 crore of net profit on total asset base of Rs. 33.8 crore during FY2017.

Key financial indicators (Audited)

	FY 2017	FY2018*
Total Income	3.1	5.8
Profit after Tax	0.1	0.0
Net worth	12.5	12.5
Total Managed Portfolio	29.3	36.2
Total Managed Assets	33.8	42.3
Return on Average Managed Assets	0.6%	0.1%
Return on Average Net worth	1.1%	0.3%
180+ dpd	0.0%	7.0%
Net NPA	0.0%	6.4%
Gearing (reported)	1.7	2.3
% CRAR	45.9%	37.3%

*Note: Amount in Rs. Crore; *Provisional; Source-DFLIL*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					August 2018	May 2017	-	-
1	Long-term Fund based	Long Term	20.00	20.00	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	-	-

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Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No.	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit-1	-	-	-	10.0	[ICRA]BBB-(stable)
NA	Cash Credit-2	-	-	-	5.0	[ICRA]BBB-(stable)
NA	Proposed Limits	-	-	-	5.0	[ICRA]BBB-(stable)
	Total bank facilities				**20.00**	

Source: DFLIL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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