

Rating Rationale

December 15, 2023 | Mumbai

Digamber Capfin Limited

'CRISIL BBB/Stable' assigned to Non Convertible Debentures; Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.1200 Crore (Enhanced from Rs.900 Crore)
Long Term Rating	CRISIL BBB/Stable (Reaffirmed)
Short Term Rating	CRISIL A3+ (Reaffirmed)

Rs.25 Crore Non Convertible Debentures	CRISIL BBB/Stable (Assigned)
Rs.25 Crore Non Convertible Debentures	CRISIL BBB/Stable (Withdrawn)

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 Rs.25 crore non-convertible debentures of Digamber Capfin Limited (Digamber Capfin). The ratings on the bank loan facilities has been reaffirmed at 'CRISIL BBB/Stable/CRISIL A3+'.

CRISIL Ratings has **withdrawn** its rating on Rs.25 crores non-convertible debenture on receipt of payment confirmation from the debenture trustee. The rating action is in line with CRISIL Ratings policy on withdrawal of ratings of debt instruments.

The rating primarily factors in the extensive experience of the promoters in the microfinance sector, its adequate capital position, and diversified resource profile. These strengths are partially offset by company's geographic concentration of portfolio with modest scale, moderate asset quality and susceptibility to local socio - political issues inherent to microfinance industry.

Overall assets under management (AUM) grew by nearly 11% to Rs 1123 crore as on March 31, 2023, against Rs 1002 crore as on March 31, 2022. However, during the first half of fiscal 2024, the company mainly focused on expanding its branch network to geographies like Bihar (company opened 25 branches during Q2 fiscal 2024). Owing to focus on this capacity building, the company remained cautious towards growth and hence the AUM stood at Rs 1046 crore as of September 2023. Nevertheless, during Q3 current fiscal, the company has been able to generate a sizeable portfolio from newer as well as existing branches. This has led to AUM increasing to over Rs 1150 crore as of November 2023.

As on September 30, 2023, it had 224 operational branches and catered to more than 4 lakh customers. In terms of geographies, there is state concentration with Rajasthan and Uttar Pradesh aggregating to 63% of AUM as of September 30, 2023. CRISIL Ratings notes that the company has focused on mitigating this risk by reducing district concentration. In terms of district wise concentration, the top five districts accounted for 13.7% of the overall AUM as of September 30, 2023.

In terms of asset quality, the 90+ dpd stood at 5.8% (3.5% on own-book portfolio) as against 4.9% as on March 31, 2023. The increase in delinquencies has been primarily due to the company not opting for any major write-offs from covid related slippages. The company is expecting to have steady recoveries (along with some write-offs) from overdue portfolio and the overall 90+ dpd is expected to fall below 4% over near to medium term. As far as collection efficiency is concerned, it remained in the range of 97-98% for the originations done during last few quarters. CRISIL Ratings will continue to monitor the asset quality position on a regular basis and company's ability to show substantial improvement in portfolio quality will remain key sensitivity factor.

Analytical Approach

To arrive at the ratings, CRISIL Ratings has evaluated the business and financial risk profile of Digamber Capfin on a standalone basis.

Key Rating Drivers & Detailed Description

Strengths:

Extensive experience of the promoters

Digamber Capfin started lending business as NBFC – AFC with focus on 2-wheeler financing. The company ventured into microfinance lending and started operating as NBFC-MFI from September 2009 and has been operating as an MFI since then. The promoters have developed rich experience of microfinance lending in core geographies like Rajasthan and have expanded into adjoining geographies. The operations are managed by 2 key promoters i.e., Mr Rajiv Jain, Managing Director and his brother Mr Amit Jain, Whole-time Director. They are first generation promoters (within the microfinance business) and have been leading the company for last 28 years (since inception). The promoters have also been fairly active in the application of new technology in order to bring in efficiency in day-to-day operations. The company uses cloud-based software FinFlux, through which it centrally connects all the branches and tracks all field level activities. Further, in order to eliminate any issues arising due to fake KYC, the promoters have taken the initiative of application of biometric scanners that will be used by all field level officers for verification of KYC. All these tech-based initiatives are expected to benefit the company in growing and managing the portfolio size over the medium term.

Adequate capital position

Digamber Capfin is adequately capitalised with adjusted networth of Rs 252.1 crore and adjusted gearing of 4.7 times (including securitisation / assignment; 4.2 times on reported basis) as of September 30, 2023. While the company has not raised any major capital during last 2-3 years, its gearing has shown improving trajectory during this period on the back of healthy accretions to networth. Digamber Capfin has been profitable since inception despite elevated expenses due to expansion. The reported return on managed assets (RoMA) of the company has been in the range of 3-4% during last 2 years. CRISIL Ratings notes that this profitability has been supported by an upfront net gain on de-recognition of assets which were securitised through direct assignment (DA) route. Instead of upfront recognition of net interest gain, the actual interest income collected from DA transactions are recognised, the company's RoMA will be lower in the range of 2.0 to 2.3% for fiscal 2022. In terms of capital adequacy ratio (CAR), Digamber Capfin's overall CAR is substantially high at 28.3% as on September 30, 2023, well above from statutory requirement of 15%. As per the growth plans, the company expects to operate at on-book gearing of less than 4.5 times over the medium term. CRISIL Ratings believes that company's ability to continue to maintain its internal accretion will remain key in order to maintain gearing at the desirable level.

Well-diversified resource profile

Strong relationships of the promoters and steady-state profitable operations has helped the company to develop a large lenders base. Digamber Capfin has a diversified funding profile with a lender base of over 26 lenders including banks, NBFCs, borrowings from capital markets and securitization. As far as funding mix is concerned, borrowings from bank and Fis stood at 54.5%, borrowings from NBFCs at 31.8%, and 13.6% was off-book (securitisation) as of September 2023. Currently, the entire borrowing profile is majorly from banks (including off-book) with the incremental average cost of borrowing of the funds raised during first half of fiscal 2023 was at 11.6%. Apart from normal funding lines, the company is also fairly active in securitisation transactions. CRISIL Ratings overall believes given the company has reasonable growth plans, its ability to continue to raise funds at competitive costs will remain key monitorable.

Weaknesses:

Geographical concentration of portfolio with moderate scale

Digamber's operations are marked by high state concentration. As of September 30, 2023, Rajasthan and Uttar Pradesh account for 62.8% of the overall portfolio. The company has focused on a set of customers predominant in northern region of India. Digamber Capfin has over 83% of the customers engaged in agriculture and allied activities as their primary occupations. The geographic concentration increases a company's susceptibility to local socio-political risks, inherent in the microfinance business. Nevertheless, risk management practices would help the company to mitigate these risks. CRISIL Ratings notes that the company has focused on mitigating this risk by reducing district concentration. In terms of district wise concentration, the top five districts accounted for 13.7 % of the overall AUM as of September 30, 2023. Additionally, the company has opened 24 new branches during Q2 FY24 in the state of Bihar itself. The company plans to enter new geographies like Odisha, Jharkhand etc. during the fiscal 2024. While the company has a presence in 9 states, the operations are spread out across 224 branches in 121 districts.

As of September 30, 2023, the AUM of the company has degrown to Rs 1046 crore from Rs 1123 crores as on March 31, 2023, showcasing a YTD negative growth of 13.8% (non-annualized). This de-growth is mainly on account of the cautious growth approach of the company. Nevertheless, there has been a growth pick up shown during November 30, 2023, where the AUM reached Rs 1105 crores almost similar to March 30, 2023, levels. The company is targeting to cross an AUM of Rs 1300 crores by end of the current fiscal owing to the new branches opened and the disbursement being started already. Their ability to scale up the portfolio while maintaining the geographic diversity will remain key monitorable.

Moderate asset quality

Given the high geographic concentration within the 2 states, asset quality continues to remain key monitorable. the 90+ dpd stood at 5.8% (3.5% on own-book portfolio) as against 4.9% as on March 31, 2023. The increase in delinquencies has been primarily due to the company not opting for any major write-offs from covid related slippages. The company is expecting to have steady recoveries (along-with some write-offs) from overdue portfolio and the overall 90+ dpd is expected to fall below 4% over near to medium term. As far as collection efficiency is concerned, it remained in the range of 97-98% for the

originations done during last few quarters. CRISIL Ratings will continue to monitor the asset quality position on regular basis and company's ability to show substantial improvement in portfolio quality will remain key sensitivity factor.

Susceptibility to potential risk from socio-political issues in the microfinance sector and inherently modest credit profile of borrowers

The microfinance sector has witnessed three major disruptive events in the past decade. The first was the crisis promulgated by the ordinance passed by the Government of Andhra Pradesh in 2010, second - demonetisation in 2016 and lastly, Covid-19 outbreak in March 2020. In addition, the sector has faced issues of varying intensity in several geographies. Promulgation of the ordinance on MFIs by the Government of Andhra Pradesh in 2010 demonstrated their vulnerability to regulatory and legislative risks. The ordinance triggered a chain of events that adversely affected the business models of MFIs by affecting their growth, asset quality, profitability, and solvency. Similarly, the sector witnessed high level of delinquencies post-demonetisation and the subsequent socio-political events. Microfinance customers generally have below-average credit risk profiles with lack of access to formal credit and high seasonality in income. Their income flow remains volatile and dependent on the local economy. This indicates the fragility of the business model of MFIs against such external risks and issues. As the business involves lending to the poor and downtrodden sections of society, MFIs will remain exposed to socially sensitive factors, including charging high interest rates, and consequently, tighter regulations and legislation.

Liquidity: Adequate

Asset-liability maturity profile of the company is comfortable as on October 30, 2023, with positive cumulative mismatches across the buckets up to 1 year and the liquidity stood at Rs 229.3 crore (excluding term loan and securitisation lines), against debt obligations including operating expense for the next 2 months. This represents a liquidity position at a cover of 1.3 times considering debt repayments over the next two months.

Outlook: Stable

CRISIL Ratings believes Digamber Capfin will continue to benefit from extensive experience of its promoters and maintain its capital profile

Rating Sensitivity factors

Upward Factors

- Consistency in profitability with RoMA (post adjusting for EIS benefit) above 2.5% on a sustained basis
- Ability to scale-up loan book while maintaining asset quality
- Capitalization metrics remaining strong with adjusted gearing remaining below 4 times

Downward Factors

- Increase in steady-state gearing to above 6 times
- Significant deterioration in asset quality thereby impacting capitalisation or earnings profile

About the Company

Digamber Capfin Ltd (Digamber Capfin) started operations as an NBFC in 1995. Their main products were vehicle financing, farmer's credit, and small business loans. After 2009 they changed their RBI classification from Asset Finance Company to NBFC- Microfinance Institution (NBFC-MFI).

Their products can be classified into four categories, viz: Microfinance, Trade Finance, Agriculture and Animal Husbandry Finance. MFI loans follow the Grameen model of lending which is a Joint-Liability Group (JLG) lending model mainly focuses on a woman through a credit product that allows her to start a new business or enhance her existing business as well. These broad categories of products can be further sub-divided into agricultural, education, home improvement, and livestock loans. Trade finance is secured and unsecured higher ticket size loan products which are available for both existing and open market customers.

Presently, Digamber Capfin's operations are spread across 9 states and 121 districts across India and caters to a client base of 4 lakhs. They are present in the States of Bihar, Haryana, Himachal Pradesh, Jammu and Kashmir, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh, and Uttarakhand. They serve more than 2,50,000 families through 224 branches with employee strength of 2176. As on September 30 2023, their AUM stood at Rs 1045 crore.

Key Financial Indicators

For the year ended/six months ended	Unit	Sept-2023 (H1 FY24)	Mar-23	Mar-2022	Mar-2021
Total assets	Rs crore	1181.3	1084.3	969.2	784.5
Total income	Rs crore	126.86	256.82	216.3	199.6
Profit after tax	Rs crore	14.52	39.41	42.2	51.0
90+ dpd	%	5.8%	4.9%	4.6%	5.1%
Adjusted gearing (including off-book)	Times	4.7	4.6	5.1	4.9
Return on managed assets	%	3.0%*	3.8%	3.8%	5.6%

*on an annualised basis

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 instrument	Date of allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Level	Rating assigned
NA	Non-Convertible Debentures*	NA	NA	NA	25	Simple	CRISIL BBB/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	490.51	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Jul-24	10.11	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Jul-23	5.07	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	20-Jan-26	30.89	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	01-Jun-26	11.53	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Mar-25	18.94	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	01-Sep-25	13.86	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Jun-23	0.23	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Jun-24	10	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	10-Feb-25	24	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Jun-24	20.87	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	28-Feb-25	20.56	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Jul-24	10.24	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Mar-25	13.02	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Sep-24	13.2	NA	CRISIL BBB/Stable

NA	Term Loan	NA	NA	30-Sep-24	38.39	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Nov-23	2.89	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	01-Sep-25	8.62	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	01-Jul-24	14.26	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	01-Feb-26	50.4	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Dec-26	38.3	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	24-Sep-24	16.36	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	03-Oct-25	13.33	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	20-Jul-24	5.93	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Aug-25	16.67	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Sep-25	0.91	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	01-Jan-26	6.86	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	28-Jan-24	13.73	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	05-Oct-24	25.22	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	03-Aug-24	24.52	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	01-Jan-24	6.64	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	01-Mar-25	10.54	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	01-Oct-24	35.73	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	28-Dec-23	4.79	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	17-Feb-24	15	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	14-Mar-25	27.78	NA	CRISIL BBB/Stable
NA	Overdraft Facility	NA	NA	NA	45.1	NA	CRISIL A3+

NA	Cash Credit	NA	NA	NA	85	NA	CRISIL BBB/Stable
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*Yet to be issued

Annexure - Details of Rating Withdrawn

ISIN	Name of instrument	Date of allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Level	Rating assigned
INE02QN07011	Non-Convertible Debentures	29-Jul-20	11.50% p.a.	21-Apr-23	25	Simple	Withdrawn

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	1200.0	CRISIL A3+ / CRISIL BBB/Stable	13-04-23	CRISIL A3+ / CRISIL BBB/Stable		--		--		--	Withdrawn
			--	27-03-23	CRISIL A3+ / CRISIL BBB/Stable		--		--		--	--
			--	24-03-23	CRISIL A3+ / CRISIL BBB/Stable		--		--		--	--
			--	20-03-23	CRISIL BBB/Stable		--		--		--	--
			--	03-03-23	CRISIL BBB/Stable		--		--		--	--
Non Convertible Debentures	LT	25.0	CRISIL BBB/Stable	13-04-23	CRISIL BBB/Stable		--		--		--	--
			--	27-03-23	CRISIL BBB/Stable		--		--		--	--
			--	24-03-23	CRISIL BBB/Stable		--		--		--	--
			--	20-03-23	CRISIL BBB/Stable		--		--		--	--
			--	03-03-23	CRISIL BBB/Stable		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	60	State Bank of India	CRISIL BBB/Stable
Cash Credit	25	Punjab National Bank	CRISIL BBB/Stable
Overdraft Facility	0.01	Bank of India	CRISIL A3+
Overdraft Facility	5	The Federal Bank Limited	CRISIL A3+
Overdraft Facility	0.01	Union Bank of India	CRISIL A3+
Overdraft Facility	0.01	IDBI Bank Limited	CRISIL A3+
Overdraft Facility	0.01	Punjab National Bank	CRISIL A3+
Overdraft Facility	20.05	IDFC FIRST Bank Limited	CRISIL A3+
Overdraft Facility	15	Indian Bank	CRISIL A3+
Overdraft Facility	0.01	Bank of Baroda	CRISIL A3+
Overdraft Facility	5	Jana Small Finance Bank Limited	CRISIL A3+

Proposed Long Term Bank Loan Facility	190.51	Not Applicable	CRISIL BBB/Stable
Proposed Long Term Bank Loan Facility	300	Not Applicable	CRISIL BBB/Stable
Term Loan	22.59	UCO Bank	CRISIL BBB/Stable
Term Loan	6.64	Indian Bank	CRISIL BBB/Stable
Term Loan	32.43	Maanaveeya Development & Finance Private Limited	CRISIL BBB/Stable
Term Loan	10.11	MAS Financial Services Limited	CRISIL BBB/Stable
Term Loan	18.94	Indian Overseas Bank	CRISIL BBB/Stable
Term Loan	13.86	Nabkisan Finance Limited	CRISIL BBB/Stable
Term Loan	0.23	Bank of Baroda	CRISIL BBB/Stable
Term Loan	10	SBM Bank (India) Limited	CRISIL BBB/Stable
Term Loan	24	Small Industries Development Bank of India	CRISIL BBB/Stable
Term Loan	20.87	Punjab National Bank	CRISIL BBB/Stable
Term Loan	20.56	Mahindra and Mahindra Financial Services Limited	CRISIL BBB/Stable
Term Loan	36.46	Union Bank of India	CRISIL BBB/Stable
Term Loan	5.07	Capital First Limited	CRISIL BBB/Stable
Term Loan	38.39	Bandhan Bank Limited	CRISIL BBB/Stable
Term Loan	2.89	Nabsamruddhi Finance Limited	CRISIL BBB/Stable
Term Loan	8.62	Cholamandalam Investment and Finance Company Limited	CRISIL BBB/Stable
Term Loan	64.66	State Bank of India	CRISIL BBB/Stable
Term Loan	38.3	National Bank For Agriculture and Rural Development	CRISIL BBB/Stable
Term Loan	29.7	The Federal Bank Limited	CRISIL BBB/Stable
Term Loan	0.91	NABARD Financial Service Limited	CRISIL BBB/Stable
Term Loan	45.8	Kotak Mahindra Bank Limited	CRISIL BBB/Stable
Term Loan	24.52	Jana Small Finance Bank Limited	CRISIL BBB/Stable
Term Loan	10.54	Indian Bank	CRISIL BBB/Stable
Term Loan	35.73	Indian Bank	CRISIL BBB/Stable
Term Loan	4.79	Hinduja Leyland Finance Limited	CRISIL BBB/Stable
Term Loan	10	Maanaveeya Development & Finance Private Limited	CRISIL BBB/Stable
Term Loan	42.78	IDFC FIRST Bank Limited	CRISIL BBB/Stable

Criteria Details

Links to related criteria

[Rating Criteria for Finance Companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

CRISILs Criteria for rating short term debt

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