

Rating Rationale

March 24, 2023 | Mumbai

Digamber Capfin Limited

Rating reaffirmed at 'CRISIL BBB/Stable'; 'CRISIL A3+' assigned to Bank Debt; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.900 Crore (Enhanced from Rs.167 Crore)
Long Term Rating	CRISIL BBB/Stable (Reaffirmed)
Short Term Rating	CRISIL A3+ (Assigned)

Rs.25 Crore Non Convertible Debentures	CRISIL BBB/Stable (Reaffirmed)
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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 reaffirmed 'CRISIL BBB/Stable' rating on the long-term bank loan facilities and debt instrument of Digamber Capfin Limited (Digamber Capfin), while the short term rating is assigned as 'CRISIL A3+'.

The rating primarily factors in the extensive experience of the promoters in microfinance sector, its adequate capital position backed by healthy accretions, and well 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 32% to Rs 1010.7 crore as on March 31, 2022, against Rs 765.7 crore as on March 31, 2021. As of December 31, 2022, the AUM further grew to Rs 1023.3 crore, a YTD growth of 1.2% (non-annualised). The business model mainly focuses on microfinance loans through Joint-Liability Group (JLG) lending model, which accounted for around 98% of the portfolio, while the remaining 2% was to individual borrowers. The company has been able to expand its reach and network to across nine states. As on December 31, 2022, it had 200 operational branches and catered to more than 3,52,073 customers. In terms of geographies, there is state concentration with Rajasthan and Uttar Pradesh aggregating to 60% of AUM as of September 30, 2022. 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 14.12% of the overall AUM as of September 2022

In terms of asset quality, Digamber Capfin's 90+ days past due (dpd) that used to be less than 1% historically, moderated to over 20% till December 2020 following impact of Covid first wave. Nevertheless, with some normalcy in collections and company's decision to write-off of about Rs 12.8 crore, the 90+ dpd closed at around 4.4% as of March 2021. Coming to fiscal 2022, the impact of second wave was again visible on portfolio quality. However, delinquencies were relatively lower as compared to Covid first wave. The 90+ dpd reached peak level of 9.36% till end of December 2021 and it closed at around 4.63% as of March 31, 2022. The reduction in 90+ dpd was primarily due to company's decision to offer additional interest waiver upto 70% that got piled up due to moratorium. Apart from this, the company also wrote-off around Rs 25.6 crore (2.6% of AUM) during fiscal 2022 which resulted in reduction of delinquencies. The adjusted delinquencies (90+ dpd + trailing 12 months write-offs) as on March 31, 2022, stood at 8.1%. In total, the company wrote-off around Rs 38.4 crore during fiscal 2021 and fiscal 2022. Nevertheless, since Q4 fiscal 2022, the collection efficiency of the company has stabilised which has resulted in further reduction in 90+ dpd to about 3.3% as of September 30, 2022.

Analytical Approach

To arrive at the ratings, CRISIL Ratings has evaluated the business and financial risk profile of Digamber Capfin on 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 microfinance business) and have been leading the company for last 28 years (since inception). The promoters have also been fairly active in application of new technology in order to bring in efficiency in day-to-day operations. The company uses a 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 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 233.3 crore and adjusted gearing of 4.08 times (including securitisation / assignment; 3.09 times on reported basis) as of December 31, 2022. 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 range of 4.0%-4.5% during last 2-3 years (one of the highest in the MFI industry). However, CRISIL Ratings notes that this profitability has been supported by 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 2.5 to 2.7% for fiscal 2022. In terms of capital adequacy ratio (CAR), Digamber Capfin's overall CAR is substantially high at 24.64% as on March 31, 2022, 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 times over medium term. CRISIL Ratings overall 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 large lenders base. Digamber Capfin has a diversified funding profile with lender base of over 26 lenders including banks, NBFCs, borrowings from capital markets and securitization. Currently, the entire borrowing profile is majorly from banks (including off-book) with average cost of borrowing of the funds raised since April 2021 at 10.1%. Apart from normal funding lines, the company is also fairly active in securitisation transactions (both DA and PTC). Digamber Capfin started undertaking transactions in fiscal 2019 and have executed around 13 transactions (8 transaction of Direct Assignment & 5 transaction of PTC). 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 2022, Rajasthan and Uttar Pradesh accounts for 60% of the overall portfolio. The company has focused on a set of customers predominant in northern region of India. Digamber Capfin has over 90% of the customers engaged in agriculture and allied activities as their primary occupations. The geographic concentration increases 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 14.12% of the overall AUM as of September 2022. Additionally, the company has expanded to states namely Bihar, Himachal Pradesh, and Uttarakhand to drive incremental growth and reduce state wise concentration. While the company has presence in 9 states, the operations are spread out across 200 branches in 113 districts.

Despite being in operations as a NBFC-MFI for 14 years, Digamber Capfin's scale of operations has remained relatively small. Even though the company has showcased good traction of growth in book size, the scale of operations of the company remains limited in comparison to the similar rated peers. As of December 31, 2022, the AUM stands at Rs 1023.3 crore, showcasing a YTD growth of 1.2% (non-annualised). The company relied more on its own capital and internal accruals during this period. Overall assets under management (AUM) grew by nearly 32% to Rs 1010.7 crore as on March 31, 2022, against Rs 765.7 crore as on March 31, 2021. Prior to this, the company's growth was impacted due to pandemic wherein AUM growth was negligible, i.e., during FY21, the AUM was Rs 765.7 crore vs Rs 726.8 crore in FY20 which showcases a negligible growth of 5.3%. Nevertheless, with strong growth pick up shown during fiscal 2023, the company is expected to maintain the growth at a similar pace that it had during pre-pandemic period. 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 2 states, asset quality continues to remain key monitorable. The company reported a 90+ dpd of 5.1% as on March 2021 which had seen some moderation with 90+ dpd increasing to 9.5% (with collection efficiency (C.E)- 84%) as of November 2021 as the collections were hit due to the 2nd wave of

covid. This saw a gradual improvement and as of March 2022, the 90+ dpd improved to 4.6%. As on September 2022 the 90+ dpd stood at 3.3% (C.E-98%). The company's 90+ dpd (post absorbing pandemic impact) while has largely remained stable both in fiscal 2021 and fiscal 2022, this stability has also been supported by write-offs done during both years. The 90+ dpd (including write-offs) stood at 6.8% as of March 2021 (as against 4.44% (excluding write-offs) as of same date). Similarly, 90+ dpd (including write-offs) stood at 8.08% as of March 2022 (as against 4.63% (excluding write-offs) as of same date). CRISIL Ratings, therefore, overall believes that amidst growth in the portfolio, sustainability of the asset quality at the current level of growth and across newer territories will be a key monitorable

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

Over the past decade, the microfinance sector has witnessed two major disruptive events - the ordinance passed by the government of Andhra Pradesh (AP) in 2010, and demonetisation in 2016. Promulgation of the ordinance on MFIs by the AP government demonstrated their vulnerability to regulatory and legislative risk. The ordinance triggered a chain of events that adversely affected business models of MFIs, by hurting their growth, asset quality, profitability, and solvency. The sector saw high delinquencies post demonetisation and subsequent socio-political events. Additionally, announcement of loan waivers – similar to MFI Bill, 2020 passed by the Assam Assembly – could worsen the situation, by impacting repayment discipline. The sector also remains susceptible to events such as local elections, natural calamities, and borrower protests among others, which may result in a momentary spurt in delinquencies. This indicates the fragility of the business model to external risk. As the business involves lending to the poor and downtrodden sections of society, MFIs will remain vulnerable to socially sensitive factors, including high interest rates, tighter regulations, and legislation.

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. Slowdown in economic activity post the pandemic, could exert pressure on cash flows of borrowers, thereby affecting their repayment capability.

Liquidity: Adequate

Asset-liability maturity profile of the company is comfortable as on March 31, 2022, with positive cumulative mismatches across the buckets up to 1 year. The liquidity stood at Rs 168 crore (excluding term loan and securitisation lines) as of November 30, 2022, against debt obligations including operating expense of Rs 103 crore for the next 2 months. This represents a liquidity position at a cover of 1.6 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

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. Trader 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 113 districts across India and caters to a client base of 3.53 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 200 branches with employee strength of 2176. As on December 2022, their AUM stood at Rs 1023.3 crore.

Key Financial Indicators

For the year ended / six months ended	Unit	Dec-2022	Sept-2022	Mar-2022	Mar-2021
Total assets	Rs crore	994.5	1042.9	969.2	784.5
Total income	Rs crore	196.1	126.6	216.3	199.6

Profit after tax	Rs crore	37.0	27.2	42.2	51.0
90+ dpd	%	4.8%	3.3%	4.6%	5.1%
Adjusted gearing (including off-book)	Times	4.1	4.3	5.1	4.9
Return on managed assets	%	3.9%*	4.5%*	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
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	200.97	NA	CRISIL BBB/Stable
INE02QN07011	Non-Convertible Debentures	29-Jul-20	11.50% p.a.	21-Apr-23	25	Simple	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Mar-25	38.39	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Aug-24	24.52	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Jan-24	6.64	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Mar-25	10.54	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Sep-24	35.73	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Jun-24	10	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	28-Feb-25	24	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Nov-23	2.89	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Aug-25	8.62	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Jul-23	5.07	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	28-Feb-27	0.22	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Sep-24	16.37	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-oct-25	13.33	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Dec-23	4.79	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	28-Feb-24	15	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Mar-25	27.78	NA	CRISIL BBB/Stable

NA	Term Loan	NA	NA	31-Mar-25	18.94	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Jan-26	6.86	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Jan-24	13.73	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Oct-24	25.22	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Oct-23	2.67	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Jan-26	18.23	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-May-26	11.53	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Nov-24	10	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	10.11	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	28-Feb-27	38.3	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Jun-23	0.91	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Sep-25	13.83	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Sep-24	20.87	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Jul-24	14.26	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	28-Feb-26	50.4	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Jun-23	0.63	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Jul-24	5.3	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Jul-25	16.67	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	28-Feb-24	0.02	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Jun-23	1.18	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Jul-24	9.06	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	Overdraft Facility	NA	NA	NA	43.06	NA	CRISIL A3+

NA	Cash Credit	NA	NA	NA	76.58	NA	CRISIL BBB/Stable
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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	900.0	CRISIL A3+ / CRISIL BBB/Stable	20-03-23	CRISIL BBB/Stable		--		--		--	Withdrawn
			--	03-03-23	CRISIL BBB/Stable		--		--		--	--
Non Convertible Debentures	LT	25.0	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	55.63	State Bank of India	CRISIL BBB/Stable
Cash Credit	20.95	Punjab National Bank	CRISIL BBB/Stable
Overdraft Facility	0.01	Bank of Baroda	CRISIL A3+
Overdraft Facility	0.01	Bank of India	CRISIL A3+
Overdraft Facility	2.98	The Federal Bank Limited	CRISIL A3+
Overdraft Facility	0.01	IDBI Bank Limited	CRISIL A3+
Overdraft Facility	20.05	IDFC FIRST Bank Limited	CRISIL A3+
Overdraft Facility	14.98	Indian Bank	CRISIL A3+
Overdraft Facility	5	Jana Small Finance Bank Limited	CRISIL A3+
Overdraft Facility	0.01	Punjab National Bank	CRISIL A3+
Overdraft Facility	0.01	Union Bank of India	CRISIL A3+
Proposed Long Term Bank Loan Facility	0.6	Not Applicable	CRISIL BBB/Stable
Proposed Long Term Bank Loan Facility	200.37	Not Applicable	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	24.52	Jana Small Finance Bank Limited	CRISIL BBB/Stable
Term Loan	6.64	Indian Bank	CRISIL BBB/Stable
Term Loan	10.54	Indian Bank	CRISIL BBB/Stable
Term Loan	35.73	Indian Bank	CRISIL BBB/Stable
Term Loan	10	State Bank of Mauritius	CRISIL BBB/Stable
Term Loan	24	Small Industries Development Bank of India	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	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
Term Loan	13.86	Nabkisan Finance Limited	CRISIL BBB/Stable
Term Loan	0.23	Bank of Baroda	CRISIL BBB/Stable
Term Loan	45.8	Kotak Mahindra Bank Limited	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	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	22.59	UCO Bank	CRISIL BBB/Stable
Term Loan	0.91	NABARD Financial Service Limited	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

This Annexure has been updated on 24-Mar-23 in line with the lender-wise facility details as on 03-Mar-23 received from the rated entity.

Criteria Details

Links to related criteria

[Rating Criteria for Finance Companies](#)

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

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