

RATING RATIONALE

26 April 2022

Dhani Loans and Services Limited (DLSL) erstwhile Indiabulls Consumer Finance Limited

Brickwork Ratings downgrades the rating of various debt issuances of Dhani Loans and Services Limited (DLSL) erstwhile Indiabulls Consumer Finance Limited and places it on credit watch with developing implications

Particulars:

Instrument/ Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (March, 2021)	Present
Secured NCD - Private issue	1000	1000	Long Term	BWR AA/Stable	BWR A+/Credit Watch with developing implications (Downgraded)
Secured NCD - Public issue	2,000	2,000	Long Term	BWR AA/Stable	BWR A+/Credit Watch with developing implications (Downgraded)
Bank Loan - Fund Based	4,000	4,000			
Commercial Paper Programme	2,000	2,000	Short Term	BWR A1+	BWR A1 (Downgraded)
Total	9,000	9,000	INR Nine Thousand Crores Only		

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

** ISIN-wise details of NCDs is provided in Annexure-I, and bank-wise facility details are provided in Annexure II

Rating Action/Outlook:

Brickwork Ratings (BWR) downgrades rating for the NCDs amounting to Rs 3,000 Crs, bank loan facilities of Rs 4000 Crs to 'BWR A+' from 'BWR AA' and downgrades the rating for the commercial paper programme of Rs 2000 Crs to 'BWR A1' from 'BWR A1+', respectively, and also places the rating on credit watch with developing implications of Dhani Loans and Services Ltd (DLSL).

The downgrade in rating factors in the steep decline in DLSL's AUM from Rs.10,633 Crs in FY19 to Rs.4160 Crs in FY21, resulting in a decline in income levels and an increase in Gross NPA ratio from 0.79% in FY19 to 10.26% in FY21 leading to increased provisioning costs, and incurring a loss of Rs.54 Crs in FY21, from a net profit of Rs.400 Crs in FY19. As at 31 Dec 2021, the company's AUM was maintained ~ Rs.4000 Crs, and incurred a net loss of Rs.204 Crs for 9MFY22, despite Q3FY22 net profits. The gross NPA ratio which moderated to 4.96% as of 31 Dec 2021, shall remain a monitorable on the provisioning and profitability in the near to medium term.

The Company's credit risks of moderation of loan book, average asset quality and declining profitability with change in business model and a move from interest income based revenue model to fee based model has changed the dynamics of the company. While the company scales its new business model, the overall AUM is expected to remain flat over the medium term with a run down of the legacy portfolio. The new business model in its nascent stage with small tenor and zero interest bearing credit facility, is largely dependent on subscription income. While the company has demonstrated improvement in its operating metrics for Q3 FY22 by way of reporting profits and its strong capital and liquidity position, the new business of transaction finance is relatively new. BWR, therefore, places the rating under 'credit watch with developing implications' till there is enough clarity of the new business model and its impact on the financial and business risk profile of the company over the near to medium term.

Key Rating Drivers

Credit Strengths:-

- **Strong group support and experienced management team:** DLSL is a wholly owned subsidiary of Dhani Services Limited (DSL) erstwhile Indiabulls Ventures Limited (IVL), which provides financial strength and flexibility to the company. Mr. Sameer Gehlaut (promoter) has increased his stake in DSL and currently holds 33.00% equity stake in DSL. The management team of DLSL has extensive experience in the financial services industry and is headed by Mr. Pinank Shah, whole-time director and chief executive officer (CEO) for DLSL. He is ably supported by a second line of management with vast experience in the financial services industry. Mr. Pinank Shah headed the treasury in Indiabulls Housing Finance Ltd. before he joined DLSL as CEO.
- **Sound systems and processes led by app-based technology:** DLSL has developed a real-time app-based transaction finance platform called Dhani which has a subscriber base of ~24 mn as on 31 Dec 2021. Such technology-based approaches are popular with aspirational borrowers and also lower operational costs to the company. This, coupled with strong systems and processes, has helped the company to build its loan portfolio.
- **Comfortable capitalisation:** DSL has continuously infused capital in the last 3 years, resulting in a strong tangible net worth of Rs 4,575 Crs and healthy CRAR of 67.41% as on 31 Dec 2021, against the minimum regulatory requirement of 15%. The company has also undertaken to keep its net gearing ratio at 1x or lower and as on 31 Dec 2021, DLSL

had a gearing of 0.25x. Net worth to net non-performing assets (NPAs) cover is very strong at above 100x. The holding company is also planning to raise additional capital through ADR (American Depository receipt) listing. They have also received ~Rs 800 Crs through third and final call of right issue.

- **Strong Liquidity:** The ALM profile as on 31 Dec 2021 had no negative cumulative mismatches across various buckets upto 5 years. DLSL's liquidity profile is comfortable, given the shorter tenure of the loans and long-term borrowing profile with an average tenure of 3 years. As on 31 Dec 2021, DLSL has cash balance and liquid investments of Rs 426 Crs, with sufficient liquidity buffer for repayments upto next 2 quarters.

Credit Risks:-

- **Moderation of Loan book:** The loan book witnessed substantial growth from Rs 92 crs in FY17 to Rs. 4002 Crs in FY18 to Rs 10,633 Crs in FY19. Thereafter, the loan book has consistently decreased to Rs 4,709 Crs in FY20, to Rs. 4,160 Crs in FY21 and is at Rs 4,254 Crs as on 31 Dec 2021.

Company has closed its legacy business of lending personal and secured business loans. From Q4FY21, the company has started Dhani One Freedom platform which entails Dhani One Freedom Card and credit line of Rs. 10,000 to Rs. 5 lac. The same can be used for purchases on Dhani Store as well as at other merchant stores. The credit line is interest free and the company earns average subscription fee of Rs. 340 per month per subscriber for the same. The amount utilised/drawn by the customer has to be repaid in 3 parts, credit controlled tightly through technology. Thus the company is moving from an interest income business to fee based business. Company intends to run down majority of its legacy portfolio by Sep' 2023 and the proceeds will be used to further the Dhani One Freedom offering.

The company expects the AUM to remain flat at Rs. 4000 Crs over the medium term with the proceeds from run down of legacy portfolio will be used to further Dhani One Freedom offering. Through Dhani platform, customers can order everyday household items, groceries, personal care items including medicines and healthcare products at attractive discounts.

The ability of the company to achieve sustainable growth in AUM will be a key rating sensitivity factor.

- **Average Asset Quality:** Gross NPAs and net NPAs witnessed substantial increase to 10.26% and 2.30% as on 31 March 2021 from 1.93% and 0.56%, respectively, for FY20 as the portfolio started seasoning, moderation in loan book and also due to the impact of COVID 19 pandemic. The company made provisions of Rs. 439 Crs in FY21; which including loans written off amounting to Rs 184 Crs.

The company has moved to transaction financing where the portfolio will be more granular and the tenor will be only for 2 months and lending will be through ewallet backed by EWS system will help the company to control the credit costs.

BWR expects asset quality to remain average as per the new business model. DLSLs ability to manage collections, maintain healthy asset quality and make sufficient provisions where required will be a key rating monitorable.

- **Decline in Profitability:** DLSL's profitability has declined with reported PAT of Rs 54.25 Crs for FY20 when compared to Rs 400 Crs in FY19. The company made a loss of Rs. 54.10 Crs in FY 21 with the company shift in its business model to transaction finance offerings.. This had resulted in decrease of ROA and ROE to 0.49% and 1.26% respectively in FY20 from 4.45% and 13.22%, respectively, for FY19. The ROA and ROE for FY 21 stand at -0.6% and -1.3%. Profitability was impacted due to higher provisions from Rs 103 Crs in FY19 to Rs 439 Crs in FY21 and loans written off amounting to Rs 184 Crs in FY21.

With the changing business model, the company made a loss of Rs.212.1 Cr in Q1FY22 and a further loss of Rs. 58.7 Cr in Q2FY22. But the company's new model has scaled up in Q3FY22 with a PAT of Rs. 66.4 Crs; the company has broken even in Q3FY22.

The ability of the company to improve and sustain profitability will be a key rating sensitivity factor.

Given the change in business model, BWR shall monitor the developments on the growth in customer base and AUM, improvement in asset quality, earnings and profitability over the near term, to resolve the credit watch.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone financial profile of Dhani Loans and Services Limited (DLSL) and has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: The company's ability to achieve the projected growth in its business while maintaining healthy/sustained profitability and healthy asset quality will be key rating drivers.

Negative: A higher-than-expected deterioration in asset quality and profitability will be key rating sensitivities for a rating downgrade. A significant increase in gross NPAs, sharp drop in provision coverage ratio or decline in liquidity levels constitute key monitorables.

LIQUIDITY POSITION: Strong

The ALM profile as on 31 Dec 2021 had no negative cumulative mismatches across various buckets upto 5 years. DLSL's liquidity profile is comfortable, given the shorter tenure of the loans and long-term borrowing profile with an average tenure of 3 years. As on 31 Dec 2021, DLSL has cash balance and liquid investments of Rs 426 Crs, indicating sufficient liquidity buffer for repayments upto the next 2 quarters.

COMPANY PROFILE

Dhani Loans and Services Limited (DLSL) (erstwhile Indiabulls Consumer Finance Limited) is a wholly owned subsidiary of Dhani Services Limited erstwhile Indiabulls Ventures Limited (DSL), one of the financial services company of Indiabulls group. The company was incorporated on October 27, 1994 and in September, 2018, the name of the company was changed to 'Indiabulls Consumer Finance Limited'. The company is registered as a non-deposit taking systemically important non-banking finance company (NBFC-ND-SI) and is into lending business with primary focus on personal loans, unsecured SME loans and secured SME loans. It is a wholly owned subsidiary of Dhani Services Limited (DSL) erstwhile Indiabulls Ventures Ltd (IVL). DSL is promoted by Mr. Sameer Gehlaut, the promoter of IndiaBulls group.

In the initial years of its operations, DLSL primarily focused on Personal Loans (PL) with the ticket size ranging between Rs 20,000 to Rs 3 Lakh, unsecured SME loans with average ticket size ranging from Rs 10 lakhs to Rs 25 lakhs and secured SME loans with average ticket size ranging between Rs 1.5 Crs to Rs 5 Crs. The company has over the last few years built a technology platform 'Dhani'.

In FY21, DLSL has realigned their strategy, to focus on transactional financing which will granularise the loan book with a lower tenure. They have built the required technology through its app "Dhani", which has a customer base of ~24 mn as on 31 Dec 2021. Legacy loans business of up to 36 months will run off by Sep'23. It is being replaced by subscription based transaction finance where the customer will be given a credit limit and the amount utilised/drawn by the customer has to be repaid in 2 months, credit controlled tightly through technology.

KEY FINANCIAL INDICATORS

Key Parameters	Units	2019	2020	2021	9MFY21	9MFY22
Result Type		Aud	Aud	Aud	Unaud	Unaud
AUM	Rs in Crs	10,633	4,709	4,160	5,324	4,254
Total Income	Rs in Crs	1,650.02	2,516.88	1,062.87	918.50	605.48
PAT	Rs in Crs	400.19	54.25	(54.10)	54.90	(204.44)
Tangible Net worth	Rs in Crs	4,314	4,184	4,127	4,248	4,575
Total CRAR	%	37.70	58.92	58.24	51.23	67.41
GNPA	%	0.79	1.93	10.26	9.82	4.96
NNPA	%	0.26	0.56	2.50	3.30	1.97

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Nil

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

S. No	Name of Instrument (NCD/Bank Loan /Non-Fund Based facilitates/ Commercial Paper etc.)	Current Rating (Apr 2022)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable		
		Type(Long Term/Short Term)	Amount Outstanding (Rs. Crores)	Rating	Date(s)& Rating(S) assigned in 2020	Date(s) & Rating(s) assigned in 2019	Date(s) & Rating(s) assigned in 2018
1					26 March 2021	16 May 2020	31 Oct 2019
	Secured NCDs - Pvt issue	Long Term	1000	BWR A+/Credit Watch with developing implications	BWR AA Stable	BWR AA Stable	-
	Secured NCDs - Public issue	Long Term	2000	BWR A+/Credit Watch with developing implications	BWR AA Stable	BWR AA Stable	BWR AA+ Stable
	Fund Based - Bank Loans	Long Term	4000	BWR A+/Credit Watch with developing implications	BWR AA Stable	BWR AA Stable	BWR AA+ Stable
	Commercial Paper	Short Term	2000	BWR A1	BWR A1+	BWR A1+	BWR A1+
2							25 May 2019
	Secured NCDs - Public issue	Long Term	3000				BWR AA+ Stable
	Fund Based - Bank Loans	Long Term	4000				BWR AA+ Stable
	Commercial Paper	Short Term	2000				BWR A1+

COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Financial Institutions](#)
- [Commercial Paper](#)

Analytical Contacts	
Sushrut Mapara Primary Analyst +91 90040 41586 sushrut.m@brickworkratings.com	Hemant Sagare Associate Director - Ratings +91 80 4040 9999 Ext 333 hemant.s@brickworkratings.com
1-860-425-2742	media@brickworkratings.com

Dhani Loans and Services Ltd

ANNEXURE I

DETAILS of Bank Facilities rated by BWR

Particulars	Type of Facility	Long Term (Rs in Crs)	Short Term (Rs in Crs)	Total amount (Rs in Crs)
Indian Overseas Bank	Term Loan	150	-	150
NABARD	Term Loan	376	-	376
Punjab & Sind Bank	Term Loan	250	-	250
RBL Bank Ltd	Cash Credit	150	-	150
Canara Bank (eSyndicate Bank)	Term Loan	31.25	-	31.25
Union Bank of India	Term Loan	150	-	150
Bank of Baroda (eVijaya Bank)	Term Loan	150	-	150
South Indian Bank	Term Loan	50	-	50
Total Existing Facilities		1,307.25	-	1,307.25
Total Proposed Facilities		2,692.75	-	2,692.75
Total Amount to be Rated		4000	-	4000

Total: INR Four Thousand Crores Only

ANNEXURE II
INSTRUMENT (NCD) DETAILS

Instrument	Issuance date	Amount (Rs in Crs)	Coupon rate	Maturity date	ISIN number
NCD	8-Mar-19	32.5	10.90%	8-May-22	INE614X07043
	8-Mar-19	75.54	10.91%	8-May-22	INE614X07050
	8-Mar-19	23.58	10.90%	8-May-22	INE614X07068
	8-Mar-19	47.01	11.01%	8-Mar-24	INE614X07076
	8-Mar-19	26.07	10.99%	8-Mar-24	INE614X07084
	8-Mar-19	19.38	11.00%	8-Mar-24	INE614X07092
	27-Jun-19	12.37	10.41%	27-Jun-22	INE614X07159
	27-Jun-19	12.21	10.40%	27-Jun-22	INE614X07167
	27-Jun-19	4.28	10.40%	27-Jun-22	INE614X07175
	27-Jun-19	15.64	10.60%	27-Jun-24	INE614X07183
	27-Jun-19	12.8	10.60%	27-Jun-24	INE614X07191
	27-Jun-19	4.39	10.60%	27-Jun-24	INE614X07209
	6-Sep-19	2.97	10.25%	6-Sep-22	INE614X07241
	6-Sep-19	2.25	10.25%	6-Sep-22	INE614X07258
	6-Sep-19	0.86	10.25%	6-Sep-22	INE614X07266
	6-Sep-19	3.79	10.50%	6-Sep-24	INE614X07274
	6-Sep-19	11.81	10.50%	6-Sep-24	INE614X07282
	6-Sep-19	1.04	10.50%	6-Sep-24	INE614X07290
Total		308.49			

Total: Three Hundred and Eight Crores Forty Nine Lacs Only

For print and digital media

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