

Rating Rationale

July 21, 2025 | Mumbai

Dvara Kshetriya Gramin Financial Services Private Limited

Rating reaffirmed at 'Crisil BBB+/Crisil PPMLD BBB+/Stable'

Rating Action

Total Bank Loan Facilities Rated	Rs.535 Crore
Long Term Rating	Crisil BBB+/Stable (Reaffirmed)

Rs.20 Crore Long Term Principal Protected Market Linked Debentures	Crisil PPMLD BBB+/Stable (Reaffirmed)
Rs.300 Crore Non Convertible Debentures	Crisil BBB+/Stable (Reaffirmed)
Rs.10 Crore Non Convertible Debentures	Crisil BBB+/Stable (Reaffirmed)
Rs.200 Crore Non Convertible Debentures	Crisil BBB+/Stable (Reaffirmed)
Rs.5 Crore Non Convertible Debentures	Crisil BBB+/Stable (Reaffirmed)
Rs.50 Crore Non Convertible Debentures	Crisil BBB+/Stable (Reaffirmed)
Rs.30 Crore Non Convertible Debentures	Crisil BBB+/Stable (Reaffirmed)
Rs.30 Crore Subordinated Debt	Crisil BBB+/Stable (Reaffirmed)

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 its 'Crisil BBB+/PPMLD BBB+/Stable' ratings on long-term bank facilities and debt instruments of Dvara Kshetriya Gramin Financial Services Private Limited (Dvara KGFS).

The ratings continue to factor in the extensive experience of the company's founders and leadership team and its adequate capital position supported by steady equity infusion. These strengths are partially offset by volatility in asset quality and profitability due to inherent exposure to borrowers with weak credit profiles and local socio-political issues, and modest scale of operations with regional concentration.

The prefix 'PPMLD' indicates that the principal amount of the debentures is protected, while the returns are market-linked. Also, payments to investors are not fixed and are linked to external variables, such as commodity prices, equity indices, foreign exchange rates, or equity valuation of the company.

The company's assets under management (AUM) stood at Rs 2,202 crore as on March 31, 2025, marking a marginal decline from Rs 2,251 crore of AUM, as at the end of FY2024. The suppression in growth was largely on account of ground level challenges prevailing in the microfinance sector since the onset of FY2025. Beyond that, the company's initial strategy to migrate towards a higher deployment of micro enterprise loans and curtail exposure to the microfinance sector by reducing loans under the Joint Liability Group (JLG) – also contributed to the slowdown in disbursements during the FY. As on March 31, 2025, 68% of the portfolio was deployed as JLG loans, whereas the balance was extended as enterprise loans and others. In terms of regional presence, 47% of the portfolio remains concentrated in Tamil Nadu followed by Bihar, which housed 13% of the portfolio on March 31, 2025.

Though still high, the regional concentration has improved gradually from a single state exposure level of 56% (Tamil Nadu) in March 2023. To achieve this, the company has inorganically expanded into Odisha, Jharkhand, and Uttar Pradesh through the strategic acquisition of 25.9% stake in Saija Finance Pvt Ltd (Saija) in FY2022. Correspondingly, AUM exposure to the top 3 states has declined from 79% in March 2023 to 68% in March 2025, over the same period.

Nevertheless, as the portfolio remains geographically concentrated and exposed to borrowers with modest credit profiles – overall asset quality has been volatile. After issues like increased average indebtedness, elevated attrition, extreme heatwaves in certain geographies and most recently – misinformation around the 'Karnataka Micro Loan and Small Loan (Prevention of Coercive Actions) Ordinance, 2025', reported gross non-performing assets (GNPA) rose to 8.5% as on March 31, 2025 from 3.0%, a year ago and 4.0% on March 31, 2023. On the respective dates, the net NPA was 3.9%, 1.3% and 2.4%. This led the company to incur incremental credit costs of Rs 161 crore (5.9% of average total managed assets) for FY2025 as compared with Rs 82 crore (3.4%) for FY2024. For full FY2025, the company reported a modest profit of Rs 1 crore against a reported profit of Rs 48 crore (return on managed assets [RoMA] of 1.9%) for FY2024.

Nevertheless, the overall financial risk profile is supported by adequate buffer in capitalisation metrics. On March 31, 2025, the company reported a Tier I and overall capital adequacy ratio (CAR) of 17.5% and 23.9%, respectively whereas gearing stood at 4.1 times on the same date.

Analytical Approach

Crisil Ratings has evaluated the standalone business and financial risk profiles of Dvara KGFS

Key Rating Drivers & Detailed Description

Strengths:

- Experienced board and management profile:** The entity was founded by eminent industry professionals like Mr. Nachiket Mor and Ms Bindu Ananth with the vision to enhance financial inclusion. With evolution in the regulatory landscape and market dynamics, the business model has also evolved with changes in growth and diversity aspirations and product profile. Also, over the years, the company has onboarded other investors like Leapfrog, Stakeboat Capital, Accion, and Sparkassen with high pedigree on its board. Presently, the board of the company comprises Ms Bindu Ananth, Mr Samir Shah, and other eminent members from financial and allied sectors.

Further, the senior management team is also seasoned with close to two decades of experience in the rural financing industry, microfinance sector and NBFC segment. Accredited to this, the management team understands the nuances of underwriting in this segment, underlying risks and the financial requirements of the borrowers. In the past, this experience has aided the company's ability to navigate through disruptions like demonetization and the pandemic outbreak.

- **Adequate capitalisation:** The company's capital position remains adequate in relation to the scale and nature of business, evidenced by a net worth and tier I capital adequacy ratio of Rs 424 crore and 17.5%, respectively, as on March 31, 2025, vis-a-vis Rs 388 crore and 17.2%, respectively, as on March 31, 2024. On-book gearing, on the same date, stood at 4.1 times as compared to 4.6 times, as on March 31, 2024. Correspondingly, adjusted gearing dropped to 5.1 times on March 31, 2025 from 5.5 times on March 31, 2024.

While the company reported a muted profit for FY2025, net worth had an accretion of ~Rs 30 crore during the year on account of the revaluation of sold direct assignment (DA) pools at fair valuation. Thereafter, in May 2025 – the company raised 3 million euros (~Rs 35 crore) as equity capital from a German investor Sparkassen International Development Trust GmbH (SIDT), which has further strengthened the capital position.

In the past, too, the company has received steady capital infusion by Dvara Trust and other investors that supported the company's operations. Dvara group remains the single largest shareholder and holds ~29.8% stake in the company. This is followed by Accion Africa-Asia Investment Company and Leapfrog Financial Inclusion India (II) Ltd holding ~22.0% and 20.3%, respectively.

In the medium term, the company's capital position is expected to remain adequate however, its ability to significantly ramp-up internal accretion to independently sustain its capital position and maintain gearing within 5 times, will remain a key rating sensitivity factor.

Weaknesses:

- **Volatile asset quality and profitability due to inherent exposure to borrowers with weak credit profiles and socio-political issues:** The company's GNPA increased to 8.53% as on March 31, 2025, from 7.25% a quarter before and 3.0% as on March 31, 2024 – driven by increased slippages due to sectoral challenges such as increased borrower leverage, heightened attrition, climatic disruptions like heatwaves, and the Karnataka Ordinance. Additionally, Dvara's 90+dpd (including write-offs of Rs 100 crore for FY2025) stood at 12.4% as on March 31, 2025. Early bucket delinquencies (30+ dpd) have also risen to 11.4% as of March 31, 2025, from 3.3%, a year ago. Net NPA has moved to 3.9% from 1.3%, correspondingly. Overall collection efficiency had declined from an annual average of 91.68% for FY2025 to 87.20% in March 2025.

Despite Dvara KGFS operating as an NBFC (not NBFC-MFI), a significant portion of the portfolio comprises loans given to individuals under the JLG mechanism. Its customers generally have below-average credit risk profiles with lack of access to formal credit. Such borrowers are typically farmers, tailors, cattle owners/traders, small vegetable vendors, teashop owners, and dairy farmers etc. The income flow of these households could be volatile and dependent on the performance of the local economy.

Moreover, the company is inherently exposed to socio-economic disruptions. In the past, events like the crisis promulgated by the ordinance passed by the government of Andhra Pradesh in 2010, then demonetisation in 2016 and subsequently, the outbreak of Covid-19 in March 2020 – have impacted the sector. These events triggered a chain of events that adversely affected the business models of MFIs by impairing their growth, asset quality, profitability and solvency. The sector also remains susceptible to regional issues such as elections, natural calamities and borrower protests, among others, which may result in momentary spurt in delinquencies. This indicates the fragility of the business model to external risks. As the business involves lending to the underserved sections of society, Dvara KGFS will remain exposed to socially sensitive factors, including high interest rates, tighter regulations and legislations.

With asset quality stress, the credit costs also rose to 5.9% (including Rs 100 crore of write offs) for FY2025 after remaining sub 3.5% for the previous two financial years. This resulted in a modest PAT of Rs 1 crore for FY2025 as against a PAT of Rs 48 crore for FY2024. Furthermore, the borrowing cost for the company has also increased to 14.8% in FY2025 from 14.3% in FY2024. These factors together, resulted in almost nil annual RoMA FY2025 as against 1.9% for the previous FY

Over the near term, as the pace of improvement in collection efficiency remains gradual – asset quality and profitability are expected to remain muted. Thereafter, tangible improvement is expected towards the second half of the FY as newer originations increase in the total AUM. In the interim, the company's ability to control further slippages and enhance recoveries, while resuming growth remain key rating sensitivity factors.

- **Modest scale of operations marked by regional concentration:** Dvara KGFS initiated its operations in 2008. Later in 2018, after the restructuring of the organization, the company initiated its operation in Tamil Nadu, Uttarakhand and Odisha. Later, by the acquisition of Varam Capital in 2019 and Saija in 2021, it accessed other northern geographies like Chattisgarh, Bihar, Jharkhand, amongst others. While this reduced the skewness of operations towards the southern states, Tamil Nadu and Karnataka cumulatively continue to comprise about 55% of the AUM. This exposes Dvara to local disruptive occurrences related to natural disasters and man-made events. Disruptive events in any region which has a relatively larger share of portfolio, could have a material impact on the company's business risk profile

Additionally, between 2018-22, the company revised its business strategy to align its progress with the evolving regulatory and market landscape of the sector. However, this journey of transition was hindered by multiple macro disruptions like demonitisation, IL&FS crisis, and natural calamities like Covid, Gaza Cyclone. Thus, the pace of growth and scale up has been comparatively moderate. As on March 31, 2025, the AUM of Dvara KGFS stood at Rs 2,202 crore, registering YoY decline of ~2% over the previous FY.

As a longer term strategy to curtail the volatility in performance due to exposure to the microfinance sector, the company has been working towards two core objectives: regional and product diversification. For regional diversification, the company has been expanding into non-southern states gradually whereas for product diversification – there is higher focus on micro enterprise loans whereas exposure to JLG has been declining. The ability of the company to profitably scale the MEL portfolio and expand geographically, remains a key rating sensitivity factor.

Liquidity: Adequate

Basis the liquidity profile as on July 7, 2025, the company is estimated to have sufficient liquidity to service its debt obligations over next two months assuming collection efficiency of 75%, conservatively. Total Cash and equivalent, including liquid investments, and unutilised debt facilities was Rs 146 crore, against debt obligation of Rs 140 crore for the succeeding month.

Additionally, Dvara KGFS has breached many debt covenants. However, no lender has yet recalled its debt facilities. However, the ability to raise funds sustainably and maintain adequate liquidity cover remains key rating sensitivity factor.

Outlook: Stable

Dvara KGFS is expected to maintain adequate capital position and, also benefit from the experience of its promoter and management in the micro lending industry.

Rating sensitivity factors**Upward factors:**

- Increase in scale of operations and geographical diversity marked by no single state accounting for more than 40% of the overall AUM with asset quality metrics remaining sound
- Return on assets improving to and, remaining above 2.5% on a sustainable basis
- Significant improvement in capitalization profile

Downward factors:

- Lack of improvement in asset quality or/ and earnings profile.
- Inability to sustainably mobilize resources from lenders, thereby impeding growth prospects
- Inability to maintain adjusted gearing below 5 times on a steady state basis

About the Company

Dvara KGFS was set up in FY2008 by Dvara Trust for extending unsecured and secured loans to rural areas in the country. The company was founded by Ms Bindu Ananth and Mr Nachiket Mor. Dvara KGFS focuses on extending multiple financial products for the lending, savings and insurance requirements of individuals in rural areas. The company positions itself as a rural wealth manager providing loans and financial products to customers. It largely extends JLG and unsecured enterprise loans, which comprise more than 95% of the total loans. The JLG loans are up to a ticket size of Rs 50,000 and the enterprise loans up to Rs 5 lakh. The company lends at interest rates of 24.5-27.75% for the JLG loans and 26-29% for the enterprise loans.

During FY2019, the business correspondents and corporate agency business of the IFMR Rural Channels and Services Pvt Ltd (holding company of Dvara KGFS) and IFMR Holdings Pvt Ltd (ultimate holding company) were amalgamated with the company.

Key Financial Indicators

Particulars	Unit	Mar 2025	Mar 2024	Mar 2023	Mar 2022	Mar 2021
Total managed assets	Rs crore	2,739	2,755	2126	1578	1370
Total income	Rs crore	604	565	382	287	246
Profit after tax	Rs crore	1.0	48	14	-3*	1.0
Return on managed assets	%	0.0	1.9	0.8	-0.2	0.1
Gross NPA	%	8.5	3.0	4.0	9.2	7.6
Adjusted gearing (including off-book)	Times	5.1	5.5	4.5	3.4	3.1

*including share of net loss of Rs 4.29 crore of associate, excluding which Dvara had reported a PBT of Rs 1.7 crore

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	Non-convertible debentures*	NA	NA	NA	189.61	Simple	Crisil BBB+/Stable
INE179P07597	Non-convertible debentures	18-Jul-25	11.00	18-Jul-27	25.00	Simple	Crisil BBB+/Stable
INE179P07324	Non-convertible debentures	30-Sep-23	13.50	7-Apr-26	25.00	Complex	Crisil BBB+/Stable
INE179P07282	Non-convertible debentures	12-Aug-22	11.00	12-Feb-26	23.30	Simple	Crisil BBB+/Stable
INE179P07175	Long-term principal-protected market-linked debentures	17-May-21	BSE SENSEX Linked	30-Sep-24	20	Highly complex	Crisil PPMLD BBB+/Stable
INE179P07258	Non-convertible debentures	25-Apr-22	11.00	24-Oct-25	38.10	Simple	Crisil BBB+/Stable
INE179P07266	Non-convertible debentures	9-Jun-22	14.00	7-Mar-25	22.00	Complex	Crisil BBB+/Stable
INE179P07274	Non-convertible debentures	25-Jul-22	15.00	25-Jul-25	10.00	Simple	Crisil BBB+/Stable
INE179P08058	Non-convertible debentures	19-Dec-23	14.50	15-Feb-27	18.00	Complex	Crisil BBB+/Stable
INE179P07332	Non-convertible debentures	22-Feb-24	13.60	6-Dec-27	120.11	Simple	Crisil BBB+/Stable
INE179P08074	Non-convertible debentures	26-Apr-24	14.50	15-Feb-27	22.00	Complex	Crisil BBB+/Stable
INE179P07365	Non-convertible debentures	24-May-24	12.75	24-May-27	1.80	Complex	Crisil BBB+/Stable
INE179P07373	Non-convertible debentures	24-May-24	12.50	24-May-27	0.10	Complex	Crisil BBB+/Stable
INE179P07381	Non-convertible debentures	24-May-24	12.75	24-May-27	1.10	Complex	Crisil BBB+/Stable
INE179P07530	Non-convertible debentures	19-Sep-24	10.00	19-Sep-27	24.50	Simple	Crisil BBB+/Stable
INE179P07464	Non-convertible debentures	19-Sep-24	10.00	19-Sep-27	24.38	Simple	Crisil BBB+/Stable
INE179P07548	Non-convertible debentures	27-Sep-24	11.00	27-Dec-26	50.00	Simple	Crisil BBB+/Stable
NA	Overdraft Facility	NA	NA	NA	1.00	NA	Crisil BBB+/Stable
NA	Cash Credit	NA	NA	NA	13.50	NA	Crisil BBB+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	265.50	NA	Crisil BBB+/Stable
NA	Term Loan	NA	NA	31-Oct-28	8.89	NA	Crisil BBB+/Stable
NA	Term Loan	NA	NA	21-Jul-27	15.95	NA	Crisil BBB+/Stable
NA	Term Loan	NA	NA	5-Nov-26	18.05	NA	Crisil BBB+/Stable

NA	Term Loan	NA	NA	25-Feb-26	20.63	NA	Crisil BBB+/Stable
NA	Term Loan	NA	NA	1-Apr-26	7.07	NA	Crisil BBB+/Stable
NA	Term Loan	NA	NA	10-Jun-26	50.00	NA	Crisil BBB+/Stable
NA	Term Loan	NA	NA	1-Jul-26	74.99	NA	Crisil BBB+/Stable
NA	Term Loan	NA	NA	31-Jul-27	34.44	NA	Crisil BBB+/Stable
NA	Term Loan	NA	NA	31-Dec-25	24.98	NA	Crisil BBB+/Stable

*Yet to be issued

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2025 (History)		2024		2023		2022		Start of 2022
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	535.0	Crisil BBB+/Stable		--	04-12-24	Crisil BBB+/Stable	12-12-23	Crisil BBB+/Stable	26-09-22	Crisil BBB+/Stable	Crisil BBB+/Stable
			--	--	17-10-24	Crisil BBB+/Stable	26-09-23	Crisil BBB+/Stable	02-08-22	Crisil BBB+/Stable	--	
			--	--	09-10-24	Crisil BBB+/Stable	03-08-23	Crisil BBB+/Stable	12-03-22	Crisil BBB+/Stable	--	
			--	--	30-09-24	Crisil BBB+/Stable	13-06-23	Crisil BBB+/Stable	--	--	--	
			--	--	12-09-24	Crisil BBB+/Stable	24-05-23	Crisil BBB+/Stable	--	--	--	
			--	--	--	--	10-03-23	Crisil BBB+/Stable	--	--	--	
			--	--	--	--	07-02-23	Crisil BBB+/Stable	--	--	--	
Non Convertible Debentures	LT	595.0	Crisil BBB+/Stable	--	04-12-24	Crisil BBB+/Stable	12-12-23	Crisil BBB+/Stable	26-09-22	Crisil BBB+/Stable	Crisil BBB+/Stable	
			--	--	17-10-24	Crisil BBB+/Stable	26-09-23	Crisil BBB+/Stable	02-08-22	Crisil BBB+/Stable	--	
			--	--	09-10-24	Crisil BBB+/Stable	03-08-23	Crisil BBB+/Stable	12-03-22	Crisil BBB+/Stable	--	
			--	--	30-09-24	Crisil BBB+/Stable	13-06-23	Crisil BBB+/Stable	--	--	--	
			--	--	12-09-24	Crisil BBB+/Stable	24-05-23	Crisil BBB+/Stable	--	--	--	
			--	--	--	--	10-03-23	Crisil BBB+/Stable	--	--	--	
			--	--	--	--	07-02-23	Crisil BBB+/Stable	--	--	--	
Subordinated Debt	LT	30.0	Crisil BBB+/Stable	--	04-12-24	Crisil BBB+/Stable	12-12-23	Crisil BBB+/Stable	26-09-22	Crisil BBB+/Stable	--	
			--	--	17-10-24	Crisil BBB+/Stable	26-09-23	Crisil BBB+/Stable	02-08-22	Crisil BBB+/Stable	--	
			--	--	09-10-24	Crisil BBB+/Stable	03-08-23	Crisil BBB+/Stable	12-03-22	Crisil BBB+/Stable	--	
			--	--	30-09-24	Crisil BBB+/Stable	13-06-23	Crisil BBB+/Stable	--	--	--	
			--	--	12-09-24	Crisil BBB+/Stable	24-05-23	Crisil BBB+/Stable	--	--	--	
			--	--	--	--	10-03-23	Crisil BBB+/Stable	--	--	--	
			--	--	--	--	07-02-23	Crisil BBB+/Stable	--	--	--	
Long Term Principal Protected Market Linked Debentures	LT	20.0	Crisil PPMLD BBB+/Stable	--	04-12-24	Crisil PPMLD BBB+/Stable	12-12-23	Crisil PPMLD BBB+/Stable	26-09-22	Crisil PPMLD BBB+ r /Stable	Crisil PPMLD BBB+ r /Stable	
			--	--	17-10-24	Crisil PPMLD BBB+/Stable	26-09-23	Crisil PPMLD BBB+/Stable	02-08-22	Crisil PPMLD BBB+ r /Stable	--	
			--	--	09-10-24	Crisil PPMLD BBB+/Stable	03-08-23	Crisil PPMLD BBB+/Stable	12-03-22	Crisil PPMLD BBB+ r /Stable	--	
			--	--	30-09-24	Crisil PPMLD BBB+/Stable	13-06-23	Crisil PPMLD BBB+/Stable	--	--	--	
			--	--	12-09-24	Crisil PPMLD BBB+/Stable	24-05-23	Crisil PPMLD BBB+/Stable	--	--	--	
			--	--	--	--	10-03-23	Crisil PPMLD BBB+/Stable	--	--	--	
			--	--	--	--	07-02-23	Crisil PPMLD BBB+/Stable	--	--	--	

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	0.5	IDFC FIRST Bank Limited	Crisil BBB+/Stable
Cash Credit	10	Indian Bank	Crisil BBB+/Stable
Cash Credit	3	Axis Bank Limited	Crisil BBB+/Stable
Overdraft Facility	1	Bandhan Bank Limited	Crisil BBB+/Stable

Proposed Long Term Bank Loan Facility	265.5	Not Applicable	Crisil BBB+/Stable
Term Loan	50	ICICI Bank Limited	Crisil BBB+/Stable
Term Loan	74.99	State Bank of India	Crisil BBB+/Stable
Term Loan	20.63	The Federal Bank Limited	Crisil BBB+/Stable
Term Loan	7.07	Bandhan Bank Limited	Crisil BBB+/Stable
Term Loan	34.44	IDFC FIRST Bank Limited	Crisil BBB+/Stable
Term Loan	24.98	State Bank of India	Crisil BBB+/Stable
Term Loan	8.89	Indian Overseas Bank	Crisil BBB+/Stable
Term Loan	15.95	Suryoday Small Finance Bank Limited	Crisil BBB+/Stable
Term Loan	18.05	The Karur Vysya Bank Limited	Crisil BBB+/Stable

Criteria Details

Links to related criteria
Basics of Ratings (including default recognition, assessing information adequacy)
Criteria for Finance and Securities companies (including approach for financial ratios)

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