

Company Name: Dhanvarsha Finvest Limited

Operational Highlights:

- Dhanvarsha is a tech enabled NBFC that caters towards daily cash flow generating small and medium businesses like Kirana stores, chemists, cloth trader shoe retailers, hardware stores, plumbers, etc. The company has been in business for about four and a half years now.
- We are promoted by Wilson Group which is the erstwhile manufacturers of the pilot pens, yellow sticky papers, pen holders. A lesser-known fact is that the Constitution of India was written and signed by a Wilson manufacturer pen, because Dr. Babarao Ambedkar didn't want to use a British manufacturer pen to sign the Constitution of India. Dhanvarsha is now their flagship investment.
- Dhanvarsha has a very strong governance mechanism. The Board consist of 8 members, headed by an independent chairperson and includes prominent personalities like Mr. Porter Collins among others. Management has been very carefully recruited from different institutions across the value chain in financial services and in technology. The idea over here for the board and for the promoter group also is to create an institution for the long term and a legacy that all of us want to leave behind for ourselves, catering towards the MSME sector.
- The average ticket size is in the range of 1 to 5 lakhs. The company started its journey in September 2017 with LAP loans due to their secured nature. However, due to the IL&FS crisis and the nature of the LAP loans in the MSME category, the funding dried out since we were totally funded by promoter fund only.
- We adjusted our strategy to give out smaller ticket loans. This basically resulted in reduction of the overall loan book, but the granularity increased by 4x. Based on the granularity and the category, HDFC Ltd came onboard in Jan 2020.
- In April 2020, the promoters infused capital by converting warrants into equity. Subsequent to that, Bank of India also came onboard as lender.
- During the Covid hit, various developments happened. Firstly, our focus is on the essential goods category to these daily cash flow generating business businesses placed us in very good stead because most of these businesses were open during COVID. Secondly, we were able to recruit an entire team that had built the gold finance book for an NBFC. Thirdly, we partnered with Chemist Association of Maharashtra to provide funding to their members in a joint credit underwriting policy.
- Today, about 20% of our book is sourced from these preferred sourcing partnerships where we have taken cash based FLDG and that again is a zero NPA book.
- We have honed down to MSME loan backed by Gold loan and Business loans for the next 5 year.
- DFL has also entered into the co-lending partnership with Central Bank of India in the 80:20 ratio with us being the minority capital provider. We have also entered into another co-lending partnership with 95:05 ratio recently.
- How we reach customer is essentially a two-fold approach, our gold loan product is very hyper branch driven model where we go out and meet the final borrower about what we do and how we do it differently. We also have state of the art CCTV security systems and from February onwards, we have started installing security guards.
- We are now being driven completely digitally from two main sourcing avenues. First is the preferred sourcing partner model wherein we work with a number of small, mid and large NBFC and fintech companies who will source customers for us, the customer gets underwritten as per an

underwriting policy, which has been agreed jointly by both parties. And then the customer is on boarded into our balance sheet through a straight pass-through API integration with final sign off happening at Dhanvarsha's end.

- The other model that the company follows is the direct market sourcing model, wherein we generate customers from small DSAs connectors, brokers, loan agents, etc. and onboard clients through them using Dhan Setu app which is our channel partner onboarding app.

Key Questions & Answers discussed during the Conference:

- **Can you throw some light on the LaaS product and what are your plans for 3-5 years?** We are a tech enabled NBFC having a strong distribution network. What we are doing is tying up with other lenders where we leverage their capital strength both at the deposit base or the equity base that they have and to cater towards this customer. Also, we have 2 co-lending partnerships, our goal is to sign on these core lending relationships that we call lending as a service with a few other partners over the course of the next six to eight weeks, where we'll be able to give you additional colour on other partners that we are tying up to leverage our distribution muscle. We do the sourcing servicing and collection on all those loans, leveraging our distribution muscle. Through co-lending, what we've seen with our existing branches, is that the branches which were taking six to eight months to break even on average earlier, now are breaking even in three to four months and sometimes even even shorter than that. So, we plan to take this up to, which today is about 1% of our AUM, close to about 20 to 25%, of the of the AUM by March 2025.
- **Where our competitive advantages lie if we compare ourselves to microfinance or other bigger players who are entrenched at a particular geography? How do we plan to compete and where our strengths lie?** We are not just providing finance but social capital. We help our borrowers tie up with expense management solutions, inventory management solutions, etc. All these kind of things which go beyond just providing financial capital, it may not increase revenue immediately, but it enhances stickiness. Secondly, in terms of competitive advantage and the geography that we've chosen, we conducted a detailed feasibility study by Grant Thornton that actually mapped out at least in the state of Maharashtra, city-by-city, product-by-product, micro market-by-micro market, district-by-district, which product does well where, and where we should potentially expand. We feel there is ample of opportunity, not just as a sign of the size of the pie expanding but also to take market share from many of the unorganized players. In addition to that, we have come out with a digital tool called Money Rabbit, which is a very simplified, unified vernacular manner that provides a dashboard to the customer, which tells them about their credit score.
- **What is the target for secured versus unsecured portfolio?** Right now, around INR 160 Cr of the INR 250 Cr AUM is secured either by FLDG or Gold loans.
- **What kind of resilience could be expected from the loan book in case of another black swan event?** We have built a resilient loan book backed by FLDGs and Gold as collaterals. We have also developed very robust and strong internal collection team which was very efficient during the series of waves of Covid.

- **Where do you see the cost of debt moving in 3-5 years period? What are the lending yields?** We are still small entity hence currently, it is high. Firstly, we are growing, we are also bringing in new equity. The books are also getting matured which will aid in further reduction of cost. We have onboarded diversified lenders during the past few periods due to which our incremental cost of borrowings are coming down and we have witnessed a 100 bps decrease in overall cost of borrowings. In the upcoming 6-8 months, the earlier loans taken at higher rates will start rolling off which should further aid in reduction of our borrowing cost. We are endeavoring a figure of 10% in the upcoming 2-3 years. The lending yields on the overall portfolio is 20.8%.
- **Where do you see the cost to income ratio in coming durations?** We have brought down the ratio to 49% range. We have focused our attention to build a distribution network, strong team and technology platform and this does not come in cheap. We do not expect the ratio to go up from here, but we also do not expect a significant drop from hereon. Rather we expect it to go down slowly and reach a figure in the below 40% range in the next 2-3 years.
- **Currently the leverage is very low, why is the management planning to raise equity now given the liquidity you have in the business?** We believe the equity raising provide the fire power to capitalize on the opportunity when it presents itself. Secondly, having an institutional base with ample capital will help us in upgrading our credit rating. Third, the disbursement engine is very strong and we would raise the capital now and then not worry about the capital adequacy for the upcoming few years.
- **Can you provide little overview about Money Rabbit as a marketplace?** Here, the whole concept is how we can aid the customers life making lending an engagement activity rather than a transactional activity. What we did here was to provide a simplified and gamified platform to understand their credit performance. However, our focus will still be the GL and Business loans, but this platform will help us to gather a lot of data and understand the dynamics of the market to better our offering in the core portfolio.
- **Are we targeting any particular tier locations or are we agnostic on that front?** We have identified the states that we want to do business. We will continue expanding in the smaller cities and towns in the existing states.

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