

Press Release

Berar Finance Limited

November 10, 2020

Rating Assigned



Total Proposed Term Loan Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	Provisional ACUTE A (CE)/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of **'Provisional ACUTE A (CE)' (read as Provisional ACUTE A (Credit Enhancement))** on the Rs.17.00 crore bank facilities of Berar Finance Limited (BFL). The outlook is **'Stable'**.

The rating takes into account the established presence of BFL in the two wheeler finance segment and its adequate capital position strengthened by recent capital infusions. These strengths are partly offset by the geographical concentration in its lending portfolio and the increased asset quality risks particularly arising due to the pandemic induced economic disruption. The rating for the Rs. 17.00 Cr specific bank loan facility is further credit enhanced by an unconditional, irrevocable and payable on demand guarantee from Northern Arc Capital Limited (Northern Arc/ partial credit enhancement (PCE) provider), amounting to 18.0% of the initial amount. In addition, the loan is secured by an exclusive charge on identified receivables (security pool) with a security cover of 1.20x the principal amount outstanding.

The facilities have received provisional ratings. The final ratings will be contingent upon fulfilment of all conditions under the structure and review of documentation pertaining to the transaction by Acuité. The final ratings will also be contingent upon the legal vetting of the documents to the satisfaction of Acuité.

About Berar Finance Limited (BFL)

Incorporated in 1990, BFL is a Nagpur based Deposit taking Non-Banking Financial Company (D-NBFC) registered with RBI effective 1998. The company is engaged in the financing of two wheelers, used cars, commercial vehicles, personal loans, trade loans and agriculture loans. The company operates in six states namely Maharashtra, Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka through a network of 67 branches as on June 30, 2020.

About Northern Arc Capital Limited ("Northern Arc")

Northern Arc, previously known as IFMR Capital Finance Ltd., is a Non-Deposit taking Non-Banking Financial Company (ND-NBFC) incorporated in 1989. It is involved in the placement (arranging funding for its clients via loan syndication, securitisation and assignment, among others) and lending business. The company acts as a link between mainstream capital markets investors and high-quality last mile lending institutions and businesses. The company's debt portfolio is diversified across 29 states and 540 districts of India. The company's business is categorized as finance sector exposure, i.e., microfinance, affordable housing finance, commercial vehicle finance, consumer finance and small business loans, and non-finance sector exposure, i.e., mid-market finance and corporates.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of BFL to arrive at the standalone rating and has further factored in the benefits arising from the structure while arriving at the final rating. The suffix (CE) indicates credit enhancement arising from the Partial Credit Enhancement (PCE) in the form of unconditional, irrevocable, payable on demand guarantee covering 18% of the initial principal value of the facility amount. The strength of the underlying structure and continued adherence to the same is central to the rating.

BFL's standalone (unsupported) rating: ACUITE BBB+/ Stable.

Acuité has enhanced the rating of the specific bank facility to ACUITE A (CE)/Stable by taking into account the Partial Credit Enhancement (PCE) in the form of a partial guarantee from Northern Arc Capital Limited ("Northern Arc"). The Credit Enhancement (CE) in the rating is solely for the rated issue and its terms and structure.

Key Rating Drivers

Strengths

• Strength of underlying structure:

The transaction has a PCE in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 18% of the initial principal value of the facility amount. The level of guarantee as a percentage of the aggregate outstanding principal of the facility is capped at 24% at any point in time during the loan tenure.

The facility and all interest, additional interest, further interest, liquidated damages, commitment charges, indemnification payments, fees, costs, expenses and other monies owing by, and all other present and future obligations and liabilities are further secured by a first and exclusive charge by way of hypothecation over identified receivables. The value of the hypothecated receivables shall at all times be equal to 1.20 times the outstanding amount of the facility.

In the event of failure of BFL to make interest or principal payments, the lender shall invoke the guarantee to collect the payments.

The transaction might be susceptible to commingling risks due to the absence of a ring-fencing arrangement of the hypothecated pool.

Acuité believes that the proposed structure provides for adequate covenants to safeguard the interest of the lender. The lender has enough buffers available to initiate corrective action and mitigate the risks arising out of non-adherence to the proposed terms and conditions.

• Established presence in two wheeler financing:

BFL was incorporated in 1990 and received its NBFC license in 1998. BFL was initially engaged in two wheeler financing and gradually diversified its product mix to include used cars financing, commercial vehicles financing, personal loans financing. Presently the company has presence across six states namely Maharashtra, Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka and operates through a network of 67 branches as on June 30, 2020. The company also has established relationships with dealers and intermediaries for supporting their forays in two-wheeler segment.

The company's Asset Under Management (AUM includes on book and off book portfolio) has grown to Rs. 475 Cr. as on March 31, 2020 as against Rs. 364 Cr. as on March 31, 2019 and Rs. 288 Cr. as on March 31, 2018. Of the overall AUM as on March 31, 2020, two wheeler financing contributed 86 percent, two-wheeler refinancing at 6 percent, used car financing by 6 percent, 2 percent by personal loan and balance 2 percent collectively by commercial vehicle financing, trade loan and agriculture -loan. The growth in AUM is supported by company's ability to raise

external debt as reflected in diverse source of funding from Banks (~36%), FIs including NBFCs (~42%) and Deposits (~22%) as on March 31, 2020.

Acuité believes that BFL's business profile will continue to benefit from the established presence in the area of operations backed by strong managerial support.

- **Support from Marquee Investor:**

BFL capital position in FY2020 strengthened on account of capital infusion of Rs.30 Cr. from Amicus Capital Partners, a Private Equity Firm, having portfolio companies in Banking, Financial Services and Insurance (BFSI) and Consumer space, resulting in improved leverage of 3.5 times as on March 31, 2020 from 4.5 times as on March 31, 2019 and Capital Adequacy Ratio (CAR) to 23.47% from 18.73% in this period.

Further, Amicus Capital Partners made additional capital infusion of Rs.20 Cr. in October further strengthening its capital buffer.

Weaknesses

- **Moderation in asset quality:**

BFL is engaged in the financing of two wheelers, used cars, commercial vehicles, personal loans, trade loans and agriculture loans, with two-wheeler financing continuing to be the primary segment (~86% of the portfolio as on March 31, 2020) having average ticket size of about Rs.52,000 and average tenor of 25 months. BFL's asset quality witnessed marginal deterioration as reflected in Gross NPA (90+ dpd) rising to 2.64% as March 31, 2020 from 2.07% as on March 31, 2019 on account of persistent stress seen in some geographies. Nonetheless, access to a diverse set of borrowers comprising of salaried individuals, self-employed individuals and agriculturists has helped company in offsetting broad economic stress emanating from Covid19 pandemic. Additionally, BFL's established presence and its ability to navigate through various business cycles on the strength of stringent credit risk mechanisms further supports its asset quality profile.

Acuité believes that BFL's ability to contain asset quality risks in the light of continuously evolving economic scenario will be crucial.

- **Geographical Concentration:**

BFL is a Nagpur based NBFC having operations spread across six states namely, Maharashtra, Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka and network of 65 branches as on March 31, 2020. While the company recently expanded its presence to newer geographies like Gujarat and Karnataka, its geographical exposure is fairly diversified at the current juncture with Maharashtra's contributing ~65% of the AUM as on March 31, 2020, declining from 73% as on March 31, 2018.

Also, the intensity of the Covid19 pandemic is one of the highest in Maharashtra and that may have an impact not only on the asset quality but also on the growth of a portfolio of Maharashtra in the near term.

Rating Sensitivity

- Movement in collection efficiency and asset quality
- Movement in profitability parameters
- Changes in regulatory environment

Material Covenants

BFL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

These covenants specify that the borrower's maximum permissible ratio of 90+dpd in the lending portfolio to tangible net-worth shall be 20.00%. They also state that the borrower's ratio of portfolio at risk and write-offs in a financial year to the outstanding principal value of the total loan

receivables shall not exceed 4 %. Also, the Credit Enhancer (Northern Arc) shall at all times until the discharge date ensure that its Capital Adequacy Ratio is at least 15%.

Assessment for Adequacy of Credit Enhancement

BFL has significant experience in the two wheeler segment, and its adequate capital position has been bolstered by recent capital infusions. Thus, even after considering risks such as geographical concentration and possible asset quality deterioration during the pandemic, Acuite believes that the CE will stand adequate in all scenarios and in the event of any requirement, Northern Arc will provide the necessary support.

Liquidity: Adequate

BFL's liquidity profile as on June 30, 2020 is well managed with no cumulative mismatches in the near to medium term bucket. The company also reported unencumbered cash and bank balances of about Rs.55 Cr. as on June 30, 2020 against obligations (Debt servicing obligations, PTC and operating expense) stood at about Rs.18 Cr. for the month of July, 2020. Further, collection efficiency (amount collected as against scheduled collections) has also gradually recovered to 66% in August 2020 from 39% in April 2020.

Outlook: Stable

Acuite believes that the rating on the loan facility will maintain a 'Stable' outlook over the near to medium owing to BFL's established presence in two wheeler financing business along with its healthy capital position. The outlook may be revised to 'Positive' in case BFL is able to demonstrate significant and sustainable growth in its scale of operations while mitigating the asset quality risks in its portfolio. Conversely, the outlook may be revised to 'Negative' in case of any sharp deterioration in its asset quality and profitability levels.

About the Rated Entity- Key Financials

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	551.35	417.08
Total Income*	Rs. Cr.	68.18	53.62
PAT	Rs. Cr.	16.91	14.72
Networth	Rs. Cr.	118.09	73.26
Return on Average Assets (RoAA)	(%)	3.49	3.95
Return on Average Net Worth (RoNW)	(%)	17.68	22.17
Total Debt/Tangible Net Worth (Gearing)	Times	3.55	4.52
Gross NPA	(%)	2.73	2.12
Net NPA	(%)	2.35	1.81

* Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

Annexure- Details of Instruments rated

ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outlook
-	Proposed Bank Facility	-	-	-	17.00	Provisional ACUIE A (CE)/Stable (Assigned)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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