

Press Release

Berar Finance Limited

January 13, 2021

Rating Reaffirmed & Assigned



Total Proposed Term Loan Facilities Rated*	Rs.82.00 Cr.
Long Term Rating	ACUITE BBB+/Stable (Assigned)
Long Term Rating	ACUITE A(CE)/Stable (Assigned: Converted from Provisional to Final)

* Refer Annexure for details

Rating Rationale

Acuite has assigned a long term rating of '**ACUITE BBB+**' (read as **ACUITE BBB plus**) to the Rs.65.00 Cr. bank facilities of Berar Finance Limited (BFL). The outlook is '**Stable**'.

Further, Acuite has assigned a final rating of '**ACUITE A(CE)**' (read as **ACUITE A(Credit Enhancement)**)' on the Rs.17.00 Cr. bank facilities of BFL. The outlook is '**Stable**'. The conversion from provisional rating to the final rating reflects the fulfilment of the conditions laid out in the press release dated November 10, 2020.

The ratings reflect BFL's established presence of nearly three decades in the two wheeler finance segment and its adequate capital position strengthened by a series of capital infusions (Rs.20 Cr in October 2020 and Rs.30 Cr. in FY2020) from a marquee investor.

These strengths are partly offset by the geographical concentration in its lending portfolio (Maharashtra accounting for 62% of the total portfolio as on September 30,2020) and the increased asset quality risks (GNPA at 2.79% as on September 30,2020) due to the economic impact of the Covid-19 pandemic.

About Berar Finance Limited (BFL)

Incorporated in 1990, BFL is a Nagpur based Deposit-taking, Non-banking financial company registered with RBI effective 1998. The company is primarily engaged in financing of two wheelers, used cars, commercial vehicles, personal loans, trade loans and agri loans. The company operates in six states namely Maharashtra, Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka through a network of 71 branches and reported AUM of Rs.537 Cr. as on September 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 highquality 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

Acuite has assigned differential ratings based on the structure and stipulations of the lenders in respect of each facility. In respect of one of the facilities, which includes Partial Credit Enhancement (PCE) in the form of a partial guarantee from Northern Arc Capital Limited ("Northern Arc"), Acuite has considered a notch up from the standalone rating. Acuite has considered the standalone financial and business risk profile of BFL to arrive at the standalone rating in respect of the proposed bank facilities.

Standalone/Unsupported Rating

ACUITE BBB+/Stable

Key Rating Drivers

Strengths

- **Strength of underlying structure in respect of one of the rated instruments:**

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.

Acuite 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 area of operations:**

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's operations are spread across six states namely Maharashtra, Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka and open through a network of 71 branches as on September 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) stood at Rs.537 Cr. as on September 30,2020 as against Rs.475 Cr. as on March 31, 2020 and Rs.364 Cr. as on March 31, 2019. Of the overall AUM as on September 30, 2020, two wheeler financing contributed 88 percent followed by two-wheeler refinancing 5 percent, used car financing 5 percent and balance 2 percent by personal loan, commercial vehicle financing, trade loan and agri-loan put together. 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.

Acuite 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's 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

• Moderate asset quality:

BFL is primarily engaged in the financing of primarily engaged in financing of two wheelers, used cars, commercial vehicles, personal loans, trade loans and agri loans, with two-wheeler financing continuing to be the primary segment (88% of the portfolio as on September 30, 2020) having average ticket size of about Rs.52,000 and average tenor of 25 months. BFL's asset quality witnessed 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. GNPA slipped further to 2.79% as on September 30,2020. 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. Furthermore, collections for the month of September 2020 and October 2020 stood at Rs.31 Cr. and Rs.33 Cr. respectively, resulting in collection efficiency of 76% and 81%. Also, 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.

Acuite 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 71 branches as on September 30,2020. 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 62% of the AUM as on September 30,2020, though declining from 73% as on March 31,2018.

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 reported unencumbered cash and bank balances of about Rs.108 Cr. as on October 31, 2020 against obligations (Debt servicing obligations, PTC and operating expense) stood at about Rs.90 Cr. till February 28, 2021. Further, collection efficiency (amount collected as against scheduled collections) has also gradually recovered to 81% in October 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.	18.06	14.72
Networth	Rs. Cr.	118.09	73.26
Return on Average Assets (RoAA)	(%)	3.73	3.95
Return on Average Net Worth (RoNW)	(%)	18.88	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>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10 th November, 2020	Proposed BLR	Long Term	17.00	Provisional ACUITE A(CE)/Stable (Assigned)

***Annexure – Details of instruments rated**

Facilities	Bank/FI	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs Cr.)	Ratings/Outlook
Term Loan	Hinduja Leyland Finance	7-11-2020	Not available	7-11-2023	17.00	ACUITE A(CE)/Stable (Assigned: Converted from Provisional to Final)
Proposed Term Loan	-	Not available	Not available	Not available	65.00	ACUITE BBB+/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 8,000 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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