

Press Release

Berar Finance Limited

March 15, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.00	ACUITE A CE Positive Reaffirmed	-
Bank Loan Ratings	50.00	ACUITE BBB+ Positive Assigned	-
Bank Loan Ratings	65.00	ACUITE BBB+ Positive Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	132.00	-	-

Rating Rationale

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

Acuite has assigned the long term rating of '**ACUITE BBB+**' (read as **ACUITE Triple B plus**) to the Rs.50.00 Cr. bank facilities of Berar Finance Limited (BFL). The outlook is '**Positive**'.

Further, Acuite has reaffirmed the long term rating of '**ACUITE A(CE)**' (read as **ACUITE A(Credit Enhancement)**) on the Rs.17.00 Cr. partially credit enhanced loan facilities of BFL. The outlook is '**Positive**'.

Rating Rationale

The rating continues to take into account BFL's experienced management, support from marquee investors, comfortable resource raising ability and increased scale of operations. BFL's AUM grew from Rs 684.76 Cr as on March 31,2021 to Rs 1000.24 Cr as on December 31,2022 on account of healthy disbursements. The company has adequate capital position strengthened by a series of capital infusions from marquee investors. BFL received a capital infusion of ~100 crore from Amicus Capital and Maj Invest in FY2022. The rating has also depended on the BFL's established presence of nearly three decades in the two-wheeler finance segment aided by healthy resources raising ability and comfortable capitalization levels. BFL's CAR stood at 24.81 percent as on December 31,2022 which improved from 20.46 percent as on March 31,2021. While Acuite takes cognizance of challenges in the two-wheeler segment, BFL has shown consistent improvement in disbursal volumes and profitability metrics. BFL's PAT stood at Rs 17.56 Cr. for FY2022 as compared to Rs 15.38 Cr. for FY2021. Further, the PAT stood at Rs. 15.82 Cr for 9MFY23. These strengths are partly offset by the geographical concentration in its lending portfolio (Maharashtra accounting for 48% of the total portfolio followed by Chhattisgarh with 20% of the total portfolio as on September 30,2022) and deterioration in asset quality with GNPA 4.18 percent as on December 31, 2022 as against 2.16 percent as on March 31,2022.

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. BFL is promoted by Mr. M G Jawanjar and Mr. Sandeep Jawanjar among others. The company operates in six states namely Maharashtra, Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka through a network of 116 branches and reported AUM of Rs 923.96 Cr. as on September 30, 2022.

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 business is categorized as finance sector exposure, i.e., microfinance, affordable housing finance, commercial vehicle finance, consumer finance, agri-finance and small business loans, and non-finance sector exposure, i.e., mid-market finance and corporates. Northern Arc reported Assets Under Management (AUM) of Rs. 6874 Cr. as on March 31, 2022, as against Rs. 5,220.87 Cr. as on March 31, 2021. Northern Arc's asset quality improved with GNPA (90+dpd) at 0.51% as on March 31, 2022 as against 2.23% as on March 31, 2021. The company's Profit After Tax (PAT) stood at Rs. 163.73 Cr for the period ending FY2022 (Rs. 67.51 Cr as of FY2021). The company's debt/equity ratio was 2.53 times as on March 31, 2021 as Acuité Ratings & Research Limited www.acuite.in compared to 1.96 times as on March 31, 2020. However, the debt/equity ratio increased to 3.50 times as on March 31, 2022.

Standalone (Unsupported) Rating

ACUITE BBB+/Positive

Analytical Approach

Acuité 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"), Acuité has considered a notch up from the standalone rating. Acuité has considered the standalone financial and business risk profile of BFL to arrive at the standalone rating in respect of the proposed bank facilities.

Key Rating Drivers

Strength

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.

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 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 116 branches as on September 30, 2022. 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. 850.82 Cr as on March 31, 2022 as against Rs 684.76 Cr as on March 31, 2021. The AUM further grew to Rs 923.96 Cr as on September 30, 2022. (Rs 1000.24 Cr as on December 31, 2022). Of the overall AUM as on September 30, 2022 two wheeler financing contributed 94.76 percent followed by two-wheeler refinancing 3.16 percent, used car financing 1.52 percent and balance 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, FIs including NBFCs and Deposits. BFL has a total outstanding borrowings of Rs 848.15 Cr as on December 31, 2022.

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's capital position in FY2022 strengthened on account of capital infusion of ~Rs 100 Cr. from two investors. (Maj Invest (new investor) and Amicus Capital Partners (existing investor)). Maj Invest is one of Denmark's leading asset management companies and Amicus Capital Partners a Private Equity Firm, having portfolio companies in Banking, Financial Services and Insurance (BFSI) and Consumer space. The capital infusion resulted in improved leverage of 2.91 times as on March 31, 2022 from 4.93 times as on March 31, 2021 and Capital Adequacy Ratio (CAR) improved to 28.84 % as on March 31, 2022 from 20.46 % as on March 31, 2021.

Acuité believes that BFL's growth momentum would be supported by the timely capital infusions from its existing and new investors.

Weakness

Deterioration in asset quality

BFL is 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 (94.76 % of the portfolio as on September 30, 2022) having average ticket size of about Rs. 60,000 and average tenor of 25 months. BFL's asset quality witnessed a deterioration as reflected in Gross NPA (90+ dpd) of 4.18 percent as on December 31, 2022 as against 2.16 % as on March 31, 2022. 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. Furthermore, total collections until November 2022 stood at ~ Rs 574 Cr, resulting in total collection efficiency of 85.69 percent for 9 months ended December 2022. 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.

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 116 branches as on September 30,2022. 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 ~48 percent of the AUM as on September 30,2022 , though declining from 73% as on March 31,2018. Acuite believes that the company's ability to maintain the profitability metrics and subsequently expand to newer geographies will be a key monitorable.

Assessment of 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.

ESG Factors Relevant for Rating

BFL belongs to the NBFC sector which continues to complement the efforts of banks in enhancing small ticket retail lending in India. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. The entity has made adequate disclosures regarding its policies on related party transactions, vigil mechanism and whistle blowing. The board of directors consist of 3 independent directors out of a total of 9 directors. MFL aims to enable people to fulfil their ambition of owning their own vehicle. BFL have made a mark by being completely ethical and transparent in all dealings and ensuring that customers are satisfied by services at all times. BFL also supports community development through CSR projects.

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. Also, the Credit Enhancer (Northern Arc) shall at all times until the discharge date ensure that its Capital Adequacy Ratio is at least 15%.

Liquidity Position Adequate

BFL's liquidity profile as on December 31,2022 is well managed with no negative cumulative mismatches in the near to medium term bucket. The company reported unencumbered cash and bank balances of about Rs.78.70 Cr. as on December 31,2022.

Outlook - Positive

Acuite believes that the rating on the loan facility will maintain a 'Positive' outlook over the near to medium owing to BFL's established presence in two wheeler financing business along with its healthy capital position. The rating could be upgraded 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 'Stable' in case of any sharp deterioration in its asset quality and profitability levels.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs.	1038.43	886.72
Total Income*	Rs. Cr.	85.39	67.33
PAT	Rs. Cr.	17.42	15.38
Net Worth	Rs. Cr.	259.14	146.42
Return on Average Assets (RoAA)	(%)	1.81	2.14
Return on Average Net Worth (RoNW)	(%)	8.59	11.95
Debt/Equity	Times	2.91	4.93
Gross NPA	(%)	2.16	2.52
Net NPA	(%)	1.36	1.72

*Total income equals to Net Interest Income plus other income

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

ICRA Limited vide its press release dated October 27, 2022 had denoted the rating of Berar Finance Limited (BFL) as "ISSUER NOT CO-OPERATING".

Any other information

Not applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Jul 2022	Term Loan	Long Term	17.00	ACUITE A (CE) Positive (Reaffirmed)
	Proposed Term Loan	Long Term	65.00	ACUITE BBB+ Positive (Reaffirmed)
13 Jan 2021	Term Loan	Long Term	17.00	ACUITE A (CE) Stable (Assigned)
	Proposed Term Loan	Long Term	65.00	ACUITE BBB+ Stable (Assigned)
10 Nov 2020	Proposed Bank Facility	Long Term	17.00	ACUITE Provisional A(CE) Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	65.00	ACUITE BBB+ Positive Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE BBB+ Positive Assigned
Hinduja Leyland Finance Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	17.00	ACUITE A CE Positive Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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