



Press Release
Berar Finance Limited
September 14, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.00	ACUITE A CE Negative Reaffirmed Positive to Negative	-
Bank Loan Ratings	115.00	ACUITE BBB+ Negative Reaffirmed Positive to Negative	-
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.115.00 Cr. bank facilities of Berar Finance Limited (BFL). The outlook is revised from '**Positive**' to '**Negative**'.

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 revised from '**Positive**' to '**Negative**'.

Reasons for revisions in Outlook

The revision in the outlook is primarily on account of BFL's continued asset quality stress and its resultant impact on the credit and financial profile of the company. The company continued to report higher delinquencies; the GNPA stood at 4.67 percent (PAR 90 GNPA: 3.27 percent) as on March 31, 2023 as compared to 3.05 percent (PAR 90 GNPA: 2.16 percent) as on March 31, 2022. The GNPA levels further deteriorated to 6.09 percent (PAR 90 GNPA: 4.56 percent) as on June 30, 2023. The rating also takes into account a marginal decline in the company's financial profile with stagnancy at the PAT levels, BFL's PAT marginally declined to Rs 17.08 Cr as on March 31, 2023 as compared to Rs 17.42 Cr as on March 31, 2022. The company reported a PAT of Rs. 4.98 Cr in Q1FY24. The rating continues to derive strength from BFL's experienced management, support from marquee investors, comfortable resource raising ability and increased scale of operations. Going forward, the company's ability to raise capital (both equity & debt), maintain capitalization & liquidity buffers, and contain delinquencies across different time buckets and its resultant impact on profitability metrics would remain key monitorables.

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 reported AUM of ~Rs 946 Cr. as on June 30, 2023.

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+/Negative

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 June 30, 2023. 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. 964.33 Cr as on March 31, 2023 as

against Rs 850.82 Cr as on March 31, 2022. The AUM further stood at Rs 945.69 Cr as on June 30, 2023.

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. Further, the CAR stood at 27.52 percent as on June 30, 2023.

Acuite 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 & subdued earning profile

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 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 of 4.67 percent as on March 31, 2023 as against 4.32 percent as on March 31, 2022. The GNPA levels further deteriorated to 6.09 percent as on June 30, 2023.

During FY2023, BFL's PAT marginally declined to Rs 17.08 Cr as on March 31, 2023 as compared to Rs 17.42 Cr as on March 31, 2022. The company reported a PAT of Rs. 4.98 Cr in Q1FY24. 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. The company's current month collection efficiency averaged ~86 percent for last 6 months ended June 30, 2023.

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 June 30, 2023. 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 ~45 percent of the AUM as on June 30, 2023, 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, Acuité 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

All Covenants

- a. Maximum permissible ratio of Par > 90 net off Loan Loss Provisions (on the Borrower's entire portfolio including receivables sold or discounted on a non-recourse basis) to Tangible Networth shall be 20.00% (Twenty Point Zero Zero percent).
- b. The ratio of Portfolio at Risk > 90 days and write-offs (including managed portfolio) in a financial year to the outstanding principal value of the total loan receivables ("AUM") to not exceed 4 %.
- c. Minimum capital ratio of Tier I Capital and Tier II Capital to aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items shall not be less than 17 % (Seventeen point zero per cent) or as per the regulatory minimum prescribed by the Reserve Bank of India under the NBFC Master Directions, whichever is higher.
- d. The Credit Enhancer shall at all times until the Discharge Date ensure that its Capital Adequacy Ratio is at least 15% (Fifteen percent).

Liquidity Position Adequate

BFL's liquidity profile as on June 30, 2023 is well managed with no negative cumulative mismatches in the near to medium term bucket. The company reported cash and bank balances of about Rs.109 Cr. as on June 30, 2023.

Outlook - Negative

Acuité believes that BFL's credit profile will be under pressure on account of significant impairment in asset quality and profitability levels. The outlook may be revised to 'Stable' in case BFL is able to demonstrate a significant improvement in scale of operations while mitigating the asset quality risks in its portfolio. The rating may be downgraded if the company faces challenges in raising fresh equity or long term debt funding commensurate with its near term business requirements and higher than expected deterioration in asset quality/ profitability. Any further decline in AUM or capitalisation will also impart a negative bias to the rating.

Other Factors affecting Rating None

Key Financials - Standalone / Originator

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets	Rs. Cr.	1141.08	1038.42
Total Income*	Rs. Cr.	118.02	85.39
PAT	Rs. Cr.	17.08	17.42
Net Worth	Rs. Cr.	275.24	259.14
Return on Average Assets (RoAA)	(%)	1.57	1.81
Return on Average Net Worth (RoNW)	(%)	6.39	8.59
Debt/Equity	Times	3.00	2.91
Gross NPA	(%)	4.67	3.05
Net NPA	(%)	3.03	2.25

*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

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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 Mar 2023	Proposed Term Loan	Long Term	65.00	ACUITE BBB+ Positive (Reaffirmed)
	Proposed Term Loan	Long Term	50.00	ACUITE BBB+ Positive (Assigned)
	Term Loan	Long Term	17.00	ACUITE A (CE) Positive (Reaffirmed)
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 Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE BBB+ Negative Reaffirmed Positive to Negative
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	65.00	ACUITE BBB+ Negative Reaffirmed Positive to Negative
Hinduja Leyland Finance Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	17.00	ACUITE A CE Negative Reaffirmed Positive to Negative

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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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