

Press Release

Livfin India Private Limited

July 01, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	Provisional ACUITE A- CE Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	10.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE Provisional A- (CE)**' (read as **ACUITE Provisional A minus (Credit Enhancement)**) on the Rs.10.00 Cr. proposed partially credit enhanced term loan facility of LivFin India Private Limited (LFIPL). The outlook is '**Stable**'.

The rating factors in the experienced management team, increased scale of operations and healthy asset quality. The company's scale of operations has grown significantly with rise in AUM from Rs.184.84 Cr. as on March 31, 2021 to Rs.401.22 Cr. as on March 31, 2022. The disbursements grew steadily with total disbursements for FY22 amounting to Rs.931.45 Cr. as against Rs.554.95 Cr. in FY21. The on-time portfolio (on-book) improved to 91.54 percent as on March 31, 2022 as against 83.35 percent as on March 31, 2022. The GNPA and NNPA improved to 2.85 percent as on March 31, 2022 and 2.29 percent respectively as against 6.24 percent and 5.61 percent as on March 31, 2021 respectively.

These strengths are however partially offset by moderate resource profile and subdued profitability metrics. The company reported a loss of Rs. 1.47 Cr. in FY22 (provisional) as compared to a loss of Rs. 4.54 Cr. in FY21.

Acuite believes that the company's ability to raise capital as well as its ability to improve profitability while maintaining healthy asset quality, will be key monitorables.

The Rs 10.00 Cr. transaction has a Partial Credit Enhancement (PCE) in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 18 percent of the issue size of debentures. The level of guarantee as a percentage of the aggregate outstanding principal of the debentures is, however, capped at 25 percent.

If due to the amortization of the debentures, the credit enhancement percent exceeds 25 percent of the aggregate outstanding principal of the debentures, the Guarantee Cap shall be reduced to 25 percent of the aggregate outstanding principal of the debentures (Revised Guarantee Cap).

The rating on the Rs. 10.00 Cr. proposed term loan (partial credit guarantee) is provisional and the final rating is subject to execution of following documents:

1. Debenture Trusteeship Agreement/CPA Agreement
2. Deed of Guarantee
3. Deed of Hypothecation

About the company

Delhi based, LivFin India Private Limited (LFIPL) is a RBI registered tech based NBFC which commenced operations in 2017. It uses a Anchor based financing model, forming partnerships with mid to large corporates and setting up lending programmes for their suppliers/vendors and distributors/dealers. They also provide invoice finance solutions for MSMEs through short-term business loans to help enterprises procure working capital for critical supply chain operations. LFIPL has an active borrower base of 435 borrowers and Assets Under Management (AUM) of Rs. 401.22 Cr. as on March 31, 2022.

About the Guarantor

Northern Arc, previously known as IFMR Capital Finance Ltd., is a Non-Deposit taking NonBanking 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 percent as on March 31, 2022 as against 2.23 percent 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 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.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of LFIPL, the shadow rating of LFIPL (ACUITE BBB/ Stable), and has further factored the credit enhancement arising from the structure. The suffix (CE) indicates credit enhancement arising from the 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. Accounting for the Partial Credit Enhancement, the agency has enhanced the rating of the facility to ACUITE A- (CE)/ Stable. The Credit Enhancement (CE) in the rating is solely for the rated issue and its terms and structure. The notched-up rating of the proposed loan facility incorporates the PCE in the form of guarantee by Northern Arc Capital Limited ("Northern Arc"), acting as the Credit Enhancer/ Guarantor.

Standalone/Unsupported rating - (LFIPL)

ACUITE BBB/ Stable

Key Rating Drivers

Strength

Strength of underlying structure

The Rs 10.00 Cr. transaction has a PCE in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 18 percent of the issue size of debentures. The level of guarantee as a percentage of the aggregate outstanding principal of the debentures is, however, capped at 25 percent. If due to the amortization of the debentures, the credit enhancement percent exceeds 25 percent of the aggregate outstanding principal of the debentures, the Guarantee Cap shall be reduced to 25 percent of the aggregate outstanding principal of the debentures (Revised Guarantee Cap).

LFIPL shall make payments of interest and principal amounts due along with all other obligations (if any) under the Transaction Document on T-5 business days. In the event of failure of the Issuer to comply, on T-3 Business Days, the Trustee shall invoke the PCE and the

credit enhancement shall be dipped on T-1 Business days. The Debentures shall be secured by way of a first ranking, exclusive and continuing charge on identified receivables. The Hypothecated Receivables shall always be equal to the value of 1.1 times the outstanding amounts of the facility. In case of Issuer rating (as per Rating Agency's view) downgrade to below BB+, it will constitute as a Trigger Event. Upon the occurrence of any Trigger Event, LFIPL shall transfer the collections from the Hypothecated Property to the Collection and Payment Account on a weekly basis and such collections would be applied in the following order of priority:

(a) firstly, towards repayment of principal and interest due and payable in relation to the Facility; and

(b) lastly, towards accelerated payment of principal on the Facility.

Also, LFIPL shall replace all such loans constituting the Hypothecated pool that does not qualify with the current loans criteria. Hence, all the loans in the hypothecated pool shall always remain current.

Acuité believes that the structure provides adequate covenants to safeguard the interest of the investors.

Experienced management team coupled with seasoned promoters

LivFin India Private Limited (LFIPL) has a strong promoter backing and experienced management team. The company is promoted by investment trusts of Mr. Rakesh Malhotra and Mr. Navneet Kapoor (RMIT & NKIT respectively). Mr. Malhotra and Mr. Kapoor have also co-founded companies such as Luminous Power Technologies, Livguard Energy Technologies, LivPure, LivGreen among others under the SAR group. In January 2018, they purchased Docile FinCap Private Limited and rebranded it as LivFin India Private Limited. Initially, the company served as a channel financing partner for LivGuard, but it soon expanded to serve clients from a variety of other industries which has helped scale up its business operations significantly. The day-to-day operations are led by CEO Mr. Rahul Chander and his team of seasoned professionals with expertise in banking, financial and investment banking services. Mr. Chander has over 3 decades of experience in Banking, Advisory and Investments.

Acuité believes that the company's growth prospectus will be supported by the management's experience in the financial services sector.

Increased Scale of Operations

The company's scale of operations has grown significantly with rise in AUM from Rs.184.84 Cr as on 31st March 2021 to Rs.401.22 Cr as on 31st March 2022. The disbursements grew steadily with total disbursements for FY22 amounting Rs.931.45 Cr as against Rs.554.95 Cr in FY21. The company's top 3 product segments include Supplier Finance, Purchase Invoice Finance and Distributor Purchase Finance, whereby, as on March 31, 2022, Supplier Finance contributes ~40 percent of the on-book portfolio followed by Purchase Invoice Finance (~24 percent of the onbook portfolio) and Distributor Purchase Finance (~20 percent of the onbook portfolio). The company caters to a total of 22 states as of March 31, 2022.

The company is focusing on industries such as Battery Storage & Energy, Agri Business/Food, E-commerce, Consumer Electricals & Dairy products which in total account for ~67 percent of its onbook portfolio.

Acuité believes that company has healthy diversification across business segments and industries and will continue to benefit from such arrangements going forward.

Moderate asset quality; albeit improving

LFIPL is engaged in providing supply chain financing to MSME's in various industries. As per the business model, LivFin is maintaining the FLDG to the extent of ~21 percent of AUM for vendor financing as well as distributor channel financing as on March 31, 2022. This arrangement provides some buffer against credit losses. As per the transactional track record, the delinquencies in this segment have been minimal. The on-time portfolio (on-book) as on March 31, 2022 stood at 91.54 percent which has improved since March 31, 2021 (83.35 percent). The GNPA and NNPA as on March 31, 2022 stood at 2.85 percent and 2.29 percent respectively as against 6.24 percent and 5.61 percent as on March 31, 2021. The Gross NPA is primarily made up of a legacy account, which is a term loan to Cafe Coffee Day and is likely to be recovered in the medium term. This recovery would provide a substantial boost to the

overall asset quality of the company.

Acuite believes that the company's ability to contain asset quality pressures while maintaining its profitability parameters will be a key rating monitorable.

Weakness

Subdued Profitability metrics

The company commenced operations in 2017 and has been able to scale up its operations with significant growth in AUM in FY22. However, profitability is yet to be achieved. The losses stood at Rs. 1.47 Cr for FY22 (provisional) as against the losses amounting to Rs. 4.67 Cr for FY21. The quantum of losses has narrowed and is expected to further reduce on account of rationalization of key expenses in view of its tech-based lending model.

Acuite believes that the ability of LFIPL to profitably scale-up operations while improving its earnings metrics will be key rating sensitivity.

Modest Resource Profile

LFIPL's networth stood at Rs. 60.52 Cr as on March 31, 2022 as against Rs. 61.98 Cr as on March 31, 2021. The reduction in networth is on account of operating losses incurred during the year. LFIPL has been able to obtain funding in the form of CCPS from DEG (a development financial institution in Germany and a subsidiary of KfW Group) to the tune of Rs. 35 Cr. in FY21. Overall CAR as on March 31, 2022 stood at 18.67 percent against 41.50 percent as on March 31, 2021. CAR remains moderate due to subsequent growth in the loan portfolio in FY22. The gearing levels stood at 3.21 times as on March 31, 2022. To aid the growth momentum, the company is in talks for capital infusion in medium term.

As on March 31, 2022 the company's outstanding borrowings stood at Rs. 194.32 Cr. Majority of the funding remains with medium and large NBFCs and some banks. The company's debt constitutes term loans, WCDL and CC facilities from Banks (~14 percent) NBFCs (~70 percent), NCD's (~7 percent) and Commercial paper (~7 percent), where the dependency on NBFCs is higher. Subsequently, giving rise to the cost of borrowing for the company.

Acuite believes, the ability of the company to mobilize additional funding along with capital support will be a key factor in facilitating business scalability.

Assessment of Adequacy of Credit Enhancement

LFIPL has moderate experience in the MSME segment, and, backed by capital infusions in FY21, its capital position remains adequate for its current scale of operations. Going forward, the ability of the company to mobilize additional funding along with capital support will be a key monitorable. Thus, even after considering risks such as 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.

The credit enhancement in the Rs. 10 Cr. instrument, with Northern Arc as the guarantor, is adequate. The transaction has a PCE in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 18 percent of the issue size of debentures. The level of guarantee as a percentage of the aggregate outstanding principal of the debentures is, however, capped at 25 percent.

Rating Sensitivity

- Ability to raise capital, both debt and equity
- Movement in asset quality
- Movement in profitability metrics

Material Covenants

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

Liquidity Position: Adequate

LFIPL has adequately matched asset-liability profile as on March 31, 2022 with no negative cumulative mismatch in near to medium term. The borrowings of the company are long term in nature and advances being short-tenured provides the liquidity buffer to certain extent.

The company had outstanding borrowings of Rs. 194.32 Cr as on March 31, 2022. The borrowings constitute Term Loans, CC's, WCDLs, NCD, and Commercial Paper. As on March 31, 2022 the company had cash and bank balances of around 10.92 Cr with unutilized CC/WCDL facilities of 6 Cr.

Outlook : Stable

Acuité believes that LFIPL will maintain 'Stable' outlook over the near to medium term owing to established track record of promoters and demonstrated growth in loan portfolio. The outlook may be revised to 'Positive' in case LFIPL demonstrates significant and sustainable growth in its scale of operations while mitigating asset quality risks in portfolio. Conversely, the outlook may be revised to 'Negative' in case of any challenges faced in scaling up operations, resource raising ability and in case of any sharp deterioration in asset quality and profitability levels.

Other Factors affecting Rating

Not Applicable

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Provisional)	FY21 (Actual)
Total Assets	Rs. Cr.	350.54	179.98
Total Income*	Rs. Cr.	13.99	8.15
PAT	Rs. Cr.	(1.47)	(4.54)
Net Worth	Rs. Cr.	60.52	61.98
Return on Average Assets (RoAA)	(%)	(0.55)	(2.66)
Return on Average Net Worth (RoNW)	(%)	(2.39)	(9.72)
Debt/Equity	Times	3.21	1.49
Gross NPA (Owned Portfolio)	(%)	2.85	6.24
Net NPA (Owned Portfolio)	(%)	2.29	5.61

*Total income equals to Net Interest Income plus other income.

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

Not Applicable

Any other information

Supplementary disclosures for Provisional Ratings Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuité will withdraw the existing provisional rating and concurrently assign a fresh final rating in the same press release, basis the revised terms of the transaction.

Rating that would have been assigned in absence of the pending steps/documentation

The structure would have become null and void for the instrument. The rating of the instrument would have been equated to the standalone rating of the issuer (ACUITE BBB/ Stable).

Timeline for conversion to Final Rating for a debt instrument proposed to be issued

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

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

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

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	Provisional ACUITE A- CE Stable Assigned

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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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