

Press Release

Amrit Malwa Capital Limited

November 29, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.00	ACUITE BBB+ CE Stable Assigned Provisional To Final	-
Non Convertible Debentures (NCD)	25.00	PP-MLD ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	32.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has converted from provisional to final the long term rating of '**ACUITE BBB+ (CE)**' (read as **ACUITE triple B plus (Credit Enhancement)**) on the Rs.7.00 Cr. partially credit enhanced term loan facilities of Amrit Malwa Capital Limited (AMCL). The outlook is '**Stable**'. Acuite has reaffirmed long term rating of '**ACUITE PP-MLD BBB-**' (read as **ACUITE PP-MLD triple B Minus**) on the Rs. 25.00 Cr. PP-MLD facilities of Amrit Malwa Capital Limited (AMCL). The outlook is '**Stable**'.

Rationale for the rating

The rating factors in experienced management team with diversified experience as well as adequate liquidity and healthy asset quality. The rating factors in AMCL's moderate capitalisation levels at 22.99% as on March 31, 2022 coupled with its demonstrated ability in raising funds. The rating however constrained by small scale of operations and profitability. The company's PAT stood at Rs.4.84 Cr. as on March 31, 2022. Going forward, AMCL's ability to improve earnings profile, strengthen its capitalization levels while growing portfolio would be key monitorables.

The Rs. 7.00 Cr. transaction has Partial Credit Enhancement (PCE) in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc (Credit Enhancer/ Guarantor) covering 15% 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 25%. Additionally, the facility has security in the form of exclusive first charge on identified book debts and receivables with 110% margin in favour of the lender. AMCL shall make payments of interest and principal amounts due along with all other obligations (if any) under the Facility Documents by T-5 business days. In case of non-payment by AMCL, the Guarantors shall be severally and jointly liable to make the payments by the due date. The final rating is assigned based on the fulfilment of the structure, terms and covenants detailed in the executed trust deed, deed of guarantee, legal opinion, debenture trust agreement, deed of hypothecation and other documents relevant to the transaction.

About the company

Amrit Malwa Capital Ltd. is a deposit taking NBFC based out of Jalandhar, Punjab. The company focuses on financing two wheelers and E-rickshaws and operate in rural and

semiurban Punjab and three other northern states and one UT namely Rajasthan, Chandigarh, Himachal Pradesh and Haryana through a network of 38 branches, as on June 2022.

Amrit Group was a group of three NBFCs, promoted by Col. Joginder Singh Gill in 1987 post his retirement from the army. Within a span of three year his son Mr. Ajit Pal Singh Gill, current MD, joined the business. The promoters incorporated two NBFCs initially with an objective to attract more deposits from clients. Having two NBFCs was considered to be more tax efficient by the depositors also. With no such incentives available now once the deposit taking facility was discontinued in 2016, the two entities Amrit Hire Purchase and Malwa Ludhiana Motor Finance decide to merge themselves into one big entity forming Amrit Malwa Capital Limited. The Two entities got its merger approval in May'18. The other entity in the group is Amrit CIC which acts as a holding company.

AMCL's AUM as on March 31, 2022 stood at Rs. 315.40 cr. (Rs. 222.62 cr. as March 31, 2021). The AUM comprised of owned portfolio of Rs. 259.07 cr. (82.14 percent of AUM) and managed portfolio of Rs. 56.33 cr. (17.86 percent of AUM) as on March 31, 2022.

About Northern Arc Capital Limited ("Northern Arc")

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 highquality 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 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 AMCL for the Rs. 25.00 Cr. NCD facilities, the rating of AMCL (ACUITE BBB-/ Stable), and has further factored in the credit enhancement arising from the structure for the Rs. 7.00 Cr. Bank Loan Facilities. The suffix (CE) indicates credit enhancement arising from the PCE in the form of unconditional, irrevocable, payable on demand guarantee covering 15% 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 BBB+ (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 loan facility incorporates the PCE in the form of guarantee by Northern Arc Capital Limited ("Northern Arc"), acting as the Credit Enhancer/ Guarantor.

Standalone Rating without CE support : Acuite BBB-/Stable

Key Rating Drivers

Strength

Strength of underlying structure

The Credit Enhancer shall provide PCE, favouring AMCL in the form of an unconditional, irrevocable guarantee that covers 15% to the extent of Guarantee Cap guaranteeing the repayment of principal and payment of interest amounts in relation to the facility. If due to the amortisation of the facility, the credit enhancement % becomes greater than 25% of the aggregate outstanding principal of the facility, the Guarantee Cap shall be reduced to 25% of the aggregate outstanding principal of the facility (Revised Guarantee Cap).

Borrower shall make payments of interest and principal amounts due and payable under the Facility Agreement into the Collection and Payment Account, opened and maintained

by the Collection and Payment Agent by 4 PM IST, 5 (five) Business Days prior to due date (i.e., T5 Business Days). In case of non-payment by Borrower as stipulated above, Collection and Payment Agent shall on the same day, i.e., on the T-5 Business Day invoke the guarantees extended by the Guarantors and require the Guarantors to pay such amounts by 4 PM IST, 4 (four) Business Days prior to due date (i.e., T-4 Business Days) and Guarantors shall be jointly and severally liable to make such payment within the said timeline.

In case of non-payment by the Borrower and the Guarantors as stipulated above, the Collection and Payment Agent shall on T-3 Business Days invoke the PCE and send a notice of 2 (Two) Business Day to the Credit Enhancer to make payments. Credit Enhancer shall make payment on T-1 Business Day (i.e. one day prior to the interest or principal due date) into the Collection and Payment Account.

The facility has security in the form of exclusive first charge on identified book debts and receivables with 110% margin in favour of the lender. The security cover will be met from the date of disbursement of the facility. In case of AMCL senior secured long term rating (as per Acuité view) downgrade to below BBB-the Borrower shall transfer the collections from the Hypothecated Property to the Collection and Payment Account on a weekly basis and such collections would be applied by the Collection and Payment Agent towards repayment of principal and interest due and payable in relation to the Facility and then towards accelerated payment of principal on the Facility

Acuité believes that the 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 terms and conditions.

Experienced management

AMCL is registered with Reserve Bank of India (RBI) as a deposit taking Non Banking Finance Company. Amrit Group was a group of three NBFCs, promoted by Col. Joginder Singh Gill in 1987. In 2016, the two entities Amrit Hire Purchase and Malwa Ludhiana Motor Finance decide to merge themselves into one big entity forming Amrit Malwa Capital Limited. The Two entities got its merger approval in May'2018.

Mr. Ajit Pal Singh Gill, current MD and son of Col. Joginder Singh Gill, joined the business in 1990. He has three decades of experience in financial services and more than two decades of experience in two-wheeler financing. Mr. Jasvir Singh, who is in charge of maintain asset quality, is a whole time director having more than two decades of experience in financial services.

Mr. Swinder Singh, working in the capacity of Independent Director, has served in Punjab Police for about 40 years and retired as commandant. His in depth knowledge of Punjab geography and guidance in framing recovery policies of the company proves to be an asset for the organization. Mr. Jagdeep Sing Gill, who has experience in banking and marketing is a Non Executive Director in the company. Mr. Rajesh Mehta, CFO, has an experience of over two decades with the company.

Mr. Ajit Pal Singh Gill and family hold ~28% in AMCL. The total promoter holdings of the company stood at ~72% as on March 31, 2022.

AMCL's AUM as on March 31, 2022 stood at Rs. 315.40 cr. (Rs. 222.62 cr. as March 31, 2021). The AUM comprised of owned portfolio of Rs. 259.07 cr. (82.14 percent of AUM) and managed portfolio of Rs. 56.33 cr. (17.86 percent of AUM) as on March 31, 2022.

Healthy Asset Quality

The prudent policies by the management have helped AMCL in maintain healthy asset quality. The GNPA (90+) reduced to 2.57%(Acuite Calculation)in March 31, 2022 from 2.92% (Acuite calculation) on March 31, 2021. Moreover, ~98% of the portfolio has ticket size less than ~Rs.0.02Cr. providing high granularity to the book.

Acuité believes, going forward, the ability of the company to maintain the asset quality while increasing the portfolio will be a key rating monitorable.

Weakness

Moderate Capitalisation Level

The Capital Adequacy Ratio of AMCL stood at 22.99% as on March 31, 2022 as against

27.33% in March 31, 2021. The company was able to raise ~Rs.140 Cr.in FY2022, which along with decrease in capitalization levels led to an increase in gearing to 4.39 times as on March 31, 2022 from 3.84 times in March 31,2021

Geographical Concentration

AMCL started its expansion recently which makes its portfolio highly concentrated in the areas of its initial operation. AMCL's portfolio is highly concentrated in Punjab with ~57% of the portfolio originating from there followed by ~32% from Rajasthan. It makes AMCL vulnerable to policy changes and/or any other changes in the region affecting the business.

Acuité believes that improving the capitalization levels and expanding the business while maintaining the growth in earning profile will be crucial.

Assessment of Adequacy of Credit Enhancement

AMCL has significant experience in the Two wheeler financing segment and has healthy asset quality. Thus 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.

Rating Sensitivity

- Timely infusion of capital
- Movement in asset quality
- Movement in profitability metrics
- Changes in regulatory environment

Material Covenants

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

Liquidity Position

Adequate

AMCL's overall liquidity profile remains adequate with no negative cumulative mismatches in near to medium term as per ALM dated March 31, 2022. The company has cash and bank balances to the tune of Rs. 26.74 Cr. as of June, 2022 and is in talks with new and existing lenders to further aid its disbursements and liquidity.

Outlook : Stable

Acuité believes that the AMCL will maintain a 'Stable' outlook over the medium term supported by future capital infusions and expansion process. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability, asset quality and capitalization indicators. Conversely, the outlook may be revised to 'Negative' in case of challenges in attaining optimal capital support or significantly higher than expected pressure on asset quality or profitability margins.

Other Factors affecting Rating

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Key Financials - Standalone / Originator			
Total Assets	Rs. Cr.	357.76	274.38
Total Income*	Rs. Cr.	30.86	25.09
PAT	Rs. Cr.	4.84	3.27
Net Worth	Rs. Cr.	56.02	51.82
Return on Average Assets (RoAA)	(%)	1.48	1.14
Return on Average Net	(%)		

Worth (RoNW)		8.98	6.55
Total Debt/Tangible Net worth (Geraing)	Times	4.39	3.84
Gross NPA#	(%)	2.57%	2.92%
Net NPA	(%)	1.95%	2.34%

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

Acuite calculation

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

None

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.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
04 Oct 2022	Proposed Principal Protected Market Linked Debentures	Long Term	25.00	ACUITE PP-MLD BBB- Stable (Assigned)
	Term Loan	Long Term	7.00	ACUITE Provisional BBB+(CE) Stable (Reaffirmed)
01 Sep 2022	Proposed Long Term Loan	Long Term	7.00	ACUITE Provisional BBB+(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	INE03XB07333	Principal protected market linked debentures	Not Applicable	Not Applicable	Not Applicable	Complex	25.00	PP-MLD ACUITE BBB- Stable Reaffirmed
Hinduja Leyland Finance Ltd.	Not Applicable	Term Loan	Not available	12.750	Not available	Simple	7.00	ACUITE BBB+ CE Stable Assigned Provisional To Final

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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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