



Press Release
Amrit Malwa Capital Limited
November 29, 2023
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.00	ACUITE A- CE Stable Upgraded	-
Non Convertible Debentures (NCD)	25.00	PP-MLD ACUITE BBB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	32.00	-	-

Rating Rationale

Acuite has upgraded long term rating to **'ACUITE PP-MLD BBB'** (read as **ACUITE PP-MLD triple B**) from **'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'**.

Acuite has upgraded the long term rating to **'ACUITE A- (CE)'** (read as **ACUITE A minus (Credit Enhancement)**) from **'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'**.

Rationale for the upgrade

The rating upgrade reflects the healthy growth in AUM and disbursements and improving financial risk profile of the company. The AUM increased to Rs. 524.3 Cr. as on September 30, 2023 from Rs. 340.5 Cr. as on September 30, 2022 aided by improving disbursement momentum. The company has added 19 branches since FY22. Further, the RoAA for FY23 improved to 1.91 percent from 1.48 percent for FY22. The rating also factors in the experienced management team with diversified experience as well as adequate liquidity and healthy asset quality. The rating however, is constrained by moderate scale of operations and capitalization levels. AMCL's capitalisation levels stood at 23.02 percent as on September 30, 2023 aided by regular capital infusions from promoters. 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 55 branches, as on September 2023. 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 September 30, 2023 stood at Rs. 524 Cr. (Rs. 315.40 Cr. as March 31, 2022). The AUM comprised of owned portfolio of Rs. 455.79 Cr. (87 percent of AUM) as on September 30, 2023.

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 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.

Unsupported Rating

Acuite BBB/Stable

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 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 loan facility incorporates the PCE in the form of guarantee by Northern Arc Capital Limited ("Northern Arc"), acting as the Credit Enhancer/ Guarantor.

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.

Healthy asset quality

The prudent policies by the management have helped AMCL in maintain healthy asset quality. The GNPA and NNPA reduced to 2.79 percent and 2.01 percent as on March 31, 2023 as against 3.00 percent and 2.15 percent as on March 31, 2022 respectively. Moreover, ~98% of the portfolio has ticket size less than ~Rs.0.02 Cr. 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 moderate at 23.02 percent as on September 30, 2023 (22.99 percent as on March 31, 2022; 27.33 percent as on March 31, 2021). The company has raised funds through regular promoter contributions which has helped maintain the CRAR and gearing levels. The gearing moderated to 4.78 times as on March 31, 2023 as against 4.26 times as on March 31, 2022.

Geographical concentration risks

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 ~25 percent from Rajasthan. It makes AMCL vulnerable to policy changes and/or any other changes in the region affecting the business. In FY23, the company added 3 new states namely Haryana, Uttarakhand and Uttar Pradesh. 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; any adverse upward movement in gearing
- Movement in asset quality
- Movement in profitability metrics
- Changes in regulatory environment

All Covenants

Financial Covenants:

1. 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 15.00 percent or as per the regulatory minimum prescribed by the Reserve Bank of India under the NBFC Master Directions, whichever is higher.

2. Maximum permissible ratio of sum of the Par > 90 and write-offs (on the Borrower's entire

portfolio including receivables sold or discounted on a non-recourse basis) to trailing twelve months disbursements shall be 6.00 percent, write-offs and loss on sale of repossessed assets would be calculated for trailing twelve months.

3. Maximum permissible ratio of Par > 90 net off loan loss provisions to Tangible Network shall be 20.00 percent.

Liquidity Position Adequate

AMCL's overall liquidity profile remains adequate with no negative cumulative mismatches in near to medium term as per ALM dated September 30, 2023. The company has cash and bank balances to the tune of Rs. 18.94 Cr. as of September 30, 2023 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

None

Key Financials - Standalone / Originator

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets	Rs. Cr.	484.47	357.96
Total Income*	Rs. Cr.	43.92	30.86
PAT	Rs. Cr.	8.05	4.84
Net Worth	Rs. Cr.	69.86	56.02
Return on Average Assets (RoAA)	(%)	1.91	1.48
Return on Average Net Worth (RoNW)	(%)	12.79	8.98
Debt/Equity	Times	4.78	4.40
Gross NPA	(%)	2.79	3.48
Net NPA	(%)	2.01	2.62

*Total income equals to Net Interest Income plus other income

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

Not applicable

Any other information

None

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, Acuité 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
29 Nov 2022	Term Loan	Long Term	7.00	ACUITE BBB+(CE) Stable (Assigned)
	Principal protected market linked debentures	Long Term	25.00	ACUITE PP-MLD BBB- Stable (Reaffirmed)
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	01 Oct 2022	Not Applicable	30 Nov 2025	Complex	25.00	PP-MLD ACUITE BBB Stable Upgraded
Hinduja Leyland Finance Ltd.	Not Applicable	Term Loan	Not available	12.75	Not available	Simple	7.00	ACUITE A- CE Stable Upgraded

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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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