

## Press Release

Arthan Finance Private Limited

September 06, 2022



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BB+   Stable   Assigned	-
Non Convertible Debentures (NCD)	20.00	ACUITE BB+   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	40.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs. 20.00 crore bank facilities (including proposed facilities) of Arthan Finance Private Limited (AFPL). The outlook is '**Stable**'.

Acuite has assigned the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs. 20.00 crore proposed non-convertible debentures of Arthan Finance Private Limited (AFPL). The outlook is '**Stable**'.

The rating takes into account the experience of the promoters which has helped the company to reach AUM of Rs. 72.94 Cr. as on June 30, 2022 and cumulative disbursement volumes of Rs. 138.12 Cr. The rating also factors in the adequate capitalisation marked by CAR of 42.92% as on March 31, 2022. AFPL has raised capital in the form of Series A CCPS from Michael and Susan Dell Foundation as well as existing investors in December 2021 to the tune of Rs. ~13 Cr., which has further aided its capitalization.

These strengths are however partially offset by the small network base, limited track record of operations and the low seasoning of the long-tenure loan portfolio. While the company has demonstrated increased disbursements with Rs. 56.19 Cr. during Q1FY23 as against Rs. 61.97 during FY22 (Rs. 14.55 Cr. during FY21), the asset quality with GNPA at 2.34% as on June 30, 2022 remains moderate. The company's profitability is muted with losses of Rs. (1.37) Cr. for FY22, (Rs. (2.83) Cr. in FY21, Rs. (1.95) Cr. in FY20). In Q1FY23, the losses stood at Rs. (0.60) Cr. These losses are on account of the high operating expenses incurred in the expansion of its network branches and towards technology which are yet to fructify.

Acuite believes that the company's ability to timely infuse capital and profitably scale up its portfolio while maintaining asset quality pressures would be a key rating monitorable.

## About the company

Arthan Finance Private Limited was established in 2018 to pursue lending business as a non-deposit taking non-banking finance company ('NBFC') licenced by the Reserve Bank of India (RBI), with the main goal of providing credit specifically to self-employed entrepreneurs, MSME's, and consumers in India through differentiated models based on new technologies

and local expertise. The company has 17 branches with presence across 25+ states and Assets Under Management (AUM) of Rs. 72.94 Cr. as on June 30, 2022.

### **Analytical Approach**

Acuité has considered the standalone financial and business risk profile of AFPL to arrive at the rating.

### **Key Rating Drivers**

#### **Strength**

##### **Experienced Management**

AFPL is promoted by professionals from banking space with over 15 years of experience. Mr. Pravash Dash, Founder MD and CEO is a seasoned retail banker with expertise in self employed segments such as microfinance, micro-enterprise finance, vehicle finance and agricultural finance. He has been successful in setting up various businesses in inclusive finance segment in different banks and NBFCs. Mr. Kunal Mehta, Founder and Executive Director has extensive experience in portfolio acquisitions, evaluating strategic equity investments and has been instrumental in building wholesale businesses across asset classes like microfinance, MSME, affordable housing, school finance, gold loans. The board is further supported by Mr. Sunil Gulati, Independent Director who has around three decades of experience in the banking industry. He was a key contributor to the transformation and establishment of RBL Bank.

Acuité believes that AFPL's business profile will be supported by its experienced promoter base and will be able to leverage their expertise to raise funding and grow its loan book.

##### **Adequate capitalization**

AFPL's Capital Adequacy Ratio stood at 42.92% comprising majority of Tier 1 capital at 42.43% as on March 31, 2022 (69.70% as on March 31, 2021). The company's networth as on March 31, 2022, stood at Rs. 24.83 Cr. (Rs. 13.35 Cr. as on March 31, 2021). The company received capital support in the form of infusion in December 2021 from Michael and Susan Dell Foundation (MSDF), and as per the management, another round of infusion from the existing (MSDF) investor to the tune of 1.25\$ Mn. is expected up to Q2FY23 subject to legal documentation. The gearing levels as on June 30, 2022 stood at 2.63 times as against 1.55 times as on March 31, 2022 which is due to increase in debt profile.

Going ahead, Acuité expects AFPL to benefit from its continuous support from external investors, hereby maintaining adequate capitalisation.

#### **Weakness**

##### **Nascent stage of operations, low seasoning of portfolio**

AFPL commenced its operations in later half of 2019, with majority disbursing through its three distribution channels viz. Smart Branches, Digital Partnerships and Supply Chain Finance. AFPL's products include Secured Small Business Loans, Unsecured Small Business Loans, and Supply Chain Financing, which account for approximately 50%, 39%, and 11% of its total portfolio, respectively, as of June 30, 2022. The portfolio is majority concentrated in the states of Maharashtra (46.52%) and Odisha (17.32%) among other states as on June 30, 2022. AFPL's total Assets Under Management (AUM) stood at Rs. 45.95 Cr. as on March 31, 2022 (Rs. 17.54 Cr. as on March 31, 2021), however the owing to the increased pace in disbursements in Q1FY23 the company has increased its portfolio to Rs. 72.94 Cr. as on June 30, 2022.

Acuité believes that the ability of the company to grow its loan book with support from both debt as well as equity would be a key rating monitorable.

##### **Moderate asset quality**

AFPL's asset quality is marked by on-time portfolio of 88.60% as on March 31, 2022 which deteriorated slightly from 94.93% as on March 31, 2021 (86.32% as on June 30, 2022). The GNPA and NNPA as on March 31, 2022 stood at 2.72% and 1.50% as against 0.91% and 0.51% respectively as on March 31, 2021. However the GNPA and NNPA has come down slightly to 2.34% and 1.58% respectively as on June 30, 2022 owing to increase in portfolio. AFPL has obtained FLDGs from its merchant partners to the extent of 5-10 percent which would

provide buffers to certain extent in case of any delinquencies. The Provision Coverage Ratio as on June 30, 2022 stood at 32.75%. The company has an outstanding restructured portfolio of Rs. 0.91 Cr. as on March 31, 2022. The restructured POS as a percentage of AUM stood at 1.98% as on March 31, 2022.

### Subdued earning profile

AFPL's reported losses of Rs. (1.37) Cr. for FY22, (Rs. (2.83) Cr. in FY21, Rs. (1.95) Cr. in FY20). In Q1FY23, the losses stood at Rs. (0.60) Cr. These losses are on account of the high operating expenses incurred in the expansion of its network branches and towards technology which are yet to fructify. The operating expenses to earning assets although high, is improving Y-o-Y (16.80% in FY22 as against 26.77% in FY21) as the expenses are being rationalized. Acuite believes that the company's ability to contain asset quality pressures while maintaining its profitability parameters will be a key rating monitorable.

### Rating Sensitivity

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

### Material Covenants

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

### Liquidity Position Adequate

AFPL has adequately matched asset-liability profile as on March 31, 2022, with no negative cumulative mismatch in near to medium term. The company has maintained unencumbered cash and bank balances of Rs 8.19 Crores as on May, 2022 and has sanctions in pipeline to the tune of Rs. 31 Cr. as on Aug, 2022 which would further aid its liquidity.

### Outlook: Stable

Acuite believes that AFPL will maintain 'Stable' outlook over the near to medium term owing to the experience of promoters. The outlook may be revised to 'Positive' in case AFPL 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 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	63.76	26.95
Total Income*	Rs. Cr.	4.81	2.12
PAT	Rs. Cr.	(1.37)	(2.83)
Net Worth	Rs. Cr.	24.83	13.35
Return on Average Assets (RoAA)	(%)	(3.01)	(13.47)
Return on Average Net Worth (RoNW)	(%)	(7.15)	(22.38)
Debt/Equity	Times	1.55	0.93
Gross NPA	(%)	2.72	0.91
Net NPA	(%)	1.50	0.51

\*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>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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
RBL Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB+   Stable   Assigned
Not Applicable	Not Applicable	Proposed Secured Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BB+   Stable   Assigned
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	14.17	ACUITE BB+   Stable   Assigned
RBL Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.05	ACUITE BB+   Stable   Assigned
DCB Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	4.28	ACUITE BB+   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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