



Press Release
Arthan Finance Private Limited
December 14, 2023
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BB+ Stable Reaffirmed	-
Non Convertible Debentures (NCD)	20.00	ACUITE BB+ Stable Assigned	-
Non Convertible Debentures (NCD)	20.00	ACUITE BB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	60.00	-	-

Rating Rationale

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

Acuité has reaffirmed 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**'.

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

Rationale for the rating

The rating reaffirmation continues to factor in the experience of the promoters which has helped the company to reach AUM of Rs. 106.55 Cr. as on September 30, 2023. The disbursement volumes grew to Rs. 331.8 Cr. for FY23 (P.Y: Rs. 61.95 Cr.). Majority of the disbursements in FY23 comprised of short term financing, hence limiting AUM growth. In Q1FY24, the company disbursed Rs. 37.32 Cr. The rating also factors in the adequate capitalisation marked by overall CAR of 21.02 percent as on March 31, 2023 (42.92 percent as on March 31, 2022). The capital structure is aided by regular infusions from Michael and Susan Dell Foundation as well as existing investors. 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. and additional Rs. 10 Cr. in FY23 in the form of Series A1 CCPS.

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, the asset quality remained moderate with GNPA increasing to 3.49 percent as on June 30, 2023 from 2.34 percent as on June 30, 2022. The company's profitability remains muted with losses of Rs. (2.96) Cr. for FY23, (Rs. (-3.58) Cr. in FY22). However, in Q1FY24 (prov.), the company posted profit of Rs. 0.13 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 as well as credit costs incurred in FY23.

Acuité 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 24 branches with presence over 25+ states and Assets Under Management (AUM) of Rs. 106.55 Cr. as on September 30, 2023.

Unsupported Rating

Not Applicable

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 21.02 percent comprising majority of Tier 1 capital at 20.67 percent as on March 31, 2023 (42.92 percent as on March 31, 2022). The company's networth improved to Rs. 31.67 Cr. from Rs. 24.83 Cr. (Rs. 13.35 Cr. as on March 31, 2021). AFPL received capital support in the form of infusion in December 2021 from Michael and Susan Dell Foundation (MSDF), and subsequently another Series A1 CCPS round of Rs. 10 Cr. in FY23 which has aided the growth momentum. The gearing levels stood at 3.29 times as on March 31, 2023 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 majorly disbursing through its distribution channels viz. Smart Branches and Supply Chain Finance. The portfolio is majorly concentrated in the states of Maharashtra (40.5 percent), Andhra Pradesh (39.2 percent) and Odisha (15.3 percent) among other states as on June 30, 2023. AFPL's total Assets Under Management (AUM) stood at Rs. 100.05 Cr. as on June 30, 2023 (Rs. 45.94 Cr. as on March 31, 2022). The disbursement volumes in FY23 grew to Rs. 331.8 Cr. from Rs. 61.95 Cr. in FY22.

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; subdued earning profile

AFPL's asset quality is marked by on-time portfolio of 89.03 percent as on March 31, 2023 (88.60 percent as on March 31, 2022). The GNPA and NNPA moderated to 3.89 percent and 2.18 percent as on March 31, 2023 as against 2.72 percent and 1.50 percent as on March

31, 2022. The Provision Coverage Ratio as on June 30, 2023 stood at 34.36 percent. AFPL's reported losses of Rs. (2.96) Cr. for FY23, (Rs. (3.58) Cr. in FY22). However, in Q1FY24 (prov.), the company posted profit of Rs. 0.13 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 as well as credit costs incurred in FY23. The operating expenses to earning assets although high, is improving Y-o-Y (14.67 percent in FY23 as against 16.80 percent in FY22) 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 to sustain growth momentum
- Movement in profitability metrics
- Movement in asset quality as reflected by GNPA and collection efficiency levels

All 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 September 30, 2023, with no negative cumulative mismatch in near term. The company has maintained cash and bank balances of Rs. 15.75 Cr. as on March 31, 2023.

Outlook: Stable

Acuite believes that AFPL will maintain 'Stable' outlook over the near to medium term owing to the experience of promoters and support from marquee investor. 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 and growing profitability. 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

None

Key Financials - Standalone / Originator

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets	Rs. Cr.	142.77	63.76
Total Income*	Rs. Cr.	15.04	4.81
PAT	Rs. Cr.	(2.96)	(1.37)
Net Worth	Rs. Cr.	31.67	24.83
Return on Average Assets (RoAA)	(%)	(2.87)	(3.01)
Return on Average Net Worth (RoNW)	(%)	(10.48)	(7.15)
Total Debt/Tangible Net worth (Gearing)	Times	3.29	1.55
Gross NPA	(%)	3.89	2.72
Net NPA	(%)	2.18	1.50

*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>
- 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
06 Sep 2023	Term Loan	Long Term	5.00	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	0.50	ACUITE BB+ Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	7.50	ACUITE BB+ Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	7.50	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	0.15	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	2.37	ACUITE BB+ Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	5.00	ACUITE BB+ Stable (Reaffirmed)
	Proposed Term Loan	Long Term	11.98	ACUITE BB+ Stable (Reaffirmed)
06 Sep 2022	Proposed Non Convertible Debentures	Long Term	20.00	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	4.28	ACUITE BB+ Stable (Assigned)
	Proposed Term Loan	Long Term	14.17	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	0.50	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	1.05	ACUITE BB+ 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
RBL Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE BB+ Stable Reaffirmed
Not Applicable	INE06MY07026	Non-Convertible Debentures (NCD)	23 Dec 2022	15.15	31 Dec 2024	Simple	7.50	ACUITE BB+ Stable Reaffirmed
Not Applicable	INE06MY07018	Non-Convertible Debentures (NCD)	29 Sep 2022	15.50	07 Mar 2025	Simple	7.50	ACUITE BB+ Stable Reaffirmed
Not Applicable	INE06MY07034	Non-Convertible Debentures (NCD)	28 Nov 2023	14.75	07 Dec 2025	Simple	7.50	ACUITE BB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple	12.50	ACUITE BB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BB+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	13.66	ACUITE BB+ Stable Reaffirmed
DCB Bank Limited	Not Applicable	Term Loan	16 Oct 2021	12.50	28 Feb 2025	Simple	1.93	ACUITE BB+ Stable Reaffirmed
RBL Bank	Not Applicable	Term Loan	21 Dec 2022	12.10	21 Dec 2024	Simple	3.91	ACUITE BB+ Stable Reaffirmed

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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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