



Press Release
Arthan Finance Private Limited
December 13, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BB+ Negative Reaffirmed Stable to Negative	-
Non Convertible Debentures (NCD)	40.00	ACUITE BB+ Negative Reaffirmed Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	60.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Acuite has reaffirmed the long term rating of ‘**ACUITE BB+**’ (read as **ACUITE double B plus**) of the Rs. 40.00 crore non-convertible debentures (including proposed facilities) of Arthan Finance Private Limited (AFPL). The outlook is revised from ‘**Stable**’ to ‘**Negative**’.

Rationale for the rating

The revision in outlook accounts for the persistent losses, high delinquency levels and the company's inability to meet the envisaged earning profile for FY24. The company's profitability remains muted, with a Profit After Tax (PAT) loss of Rs. 3.30 crore for FY24 (compared to PAT loss of Rs. 2.96 crore in FY23) and a PAT loss of Rs. 2.19 crore in H1FY25. These losses are on account of the high operating expenses incurred in the expansion of its network branches which are yet to fructify as well as credit costs incurred in FY24 and H1FY25. The rating reaffirmation continues to factor in the experience of the promoters which has helped the company to reach AUM of Rs. 146.45 Cr. as on September 30, 2024. The asset quality remained moderate with GNPA and NNPA increasing to 4.66 percent and 2.64 as on September 30, 2024 from 4.42 percent and 2.68 percent as on March 31, 2024. (3.89 percent and 2.18 percent in FY23).

The rating also factors in the equity infusion of Rs 40 Cr. from Incofin India Progress Fund which increased their Networth to Rs 66.13 Cr. in H1FY25 from Rs 28.33 Cr. in FY24 and gearing level improved to 1.66 times in H1FY25 from 3.65 times in FY24. The company has adequate capitalisation marked by overall CAR of 40.55 percent as on H1FY25 (16.45 percent as on March 31, 2024).

These strengths are however partially offset by 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 4.66 percent as on September 30, 2024 from 4.42 percent as on March 31, 2024.

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

Mumbai based, 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 33 branches with presence over 4 states and Assets Under Management (AUM) of Rs. 146.45 Cr. as on September 30, 2024.

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 40.55 percent comprising majorly of Tier 1 capital at 40.25 percent as on September 30, 2024 (16.45 percent as on March 31, 2024). The company's networth improved to Rs. 66.13 Cr. from Rs. 28.33 Cr. in FY24 (Rs. 31.67 Cr. as on March 31, 2023). AFPL received capital support in the form of equity infusion in June 2024 from Incofin India Progress Fund which has which increased their Networth to Rs 66.13 Cr. in H1FY25 from Rs. 28.33 Cr. in FY24. The gearing levels stood at 1.66 times as on September 30, 2024 as against 3.65 times as on March 31, 2024 .

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

Weakness

Low seasoning of Portfolio

AFPL commenced its operations in later half of 2019 with majority of the portfolio concentrated in the states of Andhra Pradesh (60.77 percent) and Maharashtra (22.97 percent), and Odisha (13.93 percent) among other states as on September 30, 2024. AFPL's total Assets Under Management (AUM) stood at Rs. 146.45 Cr. as on September 30, 2024 (Rs. 146.45 Cr. as on March 31, 2024). Disbursements in FY23 were elevated primarily due to partnership lending, characterized by unsecured, short-term, smaller-ticket loans, which resulted in faster churning. However, following the implementation of the Digital Lending Guidelines, the company decided to concentrate on its own origination and ceased the partnership business from May/June 2024, shifting its focus exclusively to branch disbursements. Consequently, disbursement volumes declined in FY24. The company disbursed Rs. 52.53 Cr. in H1FY25 (Rs 102.90 Cr. in FY24 and Rs 332.23 Cr. in FY23) .

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 89.57 percent as on September 30, 2023 (91.51 percent as on March 31, 2024). The GNPA and NNPA moderated to 4.66 percent and 2.64 percent as on September 30, 2024 as against 4.42 percent and 2.68 percent as on March 31, 2023. The Provision Coverage Ratio as on September 30, 2023 stood at 43.26 percent. Going forward, Acuité believes the company's ability to diversify its loan portfolio while maintaining its asset quality will be key monitorable.

Subdued earning profile

AFPL's reported losses of Rs. (3.30) Cr. for FY24, (Rs. (2.96) Cr. in FY23) and the PAT loss of Rs. 2.19 Cr. These losses are on account of the high operating expenses incurred in the expansion of its network branches which are yet to fructify as well as credit costs incurred in FY24 and H1FY25.

Acuité believes that the company's ability to maintain 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

Liquidity Position

Adequate

AFPL has adequately matched asset-liability profile as on March 31, 2024, with no negative cumulative mismatch in near term. The company has maintained cash and bank balances of Rs.22.86 Cr. as on March 31, 2024.

Outlook:Negative**Other Factors affecting Rating**

None

Key Financials - Standalone / Originator

Particulars	Unit	FY24 (Actual)	FY23 (Actual)
Total Assets	Rs. Cr.	131.83	142.77
Total Income*	Rs. Cr.	17.64	15.04
PAT	Rs. Cr.	(3.30)	(2.96)
Net Worth	Rs. Cr.	28.33	31.67
Return on Average Assets (RoAA)	(%)	(2.40)	(2.87)
Return on Average Net Worth (RoNW)	(%)	(11.01)	(10.48)
Total Debt/Tangible Net worth (Gearing)	Times	3.65	3.29
Gross NPA	(%)	4.42	3.89
Net NPA	(%)	2.68	2.18

**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, 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
14 Dec 2023	Cash Credit	Long Term	0.50	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	1.93	ACUITE BB+ Stable (Reaffirmed)
	Proposed Term Loan	Long Term	13.66	ACUITE BB+ Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	5.00	ACUITE BB+ Stable (Reaffirmed)
	Non-Covertible Debentures (NCD)	Long Term	7.50	ACUITE BB+ Stable (Reaffirmed)
	Non-Covertible Debentures (NCD)	Long Term	7.50	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	3.91	ACUITE BB+ Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	12.50	ACUITE BB+ Stable (Assigned)
	Non-Covertible Debentures (NCD)	Long Term	7.50	ACUITE BB+ Stable (Assigned)
06 Sep 2023	Term Loan	Long Term	0.15	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	0.50	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	2.37	ACUITE BB+ Stable (Reaffirmed)
	Proposed Term Loan	Long Term	11.98	ACUITE BB+ Stable (Reaffirmed)
	Proposed Secured Non-Convertible Debentures	Long Term	5.00	ACUITE BB+ Stable (Reaffirmed)
	Non-Covertible Debentures (NCD)	Long Term	7.50	ACUITE BB+ Stable (Reaffirmed)
	Non-Covertible Debentures (NCD)	Long Term	7.50	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BB+ Stable (Reaffirmed)
06 Sep 2022	Term Loan	Long Term	1.05	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	0.50	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)
	Proposed Secured Non-Convertible Debentures	Long Term	20.00	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
RBL Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	0.50	Simple	ACUITE BB+ Negative Reaffirmed Stable to Negative
Not Applicable	INE06MY07026	Non-Convertible Debentures (NCD)	23 Dec 2022	15.15	31 Dec 2024	7.50	Simple	ACUITE BB+ Negative Reaffirmed Stable to Negative
Not Applicable	INE06MY07018	Non-Convertible Debentures (NCD)	29 Sep 2022	15.50	07 Mar 2025	7.50	Simple	ACUITE BB+ Negative Reaffirmed Stable to Negative
Not Applicable	INE06MY07034	Non-Convertible Debentures (NCD)	28 Nov 2023	14.75	07 Dec 2025	7.50	Simple	ACUITE BB+ Negative Reaffirmed Stable to Negative
Not Applicable	INE06MY07042	Non-Convertible Debentures (NCD)	30 Apr 2024	14.75	07 May 2026	7.50	Simple	ACUITE BB+ Negative Reaffirmed Stable to Negative
Not Applicable	Not avl. / Not appl.	Proposed Non Convertible Debentures	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	5.00	Simple	ACUITE BB+ Negative Reaffirmed Stable to Negative
Not Applicable	Not avl. / Not appl.	Proposed Non Convertible Debentures	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	5.00	Simple	ACUITE BB+ Negative Reaffirmed Stable to Negative
Not Applicable	Not avl. / Not appl.	Proposed Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	18.78	Simple	ACUITE BB+ Negative Reaffirmed Stable to Negative
DCB Bank Limited	Not avl. / Not appl.	Term Loan	16 Oct 2021	Not avl. / Not appl.	28 Feb 2025	0.31	Simple	ACUITE BB+ Negative Reaffirmed Stable to Negative
RBL Bank	Not avl. / Not appl.	Term Loan	21 Dec 2022	Not avl. / Not appl.	21 Dec 2024	0.41	Simple	ACUITE BB+ Negative Reaffirmed Stable to Negative

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About Acuité Ratings & Research

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