

Press Release

Credit Wise Capital Private Limited

April 13, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	Provisional ACUITE BBB+ CE Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	15.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE Provisional BBB+ (CE)**' (read as **ACUITE Provisional triple B plus (Credit Enhancement)**) on the Rs.15.00 Cr. partially credit enhanced proposed term loan facilities of Credit Wise Capital Private Limited (CWCPL). The outlook is 'Stable'.

Rationale for the rating

The rating factors in experienced management team, comfortable resource raising ability and increased scale of operations. CWCPL's AUM grew from Rs 49.74 Cr as on March 31, 2021 to Rs 318.54 Cr as on December 31, 2022 on account of healthy disbursements. The disbursements grew from Rs 27.25 Cr to Rs 238.91 Cr during the same period. The company has healthy resources raising ability and comfortable capitalization levels. While Acuite takes cognizance of challenges in the two-wheeler segment, CWCPL has shown consistent improvement in disbursal volumes and profitability metrics. These strengths are partly offset by the geographical concentration in its lending portfolio (Maharashtra accounting for 44% of the total portfolio followed by Karnataka with 22% of the total portfolio as on December 31, 2022) and limited vintage of the business.

The Rs. 15.00 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 22%. Additionally, the facility has security in the form of exclusive first charge on identified book debts and receivables with 120% margin in favour of the lender. CWCPL 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 CWCPL, the Guarantors shall be severally and jointly liable to make the payments by the due date.

The rating on the Rs. 15.00 Cr proposed term loan (partial credit guarantee) is provisional and the final rating is subject to execution of following documents:

1. Deed of Guarantee
2. Deed of Hypothecation
3. Legal Opinion

About Credit Wise Capital Private Limited

Credit wise Capital Private Limited is digital-fintech non-banking finance company (NBFC) having business of two-wheeler finance incorporated in 2018. It was founded and promoted by Aalesh Avlani with multiple renowned business houses, including Greshma Group, Wallfort Group, MJ Shah Group, and the Shanti Group. The company is serving majorly in four states, including Maharashtra, Gujarat, Karnataka, and Telangana.

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.

Standalone (Unsupported) Rating

ACUITE BBB-/Stable

Analytical Approach

Acuité has considered the standalone business and financial risk profile of CWCPL and has further factored in the credit enhancement arising from the structure. The suffix (CE) indicates credit enhancement arising from the PCE in the form of unconditional, irrevocable, payable on demand guarantee covering 15 percent 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.

Key Rating Drivers

Strength

Strength of underlying structure

The Credit Enhancer shall provide PCE, favouring CWCPL 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 22% of the aggregate outstanding principal of the facility, the Guarantee Cap shall be reduced to 22% 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 5 (five) Business Days prior to due date (i.e., T-5 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, 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 120% margin in favour of the lender. The security cover will be met from the date of disbursement of the facility. In case of CWCPL senior secured long-term rating (as per Acuité view) downgrade to below BB+ 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.

Significant AUM growth while maintaining sound asset quality

The company's loan portfolio outstanding as on December 31, 2022 grew significantly to Rs. 318.54 Cr as compared to Rs. 177.55 Cr as on March 31, 2022 and Rs. 49.74 Cr as on March 31, 2021. The portfolio entirely constitutes of two wheeler loans as on December 31, 2022. The loans have a tenure of 12 to 36 months. CWCPL has demonstrated sound asset quality, as reflected in Gross Non-Performing Assets (GNPA) of 1.35 percent as on March 31, 2022 and NNPA of 1.01 percent during the same period. The company has structured inherent checks for effective risk management that include lending policy, underwriting process and dedicated due diligence team, which helps to maintain asset quality.

Acuité believes that the ability of the company to grow its loan portfolio while maintaining asset quality will be key monitorable.

Improving profitability, albeit modest

In 9MFY23, CWCPL's portfolio has grown owing healthy disbursement levels. The company's disbursements increased to Rs. 238.91 Cr as on December 31, 2022 from Rs. 27.25 Cr as on March 31, 2021. The company's overall financial risk profile remains modest as marked by PAT of Rs. 1.04 Cr in FY2022 improving from Rs. 0.37Cr in FY2021. The PAT further improved to Rs. 1.63 Cr during 9MFY23. The operating expense to earning assets is expected to remain high, presently around 12.30 percent as of December 31, 2022 (Annualised), as the company is penetrating into newer geographies and increasing their overall staff count.

Acuité believes that going forward ability of the company to grow its loan portfolio while improving its profitability will be key monitorable.

Weakness

Geographical Concentration

CWCPL started its expansion recently which makes its portfolio highly concentrated in the areas of its initial operation. CWCPL's portfolio is highly concentrated in Maharashtra with 44 percent of the portfolio originating from there followed by 22 percent from Karnataka. It makes CWCPL 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

CWCPL 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

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

Liquidity Position

Adequate

CWCPL's overall liquidity profile remains adequate with no negative cumulative mismatches in near to medium term as per ALM dated December 31, 2022. The company has cash and bank balances to the tune of Rs. 9.16 Cr. as of December 31, 2022 and is in talks with new and existing lenders to further aid its disbursements and liquidity.

Outlook - Stable

Acuité believes that the CWCPL 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	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	209.91	60.70
Total Income*	Rs. Cr.	20.27	8.88
PAT	Rs. Cr.	1.04	0.37
Net Worth	Rs. Cr.	80.28	45.36
Return on Average Assets (RoAA)	(%)	0.77	0.61
Return on Average Net Worth (RoNW)	(%)	1.65	0.82
Debt/Equity	Times	1.56	0.31
Gross NPA (Owned portfolio)	(%)	0.73	2.83
Net NPA (Owned portfolio)	(%)	0.54	2.12

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

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

None

Any other information

Supplementary disclosures for Provisional Ratings:

Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuité will withdraw the existing provisional rating and concurrently assign a fresh final rating in the same press release, basis the revised terms of the transaction.

Rating that would have been assigned in absence of the pending steps/documentation

The structure would have become null and void for the instrument. The rating of the instrument would have been equated to the standalone rating of the issuer (ACUITE BBB+/Stable).

Timeline for conversion to Final Rating for a debt instrument proposed to be issued

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

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, 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:

Not Applicable

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	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	Provisional ACUITE BBB+ CE 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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