

September 24, 2021

Berar Finance Limited: PP-MLD[ICRA]BBB(Stable) assigned to Rs. 25-crore principal protected non-convertible market linked debentures programme; Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Principal Protected Non-convertible Market Linked Debentures	-	25.00	PP-MLD[ICRA]BBB(Stable); Assigned
Non-convertible Debentures	112.00	112.00	[ICRA]BBB(Stable); Reaffirmed
Long Term – Fund-based TL	467.92	467.92^	[ICRA]BBB(Stable): Reaffirmed
Fixed Deposit (FD) Programme	130.00	130.00	MA-(Stable); Reaffirmed
Total	709.92	734.92	

*Instrument details are provided in Annexure-1

Rationale

ICRA has reaffirmed the ratings for Berar Finance Limited (BFL) at [ICRA]BBB(Stable)/MA-(Stable) and has assigned a rating of PP-MLD[ICRA]BBB(Stable) for the company's Rs. 25-crore non-convertible debenture (NCD) programme. The assigned rating factors in BFL's long and successful track record in the two-wheeler (2W) financing business, its established relationships with the dealers and its comfortable financial indicators characterised by healthy earnings (return on total assets (RoA) of 1.85% in Q1 FY2022) and comfortable capital adequacy (CRAR of 22.43% as on June 30, 2021).

The ratings remain constrained by the inherent risk in BFL's primary business (2W financing) and its target borrower segment (around 70% of the borrower segment is in rural areas and 72% is self-employed) as well as the monoline nature of its business (96% of the portfolio comprised 2W financing and 2W refinancing as of June 30, 2021). This has also led to the weakening of its asset quality during the Covid-19 pandemic. ICRA notes that BFL has been expanding its geographical presence (currently present in six states) though it has significant geographical concentration in Maharashtra (57% of the portfolio as on June 30, 2021; improved from 71% as on March 31, 2019).

The pandemic-related lockdown has affected BFL's operations, its asset quality and financial risk profile, considering the significant curtailment of economic activity and the modest borrower profile. BFL's gross non-performing assets (GNPAs) and net NPAs (NNPAs) stood at 4.8% and 4.2%, respectively, as on June 30, 2021, compared to 2.5% and 1.8%, respectively, as on March 31, 2021. The NPAs as of June 2021 have breached ICRA's negative triggers. However, BFL's collection efficiency has improved since June 2021 and the GNPA ratio has reduced to 4.01% as of August 2021. BFL's ability to improve collections and contain its NPAs by March 2022 will remain a key rating monitorable.

Key rating drivers and their description

Credit strengths

Long track record and established relationships with dealers – BFL, which started operations in 1990, was founded by Mr. M. G. Jawanjar, a first-generation entrepreneur. He is a company secretary by profession and has four decades of experience. The

company has a long track record and experience in the 2W finance business. Over the years, BFL has established a network of sub-dealer relationships for business sourcing. Around 95% of the business was sourced through dealers in Q1 FY2022.

BFL has been able to grow its loan book at a healthy pace over the years on the back of its sub-dealer network. The loan book grew by 45% to Rs. 684.8 crore as on March 31, 2021 from Rs. 470.90 crore as on March 31, 2020. The five-year compound annual growth rate (CAGR) was ~32% till FY2021. Disbursements slowed down in April and May 2021 due to the second wave of the pandemic but they started increasing again in June 2021 and reached the pre-Covid level of Rs. 60 crore by August 31, 2021.

Good profitability indicators – BFL has a track record of reporting good profitability indicators. It reported a profit after tax (PAT) of Rs. 15.3 crore in FY2021 (Rs. 14.6 crore in FY2020), leading to a healthy RoA {PAT/average total assets (ATA)} of 2.1% (3.0% in FY2020). The RoA reduced to 1.9% in Q1 FY2022 due to the lower yields on assets as disbursements were lower, resulting in a higher cash balance with low yields. This led to a lower net interest margin (NIM) of 5.8% in Q1 FY2022 compared to 9.1% in FY2021.

ICRA expects the profitability to moderate in the near term due to the rising credit costs. In the medium-to-long-term, the company's ability to maintain good operating efficiency levels and control the credit costs would be critical for incremental profitability. ICRA also notes that BFL has not posted a loss in 29 years.

Adequate capitalisation – ICRA notes BFL's adequate capitalisation profile with a CRAR of 22.4% as on June 30, 2021 compared to 20.5% as on March 31, 2021. The company received fresh equity of Rs. 30 crore and Rs. 20 crore from Amicus Capital, a private equity player, in February 2020 and October 2020, respectively. This led to a reduction in the stake of the promoters to 40.95% in Q1 FY2022 from 52.4% in 2019, while Amicus Capital had a 19.59% stake in the company as of June 30, 2021. ICRA expects the capitalisation to remain adequate even though the profitability is expected to moderate in FY2022 due to higher credit costs. ICRA expects BFL to maintain the gearing levels below 5.0x in the long term.

Improved funding profile – BFL has been able to diversify its borrowing profile over the last two years. A sizeable part of its borrowings are from banks, non-banking financial companies (NBFCs) and other financial institutions (64% of the total borrowings as on June 30, 2021) in the form of term loans and cash credit facilities. This has reduced from 81% in FY2020 as the company increased its borrowings through NCDs (17% of borrowings as of June 30, 2021) in FY2021.

The company has funding relationships with around 27 lenders. The remaining 19% of the borrowings were largely in the form of fixed deposits as on June 30, 2021. BFL also conducted securitisation (pass-through certificates; PTCs) transactions of Rs. 14 crore in FY2020 and Rs. 11 crore in FY2019. It intends to increase the share of deposit funding as well as diversify its lender and investor base to have broader access to funding.

Credit challenges

Deterioration in asset quality due to lockdown and relatively weaker customer profile – BFL's portfolio vulnerability remains relatively high on account of the inherent risks associated with 2W financing and the relatively moderate credit profile of the borrowers. Also, its customers are highly dependent (direct and indirect) on agriculture-based income. BFL's GNPA's increased to 4.8% as on June 30, 2021 (breaching the negative trigger of 4%) from 2.5% as of March 31, 2021 due to the impact of the lockdown on collections in the second wave of the pandemic.

From March 2021, the collection efficiency had decreased in April and May 2021. However, it started improving in June 2021 and reached the pre-Covid level of 83% by July 2021. Despite the increase in NNPA's to Rs. 29 crore or 4.2% in Q1 FY2022 from Rs. 11.5 crore or 1.8% in FY2021, ICRA notes that BFL has ~1,133 repossessed vehicles with a realisable value of Rs. 3.4 crore. BFL wrote off Rs. 6.8 crore (Rs. 1.3 crore in Q1 FY2022) and made additional provisions of Rs. 1.9 crore on account of Covid-19 in FY2021. Moreover, it reported an improvement in recoveries in July and August 2021, resulting in a decline in the GNPA ratio to 4.01% as of August 2021.

Monoline nature of business – BFL’s nature of business is largely monoline with ~96% of the portfolio comprising 2W financing (92%) and refinancing (4%) as of June 30, 2021. Over the years, BFL has expanded its portfolio to finance used four-wheelers (4Ws) and commercial vehicles and it also provides personal loans though the total share of these segments in the overall portfolio remained low at ~4% as on June 30, 2021. The company’s long track record of operations in the segment and its ability to keep the asset quality under control provide some comfort. ICRA expects new 2W loans to remain a key focus area in future.

Moderate scale and high geographical concentration in Maharashtra – Despite increasing, the company’s loan book remained moderate at Rs. 686 crore as on June 30, 2021 (Rs. 471 crore as on March 31, 2020). Also, its operations remain focused in Maharashtra, leading to geographical concentration. As on June 30, 2021, Maharashtra accounted for ~57% of the loan book though the same improved from 71% as on March 31, 2019 (65% as on March 31, 2020). The company has expanded its operations to Chhattisgarh, Madhya Pradesh, Telangana, Karnataka and Gujarat, which accounted for ~43% of the total portfolio as on June 30, 2021. BFL aims to diversify its geographical presence with an increase in its scale of operations in the long term.

Liquidity position: Adequate

BFL’s liquidity profile remains adequate with unencumbered cash and cash equivalents and liquid investments of Rs. 49 crore and unutilised bank lines of Rs. 32 crore as on July 31, 2021. The company has debt repayments of Rs. 148 crore (excluding fixed deposits; FDs) due in the next six months till January 2022. BFL increased its collection efficiency to ~83% in July 2021.

The cash and cash equivalents and liquid investments along with current collections are adequate to meet the scheduled debt obligations (including operating expenses) for the next six months. The company would require minimum collection efficiency of 68% to meet the total outflows in the next six months. Improvement in collections and the ability to secure incremental sanctions are crucial from a liquidity perspective in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company scales up its loan book significantly with the diversification of its borrowing profile while maintaining the GNPA’s at less than 4% on a sustained basis as well as its track record of a comfortable capitalisation and earnings profile.

Negative factors – Pressure on the company’s ratings could arise if there is a deterioration in the asset quality with GNPA’s of more than 4% on a sustained basis, which could affect its profitability. Also, a significant increase in the gearing to over 5.5x along with a stretch in the liquidity profile could exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA’s Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Berar Finance Limited (BFL) is a Nagpur-based public, unlisted, deposit-taking NBFC registered with the Reserve Bank of India (RBI). The company is promoted by Mr. M. G. Jawanjar and was incorporated in 1990. BFL primarily finances 2Ws. It also provides used car loans, commercial vehicle loans, agriculture equipment loans and personal loans.

While its operations are concentrated in Maharashtra, BFL has expanded over the years to five other states, i.e. Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka. As on June 30, 2021, the company's loan book was Rs. 686 crore. In Q1 FY2022 (provisional), BFL reported a PAT of Rs. 4 crore on operating income of Rs. 18 crore vis-à-vis a PAT of Rs. 15.3 crore and operating income of Rs. 67 crore in FY2021. As on June 30, 2021, the company's total asset base was Rs. 845 crore and its gearing was 4.13x.

Key financial indicators (audited)

Berar Finance Limited	FY2020	FY2021	Q1 FY2022*
Total income (Rs. crore)	105	135	39
Profit after tax (Rs. crore)	14.6	15.3	4
Net worth (Rs. crore)	110	146	161
Loan book (Rs. crore)	471	685	686
Total assets (Rs. crore)	556	891	845
Return on assets (%)	3.0%	2.1%	1.9%
Return on net worth (%)	15.9%	12.0%	10.5%
Gross gearing (times)	3.86	4.93	4.13
Gross NPA (%)	2.6%	2.5%	4.8%
Net NPA (%)	2.4%	1.8%	4.2%
Gross stage 3 (%)	2.6%	2.5%	4.8%
Net stage 3 (%)	2.4%	1.8%	4.2%
Solvency (Net stage 3/Net worth)	9.8%	7.9%	18.3%
CRAR (%)	21.6%	20.5%	22.4%

Source: Company, ICRA Research; * Provisional numbers

Note: All calculations and ratios are as per ICRA research

Total assets and net worth exclude revaluation reserves

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years								
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021						Date & Rating in FY2020	Date & Rating in FY2019	
					Sep 24, 2021	Mar 18, 2021	Feb 23, 2021	Dec 29, 2020	Jul 20, 2020	Jun 23, 2020	Jun 10, 2020	Oct 31, 2019	Sep 18, 2018	Sep 07, 2018
1	Principal Protected Non-convertible Market Linked Debentures	Long Term	25.00	-	PP-MLD[ICRA]BBB(Stable); Assigned	-	-	-	-	-	-	-	-	-
2	Bank Facilities	Long Term	467.92	378.15	[ICRA]BBB(Stable); Reaffirmed	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)
3	Non-convertible Debentures Programme	Long Term	112.00	99.00	[ICRA]BBB(Stable); Reaffirmed	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	-	-	-	-
4	Fixed Deposits	Medium Term	130.00	126.77	MA-(Stable); Reaffirmed	MA-(Stable)	MA-(Stable)	MA-(Stable)	MA-(Stable)	MA-(Stable)	MA-(Stable)	MA-(Stable)	MA-(Stable)	MA-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Principal Protected Non-convertible Market Linked Debentures	Complex
Non-convertible Debentures	Moderately Complex
Long Term – Fund-based TL	Very Simple
Fixed Deposit (FD) Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE998Y07063	Non-convertible Debentures Programme	Dec 23, 2020	13.75%	Dec 23, 2023	15.00	[ICRA]BBB(Stable)
INE998Y07055	Non-convertible Debentures Programme	Nov 18, 2020	13.75%	Mar 30, 2023	15.00	[ICRA]BBB(Stable)
INE998Y07089	Non-convertible Debentures Programme	Mar 24, 2021	a) Until Jun 15, 2021, 15% (b) From Jun 15, 2021 until Sep 15, 2021, 14.5% (c) From Sep 15, 2021 until Dec 15, 2021, 14% (d) From Dec 15, 2021 until the Final Settlement Date, 13.9069%	Feb 05, 2025	34.00	[ICRA]BBB(Stable)
INE998Y07048	Non-convertible Debentures Programme	Sep 11, 2020	14.00%	Sep 11, 2023	10.00	[ICRA]BBB(Stable)
INE998Y07014	Non-convertible Debentures Programme	Jun 22, 2020	12.50%	Jun 21, 2023	10.00	[ICRA]BBB(Stable)
INE998Y07071	Non-convertible Debentures Programme	Feb 24, 2021	13.18%	Feb 24, 2024	18.00	[ICRA]BBB(Stable)
Not Placed	Non-convertible Debentures Programme	NA	NA	NA	10.00	[ICRA]BBB(Stable)
NA	Term loans	NA	NA	NA	344.56	[ICRA]BBB(Stable)
NA	Cash Credit	NA	NA	NA	33.59	[ICRA]BBB(Stable)
NA	Unallocated	NA	NA	NA	89.77	[ICRA]BBB(Stable)
NA	Fixed Deposits Programme	NA	NA	NA	126.77	MA-(Stable)
NA	Fixed Deposits Programme^	NA	NA	NA	3.23	MA-(Stable)
Not Placed	Principal Protected Non-Convertible Market Linked Debentures	NA	NA	NA	25	PP-MLD[ICRA]BBB(Stable)

Source: Company

^Unutilised

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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