

November 23, 2021

## Northern Arc Capital Limited: Rating reaffirmed for loans given under Northern Arc P.L.I. XIV transaction

### Summary of rating action

S. No.	Borrower Name	Initial Loan Amount (Rs. crore)	Amount after Previous Surveillance Exercise (Rs. crore)	Amount o/s after Oct-2021 Payout (Rs. crore)*	Rating Action
1	Berar Finance Limited	10.00	NA	6.79	[ICRA]A-(CE) (Stable); Reaffirmed
2	Visage Holdings & Finance Pvt. Ltd.	10.00	NA	6.78	[ICRA]A-(CE) (Stable); Reaffirmed
3	Satya MicroCapital Ltd.	10.00	NA	6.78	[ICRA]A-(CE) (Stable); Reaffirmed
4	Sonata Finance Private Limited	10.00	NA	6.79	[ICRA]A-(CE) (Stable); Reaffirmed
5	Ashv Finance Limited <sup>^</sup>	10.00	NA	6.79	[ICRA]A-(CE) (Stable); Reaffirmed

\*Instrument details are provided in Annexure-1; ^ Previously known as Jain Sons Finlease Limited

Note: The CE suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The table below also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Borrower Name	Rating Without Explicit Credit Enhancement
Berar Finance Limited	[ICRA]BBB
Visage Holdings & Finance Pvt. Ltd.	[ICRA]BBB-
Satya MicroCapital Ltd.	[ICRA]BBB
Sonata Finance Private Limited	[ICRA]BBB
Ashv Finance Limited	[ICRA]BBB

ICRA also has ratings outstanding on the other rated facilities/instruments of the following entities:

Berar Finance Limited: Refer to this [link](#) for details

Visage Holdings & Finance Pvt. Ltd.: Refer to this [link](#) for details

Satya MicroCapital Ltd.: Refer to this [link](#) for details

Sonata Finance Private Limited: Refer to this [link](#) for details

### Rationale

Under a pooled loan issuance (PLI) programme, Northern Arc P.L.I. XIV, the lender has provided loans to five borrower entities. The rating is based on the credit profile of each borrower and the available credit enhancement in the form of a common partial guarantee {provided by Northern Arc Capital Limited (NACL); rated [ICRA]A+ (Stable)}.

The rating reaffirmation takes into account the moderate amortisation of the loans, which has led to the build-up of the common partial guarantee cover over the future loan repayments (36.84% of the aggregate principal outstanding of Rs. 33.94 crore). While reaffirming the rating, ICRA has analysed the transaction at the proposed reduced guarantee amount of Rs. 9.16 crore (27.00% of the PLI amount outstanding after the October 2021 payout). Further, the guarantee coverage is expected to increase with principal amortisation on the underlying loans.

The rating, however, remains constrained by the high borrower concentration risk in the transaction with the top borrower entity accounting for 20.02% of the PLI amount outstanding (after October 2021 payout). The rating is also constrained by the moderate standalone credit quality of the borrowers in the programme and the vulnerability of the borrowers to any adverse sector-wide development and political or environmental issues that could affect their portfolio's performance.

### Adequacy of credit enhancement

The common partial guarantee is legally enforceable, irrevocable, unconditional, covers the tenor of the rated instruments and has a well-defined invocation and payment mechanism. The payment mechanism is as follows:

Trigger Date	Action Points
T-3	Borrower shall pay monthly interest and principal due along with other obligations (if any) to the lender, 3 days prior to the due date
T-2	In the event of the failure of the borrower to make the payment due as per the above-mentioned timeline, the lender (or lender's agent) will invoke the guarantee and send one business day notice to the guarantor to make the payment due
T-1	Guarantor to make the payment due

Note: T stands for due date

### Salient covenants of the rated facility

- » *Cross-default by the borrower is an event of non-compliance*
- » *In the event of non-compliance as defined in the transaction documents, the borrower is to make weekly principal repayments. The schedule shall be drawn up to ensure that the last payment date of an approximate 4-week period (or 5-week period as applicable) shall fall on a principal repayment date*
- » *In the event of default as defined in the transaction documents, all outstanding amount of the facilities shall stand accelerated and will be payable within 2 business days*

## Key rating drivers and their description

### Credit strengths

**Common partial guarantee provided by NACL; guarantee coverage expected to increase with principal amortisation on underlying loans** – The rating factors in the credit enhancement in the form of a common corporate guarantee of Rs. 9.16 crore (27.00% of the initial value of the loans) provided by NACL, which can be invoked to meet any shortfall in debt servicing by the borrowers. The payment mechanism is designed to ensure the timely servicing of the amounts due to the investor even in the event of the guarantee being invoked.

**Diversification arising from presence of five borrower entities with operations across different states as well as varying asset classes** – The PLI programme consists of five investment grade rated borrower entities, with operations across different asset classes (small and medium size enterprise (SME) financing, microfinance loans and two-wheeler (2W) loans) and states, which reduces the risk of correlated weakness in business operations due to external factors.

### Credit challenges

**High borrower-level concentration** – The concentration in the exposure related to each borrower remains high as they have a share of ~20% each of the outstanding PLI amount.

**Moderate standalone credit quality of the borrowers in the long term** – The standalone credit quality of the borrowers (rating without explicit credit enhancement) ranges from BBB- to BBB.

**Adverse sector-wide developments could impact standalone credit quality of multiple borrowers** – The borrowers are vulnerable to external factors, in general, impacting the economy as well as adverse sector-wise developments. Also, the asset quality and, consequently, the credit quality of the borrowers could be correlated and are vulnerable to various political, communal and environmental issues.

## Liquidity position: Adequate

The liquidity profile of the underlying borrowers is largely adequate to meet the debt servicing requirements. Additional liquidity is available in the form of an unconditional and irrevocable partial guarantee from NACL.

## Rating sensitivities

**Positive factors** – The rating could be upgraded on the basis of sufficient amortisation of the loan facilities, leading to the build-up of the guarantee cover over future payments. An improvement in the credit profiles of the underlying borrowing entities could also support a rating upgrade.

**Negative factors** – A deterioration in the credit quality of the underlying entities could lead to pressure on the rating. The rating could also be downgraded on a deterioration in the credit profile of the guarantor (NACL).

## Analytical approach

◆ Analytical Approach	◆ Comments
◆ <b>Applicable Rating Methodologies</b>	<a href="#">ICRA Rating Methodology for Pooled Loan/Bond Issuance Structures</a>
◆ <b>Parent/Group Support</b>	◆ Not Applicable
◆ <b>Consolidation/Standalone</b>	◆ Not Applicable

## About the guarantor

Chennai-based NACL is a systemically important non-banking financial company (NBFC). It acts as a platform in the financial services sector with the objective of catering to the diverse credit requirements of under-served households and businesses by providing access to debt finance. This is done either through direct lending and investments or by providing syndication and structuring services.

The company commenced business by targeting microfinance institutions (MFIs) and has diversified into other sectors including micro, small, and medium enterprise (MSME) finance, vehicle finance (includes commercial vehicle and 2W finance), consumer finance, affordable housing finance and agricultural supply chain finance. Further, over the years, NACL has steadily diversified across products, geographies, and borrower segments as well. Nimbus, NACL's proprietary technology system, forms the backbone of its growth as a platform and enables the scaling up of business operations with execution and functional efficiencies and data analytics.

As of March 2021, IIFL Special Opportunities Fund was the largest shareholder with a stake of 26.3% on a diluted basis. Other large shareholders included Leapfrog Financial Inclusion India II Limited (23.2%), Augusta Investments II Pte Ltd (18.3%), Eight Roads Investments (Mauritius) (II) Limited (10.5%), Dvara Trust (10.0%), Accion Africa Asia Investment Company (6.0%), and SMBC (5.4%).

For the detailed rating rationale on NACL, please refer to this [link](#).

## About the borrowers

### Berar Finance Limited

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 profit after tax (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

#### Visage Holdings & Finance Pvt. Ltd.

Visage Holdings and Finance Private Limited is a non-deposit taking NBFC, incorporated in 1996. The current promoters acquired Kinara in September 2011 and commenced lending operations in November 2011. The company offers credit facilities to small businesses under the brand name Kinara Capital. It provides secured (hypothecation of machinery) and unsecured term loans and working capital facilities with a maximum ticket size of Rs. 30 lakh. Currently, the company operates in Karnataka, Maharashtra, Gujarat, Tamil Nadu, Andhra Pradesh and Telangana with its head office in Bengaluru. As on September 30, 2021, Kinara had through 110 branches and a managed portfolio of Rs. 986.2 crore.

#### Key financial indicators (audited)

◆ Visage Holdings & Finance Pvt. Ltd.	◆ FY2020	◆ FY2021	◆ H1 FY2022#
Total income (Rs. crore)	221.7	233.0	119.3
Profit after tax (Rs. crore)	18.1	7.5	3.4
Net worth (Rs. crore)	200.8	230.8	234.4
Total managed portfolio (Rs. crore)	884.4	957.9	986.2
Total managed assets (Rs. crore)	1,069.7	1,237.7	1,296.39
Return on managed assets (%)	1.8%	0.6%	0.5%
Return on net worth (%)	9.9%	3.5%	2.95%
Managed gearing (times)	3.9	4.0	4.2
Gross stage 3 (%)	6.1%	10.4%*	12.3%*
Net stage 3 (%)	3.6%	8.2%*	10.4%*
Net stage 3 / Net worth	14.7%	30.2%*	37.2%*
CRAR (%)	28.8%	29.2%	28.0%

Source: Company, ICRA Research; All ratios as per ICRA calculations; #Provisional

\*Gross non-performing advances (NPAs), net NPAs and Net NPA/Net worth as per RBI reporting stood at 9.0%, 6.0% and 23.8%, respectively, as on September 30, 2021 and 5.4%, 3.4% and 13.1%, respectively, as on March 31, 2021; Net NPA, adjusted for the portfolio covered by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme and Emergency Credit Line Guarantee Scheme (ECLGS), stood at 1.1% as on September 30, 2021 and 1.2% as on March 31, 2021

### Satya MicroCapital Ltd.

Satya MicroCapital Limited (formerly known as TFC Finvest Limited) is a Delhi-based NBFC, which was incorporated in 1995. SML started its microfinance operations in November 2016 by adopting the joint liability group (JLG) model with a fortnightly collection cycle. The company primarily offers JLG loans with ticket sizes in the median range of Rs. 25,000-Rs. 75,000, and individual microloans with ticket sizes in the range of Rs. 45,000-Rs. 80,000 at interest rates of 21-26%, along with a processing fee of 1% for JLG loans and 3% for individual loans. SML focusses primarily on lending to women (husbands/sons above 18 years of age act as co-borrowers) aiming to start a new business or enhance an existing business. The operations were spread geographically in 186 districts across 21 states/Union Territories (UTs) as on September 30, 2021.

In FY2021, the company reported a PAT of Rs. 10.2 crore (Rs. 7.5 crore in FY2020) on assets under management (AUM) of Rs. 1,476 crore (Rs. 1,008 crore as on March 31, 2020). In 5M FY2022, SML reported a net profit of Rs. 5.5 crore on an AUM of Rs. 1,485 crore as on August 31, 2021.

### Key financial indicators (Ind-AS)

◆ Satya MicroCapital Ltd.	◆ FY2019	◆ FY2020	◆ FY2021	◆ 5M FY2022
	Audited	Audited	Audited	Provisional
Total income (Rs. crore)	101.7	208.6	267.2	120.1
Profit after tax (Rs. crore)	(0.3)	7.5	10.2	5.5
Net worth (Rs. crore)	86.5	171.8	404.4	410.6
Gross AUM <sup>^</sup> (Rs. crore)	621.7	1,007.9	1,476.2	1,485.1
Return on average managed assets (%)	(0.0%)	0.7%	0.7%	0.68%
Return on average net worth (%)	(0.5%)	5.8%	3.5%	3.2%
Gearing (on-book; times)	8.6	5.4	2.8	3.3
Gross stage-3 (%)	0.0%	1.6%	1.5%	2.5%
Net stage-3 (%)	0.0%	0.6%	0.6%	1.4%
Solvency (Net stage-3/Net worth)	0.3%	3.0%	2.0%	4.3%
CRAR (%)	20.4%	25.5%	34.6%	35.9%

**Source:** Company, ICRA Research; All values and ratios as per ICRA calculations

<sup>^</sup>Gross AUM is as per IGAAP

### Sonata Finance Private Limited

Sonata Finance Private Limited (SFPL) is an NBFC-MFI registered with the RBI. The company was incorporated in 1995 and its microfinance operations commenced in 2006. SFPL's registered office is in Lucknow. It offers credit to economically-backward women engaged in income-generating activities like processing and manufacturing activities, service activities and animal husbandry. While the company offers a gamut of loans including loans for home improvement, utility, sanitation, etc., its focus product is the income-generating group loan (IGL) using the JLG model. As on December 31, 2020, the company was managing a portfolio of Rs. 1,274 crore through a network of 448 branches spread across 132 districts in 9 states of India.

**Key financial indicators (audited)**

<b>Sonata Finance Private Limited</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>
	<b>Ind AS</b>	<b>Ind AS</b>	<b>Ind AS</b>
Total income	301.71	334.60	266.93
Net interest income	123.75	139.75	90.62
Profit after tax (PAT)	32.99	14.09	4.39
Net worth	256.85*	272.69	279.14
Gross loan portfolio	1,441.08	1,768.06	1,504.15
% PAT / Average managed assets	1.87%	0.70%	0.23%
% PAT / Average net worth	15.13%	5.32%	1.59%
% Gross NPAs	3.34%	1.54%	5.31%
% Net NPAs	2.70%	0.00%	0.00%
% Net NPA / Net worth	14.25%	0.00%	0.00%
% Capital adequacy ratio	25.95%	23.07%	NA
Gearing (reported; times)	4.79	4.59	4.36
Gearing (managed; times)	5.25	5.12	4.78

*Source: Company, ICRA Research; All ratios as per ICRA calculations; Amount in Rs. crore; \*compulsorily convertible preference shares of Rs. 75 crore considered as part of the net worth*

**Ashv Finance Limited (previously known as Jain Sons Finlease Limited)**

Jain Sons Finlease Limited (JSFL) was incorporated as an NBFC in February 1998. In December 2011, Mr. Vineet Rai- promoted Intelicap acquired JSFL and later diluted its stake with a series of equity infusions by other investors. In FY2021, the entity's name was changed to Ashv Finance Limited (AFL). The company lends to the SME segment, targeting entities that are in their growth phase. The average ticket size of loans outstanding as on March 31, 2021 was around Rs. 9 lakh.

AFL reported a net profit of Rs. 8.0 crore in FY2021 on total AUM of Rs. 643.8 crore as on March 31, 2021 vis-à-vis a net profit of Rs. 3.8 crore in FY2020 on total AUM of Rs. 391 crore as on March 31, 2020. In H1 FY2022, AFL reported a net profit of Rs. 3.4 crore on total AUM of ~Rs. 504 crore as on September 30, 2021.

**Key financial indicators**

<b>Ashv Finance Limited</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>H1 FY2022</b>
	<b>IGAAP</b>	<b>Ind AS</b>	<b>Ind AS</b>	<b>Ind AS</b>
	<b>(Audited)</b>	<b>(Audited)</b>	<b>(Audited)</b>	<b>(Provisional)</b>
Equity capital	30.61	42.09	42.09	42.09
Net worth (reported)	156.73	240.29	248.87	252.6
Total managed assets	414.75	530.93	643.82	701.81
Total income	59.97	74.97	97.85	61.51
Net interest income	24.66	31.66	60.18	32.15
Profit before tax (PBT)	1.31	20.3	2.65	2.78
Profit after tax (PAT)	1.90	3.77	7.96	3.35
Gross portfolio	379.10	391.00	510.29	503.74
GNPA%	4.76%	2.36%	3.15%	NA
NNPA%	4.16%	0.19%	1.52%	NA
Capital adequacy ratio	42.07%	60.79%	40.89%	45.94%
Net interest margin (%)	5.51%	7.68%	10.35%	9.75%
Operating expenses/Average managed assets	3.39%	5.72%	7.68%	8.34%
PAT/ Average managed assets	0.42%	0.78%	1.36%	1.00%
Return on average net worth (%)	1.46%	3.25%	3.26%	2.67%

Source: Company, ICRA Research; Amount in Rs. crore

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

S. No	Name of Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Rating	FY2021		FY2020	FY2019
					Nov-23-21	Nov-23-20	Sep-28-20	-	-
1	Northern Arc P.L.I. XIV	Berar Finance Limited	10.00	6.79	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)		
		Visage Holdings & Finance Pvt. Ltd.	10.00	6.78	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)		
		Satya MicroCapital Ltd.	10.00	6.78	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)		
		Sonata Finance Private Limited	10.00	6.79	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)		
		Ashv Finance Limited	10.00	6.79	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)		

### Complexity level of the rated instruments

Borrower Name	Complexity Indicator
Berar Finance Limited	Very Simple
Visage Holdings & Finance Pvt. Ltd.	Very Simple
Satya MicroCapital Ltd.	Very Simple
Sonata Finance Private Limited	Very Simple
Ashv Finance Limited	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](http://www.icra.in)

### Annexure-1: Instrument details

Sl.	Trust Name	Instrument	Date of Issuance	Interest Rate <sup>^</sup>	Scheduled Maturity Date	Rated Amount (Rs. crore)	Current Rating
1	Northern Arc P.L.I. XIV	Berar Finance Limited	September 2020	Blended yield of 11.75%	September 2023	6.79	[ICRA]A-(CE) (Stable)
		Visage Holdings & Finance Pvt. Ltd.			September 2023	6.78	[ICRA]A-(CE) (Stable)
		Satya MicroCapital Ltd.			September 2023	6.78	[ICRA]A-(CE) (Stable)
		Sonata Finance Private Limited			September 2023	6.79	[ICRA]A-(CE) (Stable)
		Ashv Finance Limited			September 2023	6.79	[ICRA]A-(CE) (Stable)

Source: Company; <sup>^</sup>Weighted average interest rate to lender

### Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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For more information, visit [www.icra.in](http://www.icra.in)

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