

November 25, 2022

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-2022 Payout (Rs. crore)*	Rating Action
1	Berar Finance Limited	10.00	6.79	3.44	[ICRA]A-(CE) (Stable); Reaffirmed
2	Visage Holdings & Finance Pvt. Ltd. [#]	10.00	6.78	3.43	[ICRA]A-(CE) (Stable); Reaffirmed
3	Satya MicroCapital Ltd.	10.00	6.78	3.43	[ICRA]A-(CE) (Stable); Reaffirmed
4	Sonata Finance Private Limited	10.00	6.79	3.44	[ICRA]A-(CE) (Stable); Reaffirmed
5	Ashv Finance Limited [^]	10.00	6.79	3.44	[ICRA]A-(CE) (Stable); Reaffirmed
Total		50.00	33.93	17.18	

*Instrument details are provided in Annexure I; [^] Previously known as Jain Sons Finlease Limited (aka Intellegrow); [#] aka Kinara Capital

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+ (Positive)}.

The rating reaffirmation takes into account the high amortisation of the loans, which has led to build-up of the common partial guarantee cover over the future loan repayments (53.33% of the aggregate principal outstanding of Rs. 17.18 crore). While reaffirming the rating, ICRA has analysed the transaction at the proposed reduced guarantee amount of Rs. 4.64 crore (27.00% of the PLI amount outstanding after the October 2022 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% of the PLI amount outstanding (after October 2022 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 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. The guarantee available in the transaction, even post reset to 27% of the PLI amount currently outstanding, would ensure that any immediate default by any single borrower would be fully covered such that there is no default to the lender.

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. This 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 each borrower has a share of ~20% 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) remains moderate. However, ICRA notes that a few of the borrowing entities have seen positive rating actions over the past one year implying improvement in their standalone credit profiles as the concerns due to the pandemic have ebbed.

Adverse sector-wide developments could impact standalone credit quality of multiple borrowers – The borrowers are vulnerable to external factors in the long run, 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 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 material deterioration in the credit profile of the common guarantor (NACL).

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Pooled Loan/Bond Issuance Structures
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the guarantor

Northern Arc Capital 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 its 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. 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 2022, IIFL Special Opportunities Fund was the largest shareholder with a stake of 25.7% on a diluted basis. Other large shareholders included Leapfrog Financial Inclusion India II Limited (22.8%), Affirma Capital (17.9%), Eight Roads Investments (Mauritius) (II) Limited (10.3%), Dvara Trust (9.8%), Accion Africa Asia Investment Company (5.9%) and SMBC (5.3%).

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, over the years expanded to five other states, i.e., Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka. As on March 31, 2022, the company's loan book was Rs. 854 crore. In FY2022, BFL reported a profit after tax (PAT) of Rs. 17.4 crore on operating income of Rs. 85 crore vis-à-vis a PAT of Rs. 15 crore on operating income of Rs. 67 crore in FY2021.

Key financial indicators (audited)

Berar Finance Limited	FY2020	FY2021	FY2022
Total income	105	135	176
Profit after tax	14.6	15.3	17.4
Net worth	110	146	259
AUM	471	685	854
Total assets	556	891	1,038
Return on assets	3.0%	2.1%	1.8%
Return on net worth	15.9%	12.0%	8.6%
Gross gearing (times)	3.86	4.93	2.91
Gross NPA	2.6%	2.5%	3.1%
Net NPA	2.3%	1.7%	2.2%
Gross stage 3	2.6%	2.5%	2.2%
Net stage 3	1.8%	1.7%	1.4%
Solvency (Net stage 3/Net worth)	7.5%	7.8%	4.3%
CRAR	21.6%	20.5%	28.8%

Source: Company, ICRA Research; All values and ratios as per ICRA calculations; Amount in Rs. crore

Visage Holdings & Finance Pvt. Ltd.

Visage Holdings & Finance Pvt. Ltd. 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 six states, namely Karnataka, Maharashtra, Gujarat, Tamil Nadu, Andhra Pradesh and Telangana, with its head office in Bengaluru. As on June 30, 2022, Kinara had 121 branches with assets under management (AUM) of Rs. 1,435.3 crore.

Key financial indicators (Ind-AS, audited)

Visage Holdings & Finance Pvt. Ltd.	FY2020	FY2021	FY2022
Total income	223.7	233.0	285.9
Profit after tax	18.1	7.5	14.6
Net worth	200.8	230.8	245.3
Managed loan book	884.4	957.8	1,327.1
Total managed assets	1,069.7	1,237.7	1,799.1
Return on managed assets	1.8%	0.6%	1.0%
Return on net worth	9.9%	3.5%	6.1%
Adjusted gearing (times)	3.7	3.7	5.3
Gross stage 3	6.1%	10.4%*^	8.6%
Net stage 3	3.6%	8.2%*	5.9%^
Solvency (Net stage 3/Net worth)	14.7%	30.2%*	23.7%
CRAR	28.8%	29.2%	18.5%

Source: Company, ICRA Research; All values and ratios as per ICRA calculations; Amount in Rs. crore

*Gross and net NPA and Net NPA/Net worth as per RBI reporting stood at 5.4%, 3.4% and 13.1%, respectively, as on March 31, 2021

^aAs of March 31, 2022, the company reported gross stage 3 as NPA. Net NPA, adjusted for the portfolio covered by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and the Emergency Credit Line Guarantee Scheme (ECLGS), stood at 1.4% as on March 31, 2022 and 1.2% as of March 31, 2021

Satya MicroCapital Ltd.

Satya MicroCapital Ltd. (SML; 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. 25,000-75,000, and individual microloans with ticket sizes in the range of Rs. 45,000-80,000 at interest rates of 21-26% (currently 25% on MFI loans), along with a processing fee of 1.5% for JLG loans and 3% for individual loans. SML primarily focusses on lending to women (husbands/sons above 18 years of age act as nominees) aiming to start a new business or enhance an existing business. As on September 30, 2022, the operations were spread geographically in 255 districts across 21 states/Union Territories (UTs).

In FY2022, the company reported a PAT of Rs. 32.5 crore (Rs. 10.2 crore in FY2021) on AUM of Rs. 2,884 crore as on March 31, 2022 (Rs. 1,476 crore as on March 31, 2021). In H1 FY2023, SML reported a net profit of Rs. 13.5 crore on AUM of Rs. 3,254 crore as on September 30, 2022.

Key financial indicators (Ind-AS, audited)

Satya MicroCapital Ltd.	FY2020	FY2021	FY2022	H1 FY2023*
Total income	208.6	267.2	401.5	304.5
Profit after tax	7.4	10.2	32.5	13.5
Net worth	171.8	404.4	552.3	639.4
Gross AUM ^a	1,008	1,476	2,884	3,254
Return on average managed assets	0.7%	0.7%	1.2%	0.7%
Return on average net worth	5.8%	3.5%	6.8%	4.5%
Gearing (on-book)	5.4x	2.8x	4.1x	4.1x
Gross NPA	1.6%	1.5%	3.3%	5.6%
Net NPA	0.6%	0.6%	2.5%	4.2%
Solvency (Net stage 3/Net worth)	3.0%	2.0%	10.6%	16.8%
CRAR	25.5%	34.6%	23.0%	24.1%

Source: Company, ICRA Research; All values and ratios as per ICRA calculations; Amount in Rs. crore

^aGross AUM is as per IGAAP

*Provisional numbers

Sonata Finance Private Limited

Sonata Finance Private Limited (SFPL) is an NBFC-MFI registered with the Reserve Bank of India (RBI). It 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 lending model. As on December 31, 2021, SFPL was managing a portfolio of Rs. 1,579 crore through a network of 450 branches spread across 132 districts in 9 states.

Key financial indicators (Ind-AS, audited)

Sonata Finance Private Limited	FY2020	FY2021	9M FY2022
Net interest income	139.7	90.6	90.4
Profit after tax	14.1	4.4	8.3
Net worth	272.7	279.1	288.1
Total managed assets	2,013.2	1,849.5	2,059.9
PAT / Average managed assets	0.70%	0.22%	0.56%
PAT / Average net worth	5.32%	1.59%	3.89%
Gross NPAs	1.5%	6.0%	2.4%
Net NPAs	0.0%	1.7%	0.8%
Capital adequacy ratio	17%	23%	22%
Gearing (reported; times)	4.59	4.36	4.61
Gearing (managed; times)	5.12	4.68	4.97

Source: Company, ICRA Research; All values and ratios as per ICRA's calculations; Amount in Rs. crore

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

Jain Sons Finlease Limited (JSFL) was incorporated as an NBFC in February 1998. Intellectap (promoted by Mr. Vineet Rai) acquired JSFL in December 2011 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 small and medium-sized enterprises (SME) segment, targeting entities that are in their growth phase.

AFL reported a net profit of Rs. 5 crore in FY2022 over a total AUM of Rs. 728 crore as on March 31, 2022 vis-à-vis a net profit of Rs. 8 crore in FY2021 on total AUM of Rs. 514 crore as on March 31, 2021. In Q1 FY2023, AFL reported a net loss of Rs. 12 crore on total AUM of Rs. 783 crore as on June 30, 2022.

Key financial indicators (Ind-AS, audited)

Ashv Finance Limited	FY2020	FY2021	FY2022	Q1 FY2023*
Net interest income	31.7	60.2	61.6	20.8
Profit after tax (PAT)	3.8	8.0	5.5	-12.0
Net worth (excl. goodwill)	240.3	228.9	234.9	223.1
Gross portfolio	391.0	510.3	729.7	794.0
GNPA	2.4%	3.2%	4.1%	3.4%
NNPA	0.2%	1.5%	1.9%	1.3%
Capital adequacy ratio	60.8%	40.9%	28.6%	24.1%
Net interest margin/ AMA	7.9%	10.5%	8.1%	8.7%
Operating expenses/Average managed assets	5.8%	7.9%	7.2%	7.7%
PAT/ Average managed assets	0.8%	1.4%	0.7%	-5.0%
Return on average net worth	3.2%	3.4%	2.4%	-20.9%

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

*Provisional numbers

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 (FY2023)				Chronology of Rating History for the Past 3 Years			
		Borrower's name	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	FY2022	FY2021		FY2020
					November 25, 2022		November 23, 2021	November 23, 2020	
1	Northern Arc P.L.I. XIV	Berar Finance Limited	10	3.44	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)	
		Visage Holdings & Finance Pvt. Ltd.	10	3.43	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)	
		Satya MicroCapital Ltd.	10	3.43	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)	
		Sonata Finance Private Limited	10	3.44	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)	
		Ashv Finance Limited	10	3.44	[ICRA]A-(CE) (Stable)	[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: [Click Here](#)

Annexure I: Instrument details

Sl.	Trust Name	Instrument	Date of Issuance	Interest Rate [^]	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	3.44	[ICRA]A-(CE) (Stable)
		Visage Holdings & Finance Pvt. Ltd. [#]			September 2023	3.43	[ICRA]A-(CE) (Stable)
		Satya MicroCapital Ltd.			September 2023	3.43	[ICRA]A-(CE) (Stable)
		Sonata Finance Private Limited			September 2023	3.44	[ICRA]A-(CE) (Stable)
		Ashv Finance Limited [*]			September 2023	3.44	[ICRA]A-(CE) (Stable)

Source: Company; [^]Weighted average interest rate to lender

^{*} Previously known as Jain Sons Finlease Limited (aka Intellegrow); [#]aka Kinara Capital

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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