

December 06, 2022

Northern Arc Capital Limited: Rating reaffirmed for loans given under Northern Arc P.L.I. XIII transaction; ratings withdrawn for loans given to four borrowers

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	Manba Finance Limited	15.00	7.28	2.34	[ICRA]A-(CE)(Stable); Reaffirmed
2	Shri Ram Finance Corporation Private Limited	10.00	4.87	1.58	[ICRA]A-(CE)(Stable); Reaffirmed
3	Visage Holdings & Finance Pvt. Ltd.^	17.50	2.81	-	[ICRA]A-(CE)(Stable); Withdrawn
4	Village Financial Services Private Limited	15.00	2.42	-	[ICRA]A-(CE)(Stable); Withdrawn
5	Arman Financial Services Limited	10.00	1.59	-	[ICRA]A-(CE)(Stable); Withdrawn
6	Oxyzo Financial Services Private Limited	17.50	0.82	-	[ICRA]A+(Stable); Withdrawn
	Total	85.00	19.79	3.92	

*Instrument details are provided in Annexure I; ^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
Manba Finance Limited	[ICRA]BBB
Shri Ram Finance Corporation Private Limited	[ICRA]BBB-

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

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

Oxyzo Financial Services Private Limited: Refer to this [link](#) for details

Rationale

Under a pooled loan issuance (PLI) programme, Northern Arc P.L.I. XIII, the lender has provided loans to multiple entities mentioned in the table above. The ratings are 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)}.

ICRA has withdrawn the ratings assigned to the loans of Visage Holdings & Finance Pvt. Ltd., Village Financial Services Private Limited, Arman Financial Services Limited and Oxyzo Financial Services Private Limited under the PLI programme as the said loans have been fully repaid and there is no amount outstanding against the same. The ratings were withdrawn in accordance with ICRA's policy on the withdrawal of ratings.

The rating reaffirmation takes into account the high amortisation of the loans, which has led to the build-up of the common partial guarantee cover over the future loan repayments. As per the terms of the transaction, the guarantee is capped at 100% of the aggregate outstanding amount of the PLI. Therefore, while reaffirming the rating, ICRA has analysed the transaction at the guarantee amount of Rs. 3.92 crore (100% of the PLI amount outstanding after the October 2022 payout).

The credit-enhanced rating, however, remains constrained by the high borrower concentration risk in the transaction with the programme now comprising two borrowers (accounting for 60% and 40% share of the PLI amount outstanding after the October 2022 payout). The rating is also constrained by the moderate standalone credit quality of the borrowers in the programme and their vulnerability 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. 3.92 crore 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.

Credit challenges

High borrower-level concentration – The PLI programme comprises two borrower entities, following the significant amortisation/repayment in the underlying loans. The concentration in the exposure related to each borrower remains high with the share of the top borrower entity standing at ~60% of the outstanding PLI amount.

Moderate standalone credit quality of the borrowers in the long term – The standalone credit quality of the borrowers remains moderate.

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-wide 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

The liquidity profile of the underlying borrowers is adequate for meeting 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 following an improvement in the credit profiles of the underlying borrowing entities.

Negative factors – A deterioration in the credit quality of the underlying entities could lead to pressure on the rating. A downgrade in the rating of the common guarantor (NACL) could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Policy on Withdrawal of Credit Rating 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 two-wheeler 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 efficiency 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

Manba Finance Limited

Manba Finance Limited was incorporated in 1996 and is a registered non-deposit taking NBFC, headquartered in Mumbai. The company is mainly engaged in the new two-wheeler (2W) financing business. It is fully owned (through individual capacity and through group companies/relatives) by Mr. Manish Shah, who is the promoter and Managing Director of the company. As on September 30, 2022, the company's operations were concentrated in three states, namely Maharashtra (77%), Gujarat (22%), and Rajasthan (1%). It expanded its operations in Chhattisgarh in Q2 FY2023 and its branch network in Gujarat. This led to a reduction in the portfolio concentration in Maharashtra to 77% as on September 30, 2022 from 89% as on March 31, 2021.

Key financial indicators (audited)

Manba	FY2020	FY2021	FY2022	Q1 FY2023*
Profit after tax (PAT)	18.2	9.1	9.4	3.5
Net worth	136.0	142.9	152.4	156.0
AUM	532.0	532.0	496.0	525.0
Total managed assets	559.5	535.8	572.2	610.5
Return on assets	3.4%	1.7%	1.7%	2.4%
Return on net worth	15.2%	6.5%	6.4%	9.2%
Gearing (times)	2.9	2.7	2.6	2.8
Gross NPA	1.5%	2.6%	4.9%	4.7%
Net NPA	1.3%	2.2%	4.3%	4.1%
90+ dpd	1.5%	2.9%	4.9%	4.7%
Solvency (Net NPA/Net worth)	5.0%	7.3%	14.0%	13.3%

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

Shri Ram Finance Corporation Private Limited

Shri Ram Finance Corporation Private Limited (SRFCL) is a Raipur-based asset financing non-deposit taking NBFC, promoted by Mr. Ganesh Bhattar and Mr. Gaurav Bhattar. The promoters have been involved in 2W financing through proprietorship concerns since 2003. The company received its non-banking financial company – asset finance company (NBFC-AFC) licence from the Reserve Bank of India (RBI) in July 2008. Since FY2010, it has diversified its products into four-wheeler finance, small medium enterprise loans and MFI loans. As on June 30, 2022, SRFCL's assets under management (AUM) stood at Rs. 615.0 crore with a net worth of Rs. 152.4 crore. As on June 30, 2022, the company's operations were mostly concentrated in three states, namely Madhya Pradesh (41%), Chhattisgarh (39%) and Odisha (16%).

Key financial indicators (audited)

SRFCL	FY2020	FY2021	FY2022	Q1 FY2023*
PAT	18.6	21.6	19.9	7.9
Net worth	83.3	104.9	142.7	152.4
AUM	465.3	449.1	544.0	615.0
Total managed assets	490.5	505.0	618.0	686.0
Return on assets	4.1%	4.3%	3.6%	4.9%
Return on net worth	25.1%	22.9%	16.1%	21.5%
Gearing (times)	4.2	3.0	3.0	3.2
Gross NPA	3.0%	4.0%	3.0%	2.9%
Net NPA	2.7%	3.3%	2.5%	2.2%
90+ dpd	4.6%	4.0%	3.0%	2.9%
Solvency (Net NPA/Net worth)	15.1%	13.9%	9.4%	8.8%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; *Provisional 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 an AUM of Rs. 1,435.3 crore.

Village Financial Services Private Limited

Village Financial Services Private Limited (VFSPL) is a Kolkata-based NBFC-MFI. It was the first microfinance company in eastern India to be granted the status of an NBFC by the RBI. VFSPL started microfinance operations in FY2006 and received its NBFC-

MFI licence from the RBI in September 2013. It provides micro-credit for income-generating activities to women borrowers using the joint liability group (JLG) lending model. As on March 31, 2022, the company was operating across 13 states in India through a network of 246 branches catering to 3.71 lakh borrowers while managing a portfolio of Rs. 804 crore.

Arman Financial Services Limited

Arman Financial Services Limited (AFSL) is an NBFC-AFC active in the 2W, MSME, and microfinance lending business. The microfinance division is operated through its wholly-owned subsidiary, Namra Finance Ltd, an NBFC-MFI. The Group operates mostly in the unorganised and underserved segments of the economy and primarily serves niche rural markets in Gujarat, Madhya Pradesh, Uttar Pradesh, Maharashtra, Uttarakhand and Rajasthan through its network of 313 branches and 55+ 2W dealerships spread across 111 districts. As on September 2022, AFSL had an AUM of Rs. 1,436 crore.

Oxyzo Financial Services Private Limited

Oxyzo is a Gurgaon-based NBFC, which commenced lending operations in November 2017. It primarily provides secured and unsecured purchase finance loans to small and medium-sized enterprises (SMEs) for financing the purchase of raw materials that are used in their core business. Oxyzo is wholly owned by OFB as on December 31, 2021.

Oxyzo's loan book, at the standalone level, stood at Rs. 2,003 crore as on December 31, 2021 compared to Rs. 1,380 crore in March 2021 and Rs. 912 crore in March 2020. As of December 31, 2021, about 75% of the loan book was secured, 4% was semi-secured, while 20% was unsecured. Purchase finance accounted for an 87% share in the loan book as on December 31, 2021 with the balance comprising of business loan (13%) and machinery financing (1%).

Oxyzo reported a profit after tax (PAT) of Rs. 40 crore in FY2021 on a total asset base of Rs. 1,643 crore against a PAT of Rs. 21 crore in FY2020 on a total asset base of Rs. 965 crore. In 9M FY2022, the company reported a PAT of Rs. 49 crore on an asset base of Rs. 2,381 crore. Oxyzo's net worth stood at Rs. 549 crore as on December 31, 2021 with a gearing of 3.3 times. It reported a gross stage 3% of 1.6% as on December 31, 2021 (1.2% as of March 31, 2021). The company raised incremental equity capital of Rs. 50 crore from its parent, i.e. OFB, in 9M FY2022.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Transaction Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Borrower	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	FY2022 December 31, 2021	FY2021		FY2020 February 4, 2020
					December 06, 2022		December 01, 2020	July 31, 2020	
1	Northern Arc P.L.I. XIII	Manba Finance Limited	15	2.34	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)
		Shri Ram Finance Corporation Private Limited	10	1.58	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)
		Visage Holdings & Finance Pvt. Ltd.	17.5	0	[ICRA]A-(CE) (Stable); withdrawn	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)
		Village Financial Services Private Limited	15	0	[ICRA]A-(CE) (Stable); withdrawn	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)
		Arman Financial Services Limited	10	0	[ICRA]A-(CE) (Stable); withdrawn	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)
		Oxyzo Financial Services Private Limited	17.5	0	[ICRA]A+ (Stable); withdrawn	[ICRA]A+ (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)
		Riviera Investors Private Limited	15	0	-	[ICRA]A-(CE) (Stable); withdrawn	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)

Complexity level of the rated instruments

Borrower Name	Instrument	Complexity Indicator
Manba Finance Limited	Term Loan	Very Simple
Shri Ram Finance Corporation Private Limited	Term Loan	Very Simple
Visage Holdings & Finance Pvt. Ltd.	Term Loan	Very Simple
Village Financial Services Private Limited	Term Loan	Very Simple
Arman Financial Services Limited	Term Loan	Very Simple
Oxyzo Financial Services Private Limited	Term Loan	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.	Transaction Name	Borrower Name*	Date of Issuance	Interest Rate [^]	Scheduled Maturity Date	Rated Amount (Rs. crore)	Current Rating
1	Northern Arc P.L.I. XIII	Manba Finance Limited	January 2020	Blended yield of 12.33%	Feb-23	2.34	[ICRA]A-(CE) (Stable)
		Shri Ram Finance Corporation Private Limited			Feb-23	1.58	[ICRA]A-(CE) (Stable)
		Visage Holdings & Finance Pvt. Ltd.			Feb-22	0	[ICRA]A-(CE) (Stable); withdrawn
		Village Financial Services Private Limited			Feb-22	0	[ICRA]A-(CE) (Stable); withdrawn
		Arman Financial Services Limited			Feb-22	0	[ICRA]A-(CE) (Stable); withdrawn
		Oxyzo Financial Services Private Limited			Dec-21	0	[ICRA]A+ (Stable); withdrawn

*Term loan rated for all borrowers

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

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria
+91 22 6114 3440
abhishek.dafria@icraindia.com

Samridhhi Chowdhary
+91 22 6114 3400
samridhhi.chowdhary@icraindia.com

Himanshi Doshi
+91 22 6114 3410
himanshi.doshi@icraindia.com

Alwin Thankachan
+91 22 6114 3411
alwin.thankachan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.