

June 06, 2023

Northern Arc Capital Limited: [ICRA]AA-(CE) (Stable) assigned to loans given under Northern Arc P.L.I. XV transaction

Summary of rating action

Transaction Name	Borrower Name	Current Rated Amount (Rs. crore)*	Rating Action
Northern Arc P.L.I. XV	NeoGrowth Credit Private Limited	4.01	[ICRA]AA-(CE) (Stable); assigned
	Ashv Finance Limited	2.91	[ICRA]AA-(CE) (Stable); assigned
	Dvara Kshetriya Gramin Financial Services Private Limited	3.23	[ICRA]AA-(CE) (Stable); assigned
	Oxyzo Financial Services Private Limited	3.97	[ICRA]AA-(CE) (Stable); assigned
Total		14.12	

*Instrument details are provided in Annexure I

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

S. No.	Borrower Name	Rating Without Explicit Credit Enhancement
1	NeoGrowth Credit Private Limited (Neogrowth)	[ICRA]BBB
2	Ashv Finance Limited (Ashv)	[ICRA]BBB
3	Dvara Kshetriya Gramin Financial Services Private Limited (Dvara)	[ICRA]BBB
4	Oxyzo Financial Services Private Limited (Oxyzo)	[ICRA]A+

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

Neogrowth: Refer to this [link](#) for details

Oxyzo: Refer to this [link](#) for details

Rationale

ICRA has assigned a rating of [ICRA]AA-(CE) (Stable) to the loan facilities (principal outstanding Rs. 14.12 crore; total dues of Rs. 14.53 crore as on May 5, 2023) given under the pooled loan issuance (PLI) programme: Northern Arc P.L.I. XV. As a part of the programme, a single lender gave loans to seven borrowers on the same day, of which four are live as on date. The rating is based on the credit quality of the borrowers and the external credit enhancement in the form of a common corporate guarantee to the extent of Rs. 24.30 crore (i.e. 18.00% of the initial principal amount of Rs. 135 crore), which has been provided by Northern Arc Capital Limited (NACL) for the loans of all the borrowers. As on May 5, 2023, the guarantee provided by NACL was fully covering the outstanding dues on the loans of the live borrowers.

Adequacy of credit enhancement

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

- Borrowers shall make payments of interest and principal amounts due along with all other obligations (if any) under the transaction documents by 4 PM India time on T-3 business days. The collection and payment agent shall intimate the lender on or before T-2.
- In the event of the borrower failing to comply with (1) above on T-2 business days, the lender will invoke the guarantee and send a 1 business day's notice to the guarantor to make the payments.

3. The guarantor is to make the payments on T-1 (i.e. the interest or principal repayment due date). The guarantor will be called upon to pay as per the original amortisation schedule of the relevant facility.

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 amounts of the facilities shall stand accelerated and will be payable within 2 business days*

Key rating drivers

Credit strengths

- **Common guarantee provided by NACL, which fully covers the outstanding cashflow**
The guarantee available in the transaction is Rs.24.30 crore which covers the entire outstanding dues of Rs.14.53 crore from the four live borrowers which ensures that there is no default to the lender.
- **Diversification arising from presence of four borrower entities with operations across different states as well as varying asset classes**
The PLI programme consists of four investment-grade rated borrower entities, with operations across different asset classes (small and medium size enterprise (SME) financing, microfinance loans) and states. This reduces the risk of correlated weakness in business operations due to external factors.

Credit challenges

- **High borrower-level concentration in the current PLI programme with the top borrower entity constituting 28.37% of the outstanding PLI amount**
The concentration in the exposure related to each borrower remains high as each borrower has a share of more than ~20% of the outstanding PLI amount with the top borrower entity constituting 28.37% of the outstanding PLI amount
- **Moderate standalone credit quality of the borrowers in the long term**
The standalone credit quality of Oxyzo remains strong and moderate for others characterized by strong/modest portfolio size, geographical presence and liquidity profile. Some of the entities in the PLI programme have limited funding sources.
- **Adverse sector-wide developments could impact the standalone credit quality of multiple borrowers in the programme;**
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

Strong (for Oxyzo)/Adequate (for Neogowth, Ashv, and Dvara)

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

Rating sensitivities

Positive factors – An improvement in the credit profile of the common guarantor could support a rating upgrade.

Negative factors – Weakening in credit profile of the common guarantor could lead to a rating downgrade.

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

Chennai-based Northern Arc is a systemically important non-banking financial company (NBFC). It offers diverse financing solutions to corporates as well as entities operating in microfinance, affordable housing finance, consumer finance, small finance banks, commercial vehicle finance, agri finance and the small business loans segment. In addition, the company lends directly to the end retail borrowers (in microfinance and loan against property (LAP) segments) as well as through preapproved partners (across various asset classes) on a co-lending model. Northern Arc provides loans and other structured debt products including guarantees to its clients. It also facilitates securitisation transactions for its clients and generally invests in subordinated tranches.

As of December 2022, on a fully-diluted basis, IIFL Special Opportunities Fund was the largest shareholder with a stake of 25.6% in Northern Arc, followed by Leapfrog Financial Inclusion India II Limited (22.6%), Augusta Investments II Pte Ltd (19.5%), Eight Roads Investments (Mauritius) (II) Limited (10.3%), Dvara Trust (8.0%), Accion (5.8%), SMBC (5.3%) and others (3.0%).

Key financial indicators

	FY2021	FY2022	9M FY2023*
Total income	684	917	960
Profit after tax	77	182	180
Assets under management (lending)	5,225	7,111	8,060
Gross non-performing assets (NPA)	2.2%	0.5%	0.6%
Net NPA	0.9%	0.2%	0.3%

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

^Total managed assets; *Provisional

About the borrowers

Ashv Finance Limited

Jain Sons Finance Limited (JSFL) was incorporated as an NBFC in February 1998. In December 2011, Mr. Vineet Rai-promoted Intellectcash acquired JSFL and later diluted its stake with a series of equity infusions by other investors. With effect from October 8, 2020, the company's name was changed to Ashv Finance Limited (Ashv) with no change in the line of business.

Ashv funds the micro, small and medium enterprise (MSME) segment with a key focus on lending to micro and small businesses in urban and semi-urban areas. The company primarily caters to under-served micro and small growing businesses like local kirana store owners, small shop owners, grocery stores, milk shops, small traders, etc. It provides differentiated credit after designing product offerings for its target segments. The company's average ticket size ranges from Rs. 10-11 lakh and the tenor of the loans is around 24 to 36 months. Ashv had a customer base of 8,100+ active clients, as on June 30, 2022, with operations spread across 18 states/Union Territories (UTs) through a network of 33 branches.

Key financial indicators

	FY2021	FY2022	9M FY2023*
Interest income	95	120	134
Profit after tax	8	5	(6.5)
Assets under management	534	754	~900^
Gross NPA	3.2%	4.1%	4.4%
Net NPA	1.5%	1.9%	2.2%

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

^Net own book

Dvara Kshetriya Gramin Financial Services Private Limited

Dvara Kshetriya Gramin Financial Services Private Limited is a systemically important non-deposit taking non-banking financial company (NBFC-ND-SI) providing financial services in remote and rural areas. The company positions itself as a rural wealth manager providing both loan products as well as other financial products like savings schemes, insurance products, etc., to its customers. Besides loan origination, the company was conducting business correspondent activities for MAS Financial Services, ESAF Small Finance Bank, Axis Bank, LTF Financial Services and NACL as of December 2022. It also has a co-lending partnership with MAS Financial and is exploring partnerships with other lenders. As of December 2022, Dvara had operations across eight states with 289 branches.

Key financial indicators

	FY2021	FY2022	9M FY2023*
Interest income	234	272	250
Profit after tax	0.84	0.57	13.53
Assets under management	1,108	1,130	1,512
Gross NPA#	7.0%	9.2%	6.2%
Net NPA	1.7%	4.3%	3.5%

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

NeoGrowth Credit Private Limited

NeoGrowth Credit Private Limited is a non-deposit taking systematically important NBFC, which started operations in FY2013. It was founded by Mr. Dhruv Khaitan and Mr. Piyush Khaitan, and its investors include Omidyar Network, Aspada Investment Advisors, Khosla Impact Fund, Frontier Investments Group (Accion), West Bridge Crossover Fund and IIFL Seed Ventures Fund. Before setting up NeoGrowth, the founders had established and managed Venture Infotek, which provided end-to-end card payment processing solutions to banks that issue credit cards and those with whom merchants have point-of-sale terminals. The founders divested their stake in the company in 2010.

Key financial indicators

	FY2021	FY2022	FY2023*
Total income	313	363	383
Profit after tax	(42)	(39)	17
Total AUM	1,323	1,559	1,852
Gross NPA	6.4%	12.9%	4.3%
Net NPA	2.5%	5.1%	2.2%

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

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 enterprises (SMEs) for financing the purchase of raw materials that are used in their core business. The company is a part of the OFB Group of Companies comprising OFB and Oxyzo, with the latter being wholly owned by OFB.

Oxyzo's loan book, at the standalone level, stood at Rs. 3,379 crore as on September 30, 2022 compared to Rs. 2,592 crore in March 2022 and Rs. 1,389 crore in March 2021. As of September 30, 2022, about 76% of the loan book was secured, while 24% was unsecured. Purchase finance accounted for a 77% share as of September 2022 (March 2020: 82%) of the loan book with the balance comprising business loans (23%) and machinery financing (1%). Oxyzo reported a profit after tax (PAT) of Rs. 84 crore in H1 FY2023 on a total asset base of Rs. 4,270 crore against a PAT of Rs. 69 crore in FY2022 on a total asset base of Rs. 3,439 crore. Oxyzo's net worth stood at Rs. 2,193 crore as on September 30, 2022 with a gearing of 0.9 times. It reported a gross stage 3% of 1.0% as on September 30, 2022 (1.0% as of March 31, 2022). The company raised incremental equity capital of Rs. 817 crore in March 2022, Rs. 603 crore in April 2022 and Rs. 107 crore in August 2022.

Key financial indicators

	FY2021	FY2022	H1 FY2023*
Interest income	193.4	229.6	239.7
Profit after tax	39	69	84
Assets under management	1,389.4	2,591.7	3,378.9
Gross NPA	1.2%	1.0%	1.0%
Net NPA	0.5%	0.4%	0.5%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Transaction Name	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
	Borrower Name	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024 June 06, 2023	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
Northern Arc P.L.I. XV	NeoGrowth Credit Private Limited	4.01	4.01	[ICRA]AA-(CE) (Stable)	-	-	-
	Ashv Finance Limited	2.91	2.91	[ICRA]AA-(CE) (Stable)	-	-	-
	Dvara Kshetriya Gramin Financial Services Private Limited	3.23	3.23	[ICRA]AA-(CE) (Stable)	-	-	-
	Oxyzo Financial Services Private Limited	3.97	3.97	[ICRA]AA-(CE) (Stable)	-	-	-

Complexity level of the rated instruments

Name	Complexity Indicator
NeoGrowth Credit Private Limited	Very Simple

Ashv Finance Limited	Very Simple
Dvara Kshetriya Gramin Financial Services Private Limited	Very Simple
Oxyzo Financial Services Private 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.	Transaction Name	Borrower Name	Date of Issuance	Interest Rate [^]	Scheduled Maturity Date	Rated Amount (Rs. crore)	Current Rating
1	Northern Arc P.L.I. XV	NeoGrowth Credit Private Limited	September 2020	11.50%	October 2023	4.01	[ICRA]AA-(CE) (Stable)
		Ashv Finance Limited		12.16%	October 2023	2.91	[ICRA]AA-(CE) (Stable)
		Dvara Kshetriya Gramin Financial Services Private Limited		12.26%	September 2023	3.23	[ICRA]AA-(CE) (Stable)
		Oxyzo Financial Services Private Limited		10.81%	September 2023	3.97	[ICRA]AA-(CE) (Stable)

[^]weighted average interest rate to lender

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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Branches



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