January 30, 2025

Aarsh Fincon Limited (erstwhile Akme Fincon Limited): Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities programme	70.00	70.00	[ICRA]BB+ (Stable); reaffirmed
Total	**70.00**	**70.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in Aarsh Fincon Limited's (Aarsh) long track record of operations in the two-wheeler (2W) financing business. The company has been gradually diversifying its product offerings and also extends used commercial vehicle (CV) financing, three-wheeler (3W) financing, electric vehicle (EV) financing, loan against property (LAP) and micro business (MB) loans. ICRA notes that most of these are new product offerings, and the book generated in these segments remains relatively unseasoned. The rating also considers the company's adequate capitalisation profile with a net worth[1] of Rs. 44.6 crore and a gearing of 2.3 times as on December 31, 2024.

The rating is, however, constrained by Aarsh's small scale and geographically concentrated operations. The company's assets under management (AUM) stood at Rs. 127 crore as on December 31, 2024. While ~57% of the AUM is in Rajasthan, the top 3 states/Union Territories (UTs) accounted for ~98% of the AUM as on September 30, 2024. ICRA takes note of the company's growth and diversification plans; the execution of the same shall remain monitorable. The rating continues to factor in the inherent risks associated with vehicle financing and the relatively vulnerable borrower profile. Aarsh's ability to improve its earnings profile as the portfolio expands, while keeping asset quality risks under control, would remain a key factor for its credit profile.

The Stable outlook reflects ICRA's opinion that the company will continue to maintain its credit profile with an adequate capitalisation profile to support the near-to-medium-term growth.

Key rating drivers and their description

Credit strengths

Long track record of operations with comfortable asset quality – Aarsh commenced operations in 1999 as a part of the Akme Group under the name – Akme Fincon Limited. Since then, it has been financing 2Ws in Rajasthan. In 2016, it separated from the Akme Group and was renamed Aarsh Fincon Limited in FY2023. A few years ago, the company ventured into used CV financing, 3W financing and LAP, the share of which has been gradually increasing. Aarsh has also started extending EV financing and MB loans, which shall further aid in product diversification.

The company has been able to maintain comfortable asset quality with gross non-performing assets (NPAs) remaining range-bound at 2.1-2.3% over the last five years. It reported gross NPAs of 2.2% and net NPAs of 1.8% as on December 31, 2024. Nonetheless, most of the product offerings in the company's portfolio are relatively new and the book generated in these segments remains unseasoned with their performance remaining monitorable.

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[1] *Provisional and adjusted for revaluation reserve*

Adequate capitalisation profile – Given its current scale of operations, Aarsh is adequately capitalised with a net worth of Rs. 44.6 crore as on December 31, 2024 (Rs. 42.7 crore as on March 31, 2024) and a capital adequacy ratio of 35.6% as on June 30, 2024 (38.2% as on March 31, 2024). The on-book gearing remained low at 2.3 times as on December 31, 2024 (1.7 times as on March 31, 2024). While the company remains adequately capitalised to support its near-to-medium-term growth plans, it plans to raise equity capital in the near term, which shall further support its capitalisation profile.

Credit challenges

Small scale and geographically concentrated operations – Although the company's AUM grew by ~43% (annualised) in 9M FY2025 to Rs. 127 crore as on December 31, 2024, the scale remains modest compared to peers. Further, Aarsh is a recent entrant in most of the product segments in its portfolio. Thus, its ability to achieve its growth targets will remain monitorable. Further, the portfolio remains geographically concentrated in Rajasthan, which accounted for ~57% of the AUM as of September 2024 (down from ~88% in March 2023). Moreover, the top 3 states/UTs accounted for ~98% of the portfolio as on September 30, 2024. ICRA takes note of the company's growth and diversification plans; the execution of the same shall remain monitorable.

Moderate earnings profile – The earnings profile remains subdued on account of the relatively high operating expenses and cost of funds. Aarsh reported a decline in its overall profitability in FY2024 with a profit after tax (PAT) of Rs. 2.3 crore in FY2024, translating into a return on average managed assets (RoMA) of 2.2% and a return on average net worth (RoNW) of 5.7% against Rs. 2.9 crore, 3.5% and 7.8%, respectively, in FY2023. The company reported a provisional PAT of Rs. 2.3 crore in 9M FY2025, translating into RoMA of 1.9% and RoNW of 5.4%. Aarsh's ability to improve its operating efficiency while reducing its cost of funds remains important from an earnings perspective.

Relatively vulnerable borrower profile – The company's portfolio vulnerability remains relatively high on account of the inherent risks associated with vehicle financing and the moderate credit profile of the borrowers. Further, it has started lending under the MB segment as well, which is a completely unsecured segment. As the company expands its operations, its ability to maintain its asset quality indicators would remain monitorable.

Liquidity position: Adequate

As on December 31, 2024, Aarsh held cash, bank balance and liquid investments of Rs. 1.0 crore along with unutilised sanctioned funding lines of Rs. 14 crore. The company's asset-liability management (ALM) profile is characterised by positive cumulative mismatches across all buckets. Over the next one year (until December 31, 2025), it has debt obligations of ~Rs. 50 crore against expected collections of Rs. 61 crore. Aarsh's funding profile is characterised by relatively high reliance on non-banking financial companies (58% of total borrowings as on December 30, 2024). Its ability to diversify its funding profile and increase its lending relationships shall remain important from a liquidity and growth perspective.

Rating sensitivities

Positive factors – Healthy growth in the scale of operations while maintaining the asset quality metrics along with a strong earnings profile and a prudent capitalisation structure on a sustained basis could positively impact the rating.

Negative factors – A deterioration in the asset quality indicators, resulting in pressure on the profitability, or a significant decline in the scale of operations could exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated as Myraid Financial Services Private Limited, the company was acquired by the Akme Group in 1999. Its name was changed to Akme Fincon Limited in 2005 and later to Aarsh Fincon Limited in FY2023. Aarsh operates as a non-banking financial company in the retail segment providing vehicle financing, including two-wheeler (2W) financing, used commercial vehicle (CV) financing, electric vehicle (EV) financing, three-wheeler (3W) financing, loan against property (LAP) and micro business loans.

As on September 30, 2024, the company operated via 55 branches or dealer direct selling agent (DDSA) centres with assets under management (AUM) of Rs. 120 crore. Aarsh is currently operational in five states/Union Territories (UTs), with Rajasthan having the highest share in its AUM at 56.5% as on September 30, 2024, followed by Delhi-NCR, Odisha and Gujarat. The company reported an AUM of Rs. 127.1 crore as on December 31, 2024.

Aarsh reported a profit after tax (PAT) of Rs. 2.3 crore in FY2024 (Rs. 1.9 crore in 9M FY2025), translating into a return on average managed assets (RoMA) of 2.2% (1.9% in 9M FY2025) and a return on average net worth (RoNW) of 5.7% (5.4% in 9M FY2025) compared to Rs. 2.9 crore, 3.5% and 7.8%, respectively, in FY2023.

Key financial indicators (audited)

Aarsh Fincon Limited (erstwhile Akme Fincon Limited)	FY2023	FY2024	9M FY2025*
Accounting as per	IGAAP	IGAAP	IGAAP
Total income	13.7	15.7	17.1
Profit after tax	2.9	2.3	1.9
Total managed assets	93.6	116.7	150.2
PAT/Average managed assets	3.5%	2.2%	1.9%
Reported gross NPAs	2.3%	2.3%	2.2%
Capital adequacy ratio	45.8%	38.2%	NA
Gearing (reported; times)	1.2	1.7	2.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current			Chronology of Rating History for the Past 3 Years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Jan 30, 2025	Date	Rating	Date	Rating	Date	Rating
Long-term fund-based bank facilities programme	Long term	70.00	[ICRA]BB+ (Stable)	07-Nov-2023	[ICRA]BB+ (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based bank facilities 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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based bank facilities programme	Aug 2022 to Oct 2024	9.85% to 16.25%	Jul 2026 to Aug 2028	70.00	[ICRA]BB+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

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