**November 07, 2023**

# Aarsh Fincon Limited (erstwhile Akme Fincon Limited): [ICRA]BB+ (Stable) assigned

## Summary of rating action

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

**Instrument details are provided in Annexure I*

## Rationale

The assigned rating takes into consideration Aarsh Fincon Limited's (Aarsh; erstwhile Akme Fincon Limited) track record of operations in the two-wheeler (2W) financing business. In the last few years, it has added more products and its offerings include 2W financing, used commercial vehicle (CV) financing, three-wheeler (3W) financing, electric vehicle (EV) financing and loan against property (LAP). The rating also factors in the company's adequate capitalisation profile with a total capital-to-risk weighted assets ratio (CRAR) of 45.8%, net worth of Rs. 40.4 crore and gearing of 1.2x as on March 31, 2023.

However, the rating is constrained by Aarsh's moderate scale of operations with assets under management (AUM) of Rs. 76.7 crore as on March 31, 2023, registering a growth of ~11% from Rs. 68.8 crore as on March 31, 2022. Although Aarsh had witnessed subdued growth in the past few years, ICRA takes note of its plans to expand its scale including the products launched and geographies entered in the recent past. The company has also hired a senior management team for the same. Currently, Aarsh's operations are geographically concentrated. It has a presence in five states and Union Territories (UTs) with around 88% of the portfolio pertaining to Rajasthan. ICRA expects the geographical concentration to dilute gradually as the company's portfolio grows in the nascent states.

Aarsh's borrowing profile is concentrated and comprises loans and cash credit from banks and non-banking financial companies (NBFCs). ICRA notes that the company raised funds from a public sector bank in FY2023 and YTD FY2024. Till FY2022, the majority of the funding was from NBFCs and financial institutions (FIs). Further, Aarsh's portfolio vulnerability remains relatively high on account of the inherent risks associated with vehicle financing and the moderate credit profile of the borrowers. The company has been able to maintain steady asset quality indicators at 2.0-2.4% over the last few years, including the Covid-19 pandemic period. It reported gross non-performing assets (GNPAs) of 2.3% as on March 31, 2023 and carried a provision of 15% on GNPAs. As the company expands its operations further, its ability to maintain adequate asset quality indicators would remain monitorable.

The Stable outlook reflects ICRA's opinion that the company will continue maintaining its credit profile, while expanding its scale, supported by its experienced promotors and management.

## Key rating drivers and their description

### Credit strengths

**Long track record of operations** – Aarsh commenced operations in 1999 as a part of the Akme Group under the name of Akme Fincon Private Limited. Since then, it has been involved in the business of financing 2Ws in Rajasthan. In 2016, the company separated from the Akme Group and was renamed Aarsh Fincon in FY2023. ICRA notes the experience of the promoters and the management in the retail lending space, which is expected to support the company's diversification plans. Aarsh also ventured into new products a few years ago and started offering used CV financing, 3W financing and LAP.

**Adequate capitalisation for current scale of operations** – Given its current scale of operations, Aarsh is adequately capitalised with a net worth of Rs. 40.4 crore as on March 31, 2023 (Rs. 34.9 crore as on March 31, 2022) and CRAR of 45.8% as on March 31, 2023 (48.1% as on March 31, 2022). Its on-book gearing stood at 1.2x as on March 31, 2023 (1.1x as on March 31, 2022). Considering the management's growth plans and capital infusion plan, its capitalisation profile is expected to remain adequate in the near term.

## Credit challenges

**Small scale of operations with high geographical concentration** – Aarsh has a small scale of operations with a portfolio of Rs. 76.7 crore as on March 31, 2023 (Rs. 68.8 crore as on March 31, 2022). The portfolio increased at a compound annual growth rate (CAGR) of ~2% over the past four fiscals (i.e. from March 2019 to March 2023). As the growth was slower on account of the pandemic-led disruptions, the management decided to enter new product segments and geographies during this period to mitigate the concentration risk to some extent.

Aarsh's operations remain concentrated in Rajasthan, which accounted for around 88% of the total portfolio as of March 2023. While ICRA notes that the company has entered new territories, its ability to increase its scale of operations while diversifying its operations geographically will remain important from a credit perspective.

**Concentrated funding profile** – The company's borrowing profile comprises terms loans from NBFCs and banks. Till FY2022, its funding profile was largely sourced via loans from NBFCs and FIs. However, Aarsh raised funds from a public sector bank in FY2023, which increased the share of bank funding as on March 31, 2023. As on March 31, 2023, its funding profile comprised ~66% from public sector banks, ~32% from NBFCs and ~2% from the directors and the relatives of the promoters.

**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. The company has been able to maintain steady asset quality indicators at 2.0-2.4% over the last few years, including the pandemic period. It reported GNPAs of 2.3% as on March 31, 2023 and carried a provision of 15% on GNPAs. As the company expands its operations further in new states and newer products, its ability to maintain adequate asset quality indicators would remain monitorable.

## Liquidity position: Adequate

As on June 30, 2023, Aarsh had a cash and bank balance of ~Rs. 2 crore. Over the next one year (until May 31, 2023), it has debt obligations of ~Rs. 11 crore against expected collections of Rs. 31 crore. Aarsh's relatively higher-tenure borrowings vis-à-vis the tenure of the loan book helps it maintain positive cumulative mismatches in its asset-liability management (ALM) statement across all buckets.

## Rating sensitivities

**Positive factors –** Healthy growth in the scale of operations while maintaining the asset quality metrics, a good profitability 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 (NBFCs) |
| **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 and its name was changed to Akme Fincon Limited in 2005 and later to Aarsh Fincon Limited in 2022. 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 and three-wheeler (3W) financing) and loan against property (LAP).

As on March 31, 2023, the company had 53 branches or dealer-direct selling agent (DDSA) centres in five states/ UTs with assets under management (AUM) of Rs. 76.7 crore. It reported a profit after tax (PAT) of Rs. 2.9 crore in FY2023, translating into a return on average managed assets (RoMA) of 3.5% and a return on average net worth (RoNW) of 7.8% compared to Rs. 3.6 crore, 4.9% and 11.0%, respectively, in FY2022. Its gearing stood at 1.2x with a total capital-to-risk weighted assets ratio (CRAR) of 45.8% as on March 31, 2023 against 1.1x and 48.1%, respectively, in March 2022.

### Key financial indicators (audited; IGAAP accounting)

| Aarsh Fincon Limited (erstwhile Akme Fincon Limited) | FY2021 | FY2022 | FY2023 |
|---|---|---|---|
| **Total income** | 13.7 | 13.5 | 13.7 |
| **Profit after tax** | 3.6 | 3.6 | 2.9 |
| **Net worth** | 30.1 | 34.9 | 40.4 |
| **Loan book** | 67.5 | 68.8 | 76.7 |
| **Total managed assets** | 72.5 | 74.0 | 93.6 |
| **Return on average managed assets** | 4.8% | 4.9% | 3.5% |
| **Return on average net worth** | 12.8% | 11.0% | 7.8% |
| **On-book gearing (times)** | 1.3 | 1.1 | 1.2 |
| **Gross NPA (GNPA)** | 2.2% | 2.3% | 2.1% |
| **Net NPA (NNPA)** | 1.9% | 1.9% | 1.8% |
| **Solvency (NNPA/Net worth)** | 4.2% | 3.8% | 3.4% |
| **CRAR** | 42.7% | 48.1% | 45.8% |

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

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

## Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of August 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | Nov 7, 2023 | NA | NA | NA |
| 1 | Bank facilities | Long term | 70.00 | 26.21 | [ICRA]BB+ (Stable) | NA | NA | NA |

## 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 Aug 2023 | 9.85% to 15.00% | Aug 2025 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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## 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.

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## ICRA Limited

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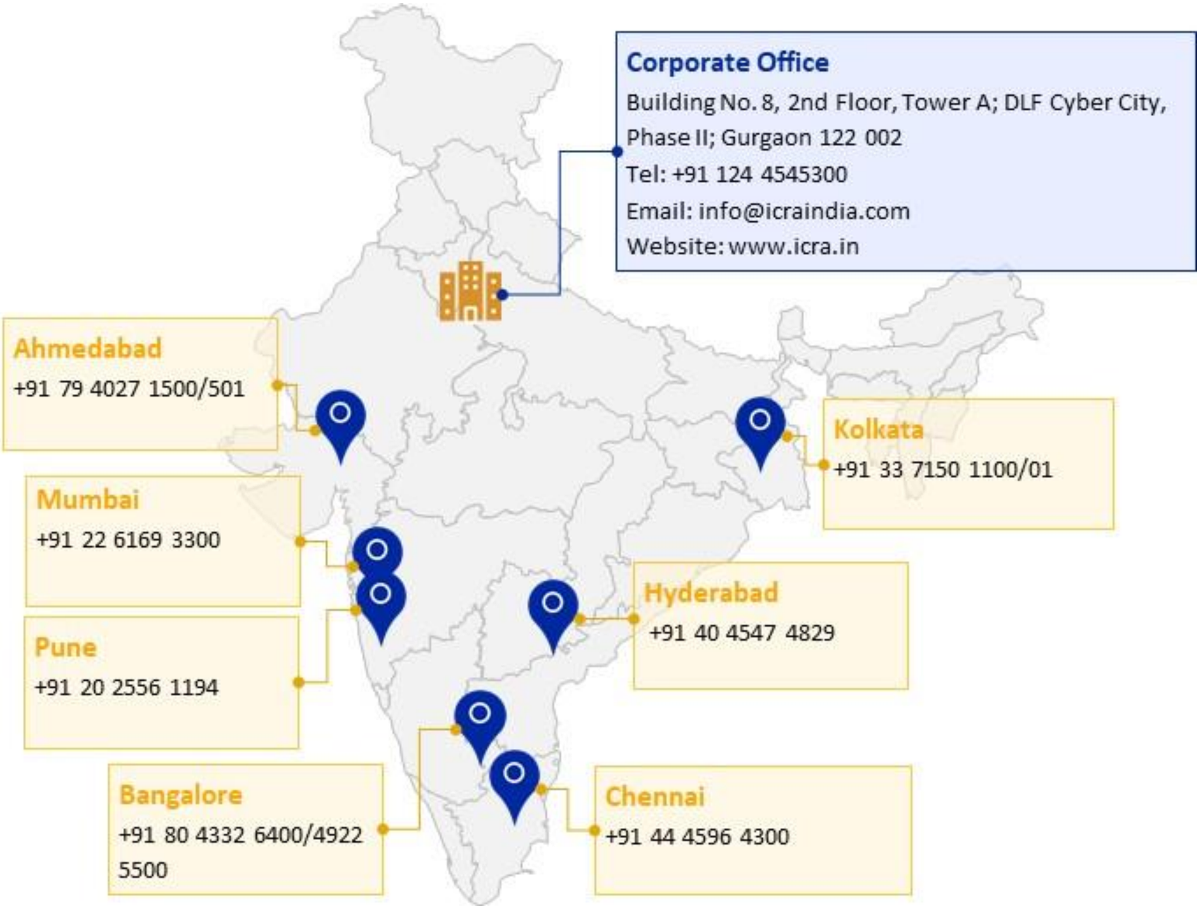




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