July 05, 2019

Northern Arc Capital Limited: Provisional [ICRA]BBB+(SO) rating assigned to PLI programme – Northern Arc P.L.I. X June 2019

Summary of rating action

Sl.	Borrower Name*	Initial Loan Amount(Rs. crore)	Rating Action
1	Pahal Financial Services Private Limited	10.00	Provisional [ICRA]BBB+ (SO); assigned
2	Aruna Finance Limited	5.00	Provisional [ICRA]BBB+ (SO); assigned
3	Nightingale Finvest Private Limited	7.00	Provisional [ICRA]BBB+ (SO); assigned
4	Unnati Microfin Private Limited	5.00	Provisional [ICRA]BBB+ (SO); assigned
5	Magalir Micro Capital Private Limited	5.00	Provisional [ICRA]BBB+ (SO); assigned
6	SV Creditline Limited (SVCL)	25.00	Provisional [ICRA]BBB+ (SO); assigned
7	Berar Finance Limited	15.00	Provisional [ICRA]BBB+ (SO); assigned
8	Light Microfinance Private Limited	10.00	Provisional [ICRA]BBB+ (SO); assigned
9	Mahaveer Finance India Limited	6.00	Provisional [ICRA]BBB+ (SO); assigned
10	Visage Holdings and Finance Private Limited	10.00	Provisional [ICRA]BBB+ (SO); assigned
	TOTAL	**98.00**	

**Instrument details are provided in Annexure I*

Rationale

ICRA has assigned a rating of Provisional [ICRA]BBB+(SO) [pronounced provisional ICRA triple B plus (structured obligation)] to each loan facility (aggregating Rs. 98.00 crore) given under the pooled loan issuance (PLI) programme of the 10 borrowers mentioned in the table above.

The provisional rating is based on the credit profile of each borrower, the available credit enhancement and the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

The transaction is structured such that the scheduled interest and principal repayment on each loan is on a monthly basis. The rating for the loans factors in the benefit of the common corporate guarantee to the extent of 23.00% of the initial value of the loans. If the borrower is unable to meet the scheduled interest and principal payouts, the guarantee will be invoked by the lender's agent in the transaction. 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 loans are also supported by a security in the form of a charge over the receivables with a security cover of 1.1 times. The credit enhanced rating has been also assigned taking into account the relative share of each issuer in the current PLI programme.

Key rating drivers

Credit strengths

- High collection efficiency and good asset quality demonstrated in the lending portfolio in the past by most of the borrowers in the current PLI programme
- PLI structure provides geographical and sectoral diversification with 10 borrower entities with operations across multiple states and industries
- Common guarantee to the extent of 23.00% of the total PLI amount; guarantee coverage expected to increase with principal amortisation in underlying loans

Credit challenges

- High borrower level concentration in the current PLI programme, with one borrower entity constituting 25.51% of the initial PLI amount
- Weak to moderate standalone credit quality of the borrowers in the long term
- Any adverse sector-wide development could impact the standalone credit quality of multiple borrowers in the programme; 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, which could, in turn, lead to a downgrade of the PLI programme; however, given the moderate tenure of the loans, the likelihood of such a development should be low

Description of key rating drivers highlighted above

The rating for the loans factors in the benefit of the common corporate guarantee to the extent of 23.00% of the initial value of the loans, which enhances the credit quality of the loans under the PLI programme over the respective borrower's standalone credit quality. The standalone credit quality of the borrowers is weak to moderate with a modest liquidity profile and a low to moderate length of operating track record. Most of the borrowers have demonstrated their ability to raise debt from banks and other institutional lenders though the number of lenders for some of the borrowers has been limited. The capitalisation profile can be characterised as modest-to-good for the borrowers. There is high borrower-level concentration in the PLI with the top borrower entity comprising 25.51% of the initial PLI amount.

The rating also draws comfort from the fact that the loans are supported by a security in the form of a charge over receivables with a security cover of 1.1 times. However, the rating is constrained by the weak to moderate standalone credit quality of the borrowers in the long term. The rating is also constrained by the vulnerability of the borrowers to any adverse sector-wide development and to any political or environmental issues that could affect their portfolio performance.

The rating is sensitive to certain features of the transaction structure such as the potential acceleration of the loan repayments under certain events (defined as 'event of default'), which could trigger a downgrade of the loans. Moreover, the credit enhanced rating has been assigned taking into account the relative share of each borrower in the PLI programme.

Key rating assumptions

In the present PLI programme, the servicing of each loan is firstly the obligation of the individual borrower. However, even in the event of stress on a borrower's financial position to meet the scheduled payments on the loans, the lender's agent can utilise the common corporate guarantee to meet the shortfall. Thus, for rating the said PLI programme, the approach has been to factor in the likelihood of an individual borrower defaulting on its debt obligations (which is a function of its standalone credit rating) and the corporate guarantee. Any shortfall in meeting the scheduled lender payout is to be met through the common guarantee till it is available. The resulting probability of default on the lender, which would be lower than that of the standalone default probability of the individual borrowers owing to the benefit of the credit enhancement, is then compared with ICRA's internal benchmarks for the PLI rating.

The rating is sensitive to certain features of the transaction structure such as the potential acceleration of the loan repayments under certain events (defined as 'event of default'), which could trigger a downgrade of the loans. Moreover, the credit enhanced rating has been assigned taking into account the relative share of each borrower in the PLI programme.

Liquidity position

Liquidity is available in the form of an unconditional and irrevocable common partial guarantee to the extent of 23.00% of the outstanding value of the aggregate PLI amount. The guarantee covers six months of aggregate PLI payouts in full.

Analytical approach

The rating action is based on the credit profile of the underlying borrowers, industry co-relation between the various borrowers and the credit enhancement available in the current transaction in the form of the security cover and the common corporate guarantee.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions ICRA Rating Methodology for Partially Guaranteed Debt
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the originators

Pahal Financial Services Private Limited

Pahal Financial Services Private Limited is an Ahmedabad-based NBFC-MFI registered with the Reserve Bank of India (RBI). The company commenced operations in March 2011 by acquiring the existing operations of Lok Vikas Nidhi, a trust operational in Gujarat for over 25 years. The current promoters of Pahal acquired the portfolio of Rs. 2.6 crore spread over 15 branches, along with the field staff of Lok Vikas and subsequently transferred the acquired portfolio to a non-banking finance company (NBFC), along with an equity contribution of Rs. 2 crore. The NBFC was renamed Pahal Financial Services Private Limited. Pahal follows the Grameen model of lending to poor women primarily in the rural and semi-urban areas of Gujarat, Maharashtra and Madhya Pradesh (MP).

The company reported a profit after tax (PAT) of Rs. 3.17 crore in H1 FY2019 on a total managed portfolio of Rs. 361.24 crore as on September 30, 2018. It reported a loss of Rs. 6.57 crore in FY2018 on a total managed portfolio of Rs. 223.02 crore compared to a net profit of Rs. 1.88 crore on a total managed asset base of Rs. 128.48 crore in FY2017. The company reported a CRAR of 21.61% as on September 30, 2018, above the regulatory level of 15%.

As of March 2019, Pahal was operating with 97 branches in five states and had a loan portfolio of Rs. 495.72 crore extended to 2,16,059 individual borrowers. Gujarat accounted for 52.9% of Pahal's total portfolio. The company follows monthly collections for the Grameen model.

ICRA has a rating outstanding of [ICRA]BBB-(Stable) on the bank lines and NCD programme of Pahal.

Key financial indicators (audited)

Particulars	FY2018	FY2019
Profit after tax	(6.57)	7.51
Net worth	35.27	55.88
Total managed portfolio	223.02	495.72
Gearing	6.40	7.86
CRAR	24.05%	22.94%
Net worth/managed assets (%)	15.81%	11.27%
Return on equity	(19.19)%	13.89%

Source: ICRA research; All ratios as per ICRA's calculations; Amount in Rs. crore

Aruna Finance Limited

Aruna Finance Limited (AFL) was incorporated as a partnership firm, Aruna Finance, in 1979 that was engaged in the financing of trucks. In 1995, it converted into a private company, Aruna Leasing & Finance Private Limited, and diversified into financing tractors. In 2002, it was converted into a public limited company, Aruna Leasing & Finance Limited, and was registered as a deposit-taking NBFC with the RBI. The company further diversified into the financing of three-wheelers. It subsequently surrendered its licence to accept public deposits in 2006 as the promoters did not have any plans to utilise this facility. In FY2013 (October 2012), the company started financing gold loans and changed its name to Aruna Finance Limited. AFL is in the business of hypothecation finance, mainly for new and used three-wheelers. As on March 31, 2019, it had operations in 15 districts of Andhra Pradesh (AP) and Telangana.

Nightingale Finvest Private Limited

Nightingale Finvest Private Limited (NFPL) is a registered NBFC-MFI since 2011. Prior to obtaining its NBFC-MFI licence, it carried out microfinance activities as a charitable society under the Societies Registration Act. The company provides loans ranging from Rs. 10,000 to Rs. 70,000 with a tenure from 12-24 months at 24.81% p.a. It reported 100% collection efficiency as on September 30, 2018.

As of March 2019, NFPL had operations in four states – Assam, Meghalaya, Mizoram and AP through 37 branches. It also reported nil delinquencies as of March 2019.

Unnati Microfin Private Limited

Unnati Microfin Private Limited is an NBFC-MFI registered with the RBI. It was promoted by Mr. Hanumant Ranjane and his family for providing loans to women from economically weaker sections who are unable to approach the banking financial services. Unnati was formerly known as Shree Om Credit Company Pvt. Ltd. (SOCC). SOCC commenced business after taking over an NBFC – Temperate Finance Private Limited. The name was changed to Shree Om Credit Company Private Limited and operations were launched in April 2012.

As on March 31, 2019, Unnati operated from six districts in two states (Maharashtra and Gujarat). The company reported 0+ and 30+ delinquency of 1.42% and 1.35%, respectively, as of March 2019.

Magalir Micro Capital Private Limited

Magalir Micro Capital Private Limited (formerly Magalir Micro Finance Private Limited) is an NBFC-MFI, incorporated in 2015 as a registered non-deposit taking NBFC. The company is promoted by the promoters of the Tamil Nadu-based Seyad Group of Companies. The Seyad Group started with the tobacco business through Seyadu Beedi Company and later diversified into non-tobacco businesses through other Group entities such as Seyad Cotton Mills Ltd., Seyad Wind Farm, Seyad School, Seyad Shariat Finance Limited, etc.

Magalir primarily provides microfinance loans as per the joint liability group (JLG) model and is present in six districts across Tamil Nadu and Kerala. The company reported nil delinquency as of March 2019.

SV Creditline Limited (SVCL)

SVCL commenced operations in 2010 and was established by the acquisition of an existing NBFC – Mantrana Finlease Limited, which was engaged in financing of commercial vehicles. Subsequently, the company was acquired in September 2008 and renamed SV Creditline Private Limited. As on September 30, 2018, the company had operations in 131 districts, spread across Uttar Pradesh (UP), MP, Rajasthan, Chhattisgarh, Haryana, Uttarakhand, Bihar, Punjab and Jharkhand. It reported 0+ and 30+ delinquency of 13.39% and 5.76%, respectively, as of March 2019.

ICRA had a rating outstanding of BBB- (Stable) for the NCDs, subordinated debt programme and long-term bank lines of SVCL as of December 2018.

Key financial indicators (audited)

	FY2017	FY2018	H1 FY2019
Total income	180.7	133.5	74.3
Net interest income	49.3	22.3	20.4
Profit after tax	21.1	(51.7)	1.1
Total managed portfolio	817.11	873.0	783.5
Total managed assets	1,083.0	1,054.1	962.4
% Tier 1	16.1%	13.4%	13.4%
% CRAR	23.1%	22.4%	22.4%
Gearing	6.62	5.78	5.85
% Net profit / average managed assets	1.9%	(4.8%)	0.2%
% Return on net worth	28.8%	(58.4)%	2.4%
% Gross NPA	0.85%	7.86%	5.23%
% Net NPA	0.3%	3.1%	2.4%
Net NPA / net worth	1.5%	15.7%*	13.0%

Amount in Rs. crore

Berar Finance Limited

Nagpur-based Berar is a public, unlisted, deposit-taking NBFC (asset financing company registered with the RBI), which has primarily been financing two-wheelers since 1990. The company also provides other loan products such as car loans, commercial vehicle loans, agriculture equipment loans and personal loans.

While its operations are concentrated in Maharashtra, it has expanded into four other states – Chhattisgarh, MP, Telangana and Gujarat. Berar reported PAT of Rs. 14.39 crore in FY2019 with a gearing of 2.73 times and a total asset base of Rs. 426.61 crore as on March 31, 2019.

Berar has an outstanding rating of [ICRA] BBB(Stable) for its term loan.

Key financial indicators (audited)

	FY2017	FY2018
Net interest income	34.22	39.89
Profit before tax	15.33	17.69
Profit after tax	10.14	12.60
Portfolio	228.54	288.52
Total assets	266.61	288.45
% Tier 1	19.00%	19.29%
% CRAR	19.31%	19.66%
Gearing	4.55	4.47
% Net profit/Average total assets	4.37%	4.23%
% Return on net worth	23.77%	23.63%
% Gross NPAs	2.77%	2.28%
% Net NPAs	2.39%	1.98%
% Net NPA/Net worth	11.88%	9.60%

Amount in Rs. crore; All ratios as per ICRA calculations

Light Microfinance Private Limited

Light Microfinance was started as a private limited company in January 2009. It received a licence from the RBI in August 2009 to operate as an NBFC under Section 45IA (for NBFC) of the RBI Act, 1934 as well as an NBFC-MFI certification. The initial focus of the Ahmedabad-based company was on Gujarat with the goal of rapidly expanding to other states in India. Light Microfinance works specifically with women from poor rural and semi-urban households, to enable and empower them. Its core activity is providing small loans to target the beneficiary for income-generating purposes using the JLG methodology. A typical customer of Light Microfinance is a rural woman, usually engaged in daily wage activities or a microenterprise, owning a small house and with little or no land.

As on March 31, 2019, the company had a portfolio of Rs. 258.09 crore spread across three states (Gujarat, Rajasthan and MP) and 53 districts. It reported a 30+ delinquency of 0.99% as of March 2019.

Mahaveer Finance India Limited

Mahaveer Finance India Limited (MFIL) is an NBFC engaged in the financing of used commercial/passenger vehicles in Tamil Nadu, AP, Telangana and Puducherry. The company was incorporated in January 1981 and was acquired by the present promoters in 1987. Initially an "A" category deposit-taking NBFC, the company surrendered its deposit-taking licence in 2015. It also took up SEBI's offer in 2015 of de-listing as the Madras Stock Exchange went under dissemination board. Over the years, MFIL has built a strong network of over 35,000 small road transport operators, dealers, agents, and individuals. It is managed by Mr. Mahaveerchand Dugar (Managing Director) and his sons, Mr. Deepak Dugar (Joint Managing Director) and Mr. Praveen Dugar (Executive Director). They have a consolidated industry experience of 90 years. In the last five years, MFIL has been aggressively building a completely professional team and has been growing at a YoY rate of 80% p.a. As of March 2019, the company had assets under management (AUM) of Rs. 217.12 crore through 53 branches across Tamil Nadu, AP, Telangana and Puducherry.

Key financial indicators (audited)

	FY2018	9M FY2019[1]
Total income (Rs. crore)	22.4	29.0
Profit after tax (Rs. crore)	4.8	6.1
Net worth (Rs. crore)	19.4	48.6
Total managed assets (Rs. crore)	139.0	202.6
Return on managed assets %	3.4%	4.7%
Return on net worth %	24.6%	23.7%
Gearing	6.0	3.1

Visage Holdings and Finance Private Limited

Visage Holdings and Finance Private Limited (VHFPL) is a non-deposit taking NBFC that was incorporated in Delhi in 1996. The company's current promoters acquired VHFPL in September 2011 and commenced lending operations in November 2011. VHFPL is focussed on offering credit facilities to small businesses under the brand name Kinara Capital. It offers secured (hypothecation of machinery) and unsecured term loans and working capital facilities with a maximum ticket size of Rs. 25 lakh. As on December 31, 2018, VHFPL had been operating in six states and one Union Territory across 91 branches and had a portfolio of Rs. 629.89 crore.

ICRA has a rating outstanding of [ICRA]BBB-(Positive) on the NCD programme and the long-term bank lines of VHFPL.

Key financial indicators (audited)

	FY2017	FY2018	Q1 FY2019
Total income (Rs. crore)	32.7	70.1	26.9
Profit after tax (Rs. crore)	1.8	4.6	1.2
Net worth (Rs. crore)	25.4	97.0	98.2
Total managed portfolio (Rs. crore)	191.1	397.4	492.1
Total managed assets (Rs. crore)	248.1	469.4	464.5
Return on managed assets (%)	1.1%	1.3%	1.1%
Return on net worth (%)	7.4%	7.5%	5.0%
Gearing (times)	7.5	3.1	3.4
Gross NPA (%)	1.2%	1.3%	-
Net NPA (%)	0.4%	0.8%	-
Capital adequacy ratio (%)	23.5%	37.4%	22.4%

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

[1] *Provisional*

Rating history for last three years

S. No	Name of Instrument	Current Rating (FY2020) Type	Initial Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Month-year & Rating July 2019	Chronology of Rating History for the Past 3 Years Month-year & Rating FY2019	Month-year & Rating in FY2018	Month-year & Rating in FY2017
1	Northern Arc P.L.I. X June 2019	Pahal Financial Services Private Limited	10.00	10.00	Provisional [ICRA]BBB+(SO)	-	-	-
		Aruna Finance Limited	5.00	5.00	Provisional [ICRA]BBB+(SO)	-	-	-
		Nightingale Finvest Private Limited	7.00	7.00	Provisional [ICRA]BBB+(SO)	-	-	-
		Unnati Microfin Private Limited	5.00	5.00	Provisional [ICRA]BBB+(SO)	-	-	-
		Magalir Micro Capital Private Limited	5.00	5.00	Provisional [ICRA]BBB+(SO)	-	-	-
		SV Creditline Limited	25.00	25.00	Provisional [ICRA]BBB+(SO)	-	-	-
		Berar Finance Limited	15.00	15.00	Provisional [ICRA]BBB+(SO)	-	-	-
		Light Microfinance Private Limited	10.00	10.00	Provisional [ICRA]BBB+(SO)	-	-	-
		Mahaveer Finance India Limited	6.00	6.00	Provisional [ICRA]BBB+(SO)	-	-	-
		Visage Holdings and Finance Private Limited	10.00	10.00	Provisional [ICRA]BBB+(SO)	-	-	-

Complexity level of the rated instrument: Highly Complex

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance	Interest Rate^	Scheduled Maturity Date	Rated Amount (Rs. crore)	Current Rating
Northern Arc P.L.I. X June 2019	Pahal Financial Services Private Limited	June 2019	Blended yield of 12.10%	March 2022	10.00	Provisional [ICRA]BBB+(SO)
	Aruna Finance Limited			March 2022	5.00	Provisional [ICRA]BBB+(SO)
	Nightingale Finvest Private Limited			November 2020	7.00	Provisional [ICRA]BBB+(SO)
	Unnati Microfin Private Limited			May 2021	5.00	Provisional [ICRA]BBB+(SO)
	Magalir Micro Capital Private Limited			March 2022	5.00	Provisional [ICRA]BBB+(SO)
	SV Creditline Limited			March 2022	25.00	Provisional [ICRA]BBB+(SO)
	Berar Finance Limited			March 2022	15.00	Provisional [ICRA]BBB+(SO)
	Light Microfinance Private Limited			May 2021	10.00	Provisional [ICRA]BBB+(SO)
	Mahaveer Finance India Limited			March 2022	6.00	Provisional [ICRA]BBB+(SO)
	Visage Holdings and Finance Private Limited			March 2022	10.00	Provisional [ICRA]BBB+(SO)

^ Weighted average interest rate to lender

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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.

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.

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