

Berar Finance Limited (Revised)

September 01, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	500.00 (Enhanced from 50.00)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	500.00 (₹ Five Hundred Crore Only)		
Market Linked Debentures	25.00	CARE PP-MLD BBB+; Stable (Principal Protected-Market Linked Debentures Triple B Plus; Outlook: Stable)	Assigned
Non-Convertible Debentures	172.00 (Enhanced from 40.00)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total Long-Term Instruments	197.00 (₹ One Hundred Ninety-Seven Crore Only)		
Fixed Deposit	170.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Total Medium-Term Instruments	170.00 (₹ One Hundred Seventy Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Berar Finance Limited (BFL) factors in its long track record of operations, healthy capitalization levels supported by its comfortable financial flexibility, presence of institutional investors, diversified resource base, and adequate liquidity. The rating is however constrained by risks inherent in two-wheeler financing business, moderate profitability & asset quality indicators, geographic & product concentration and evolving IT & MIS systems.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant and sustained increase in scale of business with geographical and portfolio diversification
- Increase in profitability metrics with Return on assets (RoA) increasing above 3% on a sustainable basis
- Maintaining adequate capitalization profile with gearing below 3 times on a steady basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Weakness in profitability, asset quality and/or capitalization profile with gearing rising above 5 times
- Moderation in the asset quality with GNPA more than 4%, on a sustained basis
- Lack of significant scale up in loan book over medium term

Outlook: Stable

Detailed description of the key rating drivers

Key rating strengths

Long track record & business growth: BFL started its operations with 2W disbursements in 1990. Although the company has completed 32 years of operations the business has scaled up significantly since 2016.

Owing to higher disbursements, BFL's portfolio has grown from Rs. 364 crores as on March 31, 2019, to Rs. 850 crores as on March 31, 2022 [P.Y.: Rs. 684.40 Cr.]. The disbursements have grown from Rs. 344 Crore during FY19, to Rs. 740 Crore during FY22 [P.Y.: Rs. 585 Cr.]. Two-wheeler product segment comprised of 95% of the total portfolio as on March 31, 2022, whereas the remaining 5% of the portfolio consisted of refinance of 2W, used car, and personal loans amongst others.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Experienced Board and management: Mr. M.G. Jawanjar who is Executive Chairman – Founder & Director has over 36 years of experience. He has prior experience in academics as well as in finance industry and is a Company Secretary by qualification. The day-to-day operations of the company are headed by Mr. Sandeep Jawanjar who is the Managing Director & second-generation promoter and has been associated with the company since 2006. The Board of Directors of BFL comprises of nine directors, of which three directors are independent and two are nominee directors, one each from Amicus Capital Partners and Maj Invest. The company is expected to benefit from presence of institutional investors on its Board from the point of view of strengthening of risk management & operations as well as business diversification. The company has recently appointed Mr. Ashok Krishnamurthy, Ex- ED of Repco Home Finance, as a consultant for developing LAP portfolio.

Healthy capitalisation levels: Berar Finance Ltd. had a healthy capital adequacy ratio of 28.84% (PY: 20.46%) at the end of March 2022, with Tier I CAR at 28.51% (PY: 19.56%). Since FY20, the company has collectively raised Rs. 150 crores in multiple tranches from institutional investors namely Amicus Capital Partners & Maj Invest. Post infusion, the institutional investors hold 34% stake in the company, the promoter family holds 33% and remaining 33% is held by others (friends & family).

Consequently, the company's capital structure has improved, with tangible net worth at Rs. 249 crore (PY: 139 crore) and gearing of 3.03x (PY: 5.20x times) as on March 31, 2022. The company is adequately positioned to support its business growth in the near to medium term. Further, the management intends to cap its gearing at 4x on steady state basis.

CAR stood at 27.78% as on June 30, 2022, vis-à-vis 22.43% as on June 30, 2021.

Diversified resources raising: Berar has a diversified borrowing profile comprising Term Loans (56%), NCDs (16%), Cash Credit (6%), Deposits (20%) and Securitization (2%). The company had 43 lenders as of March 31, 2022, encompassing NBFCs, Public Sector banks, Private Banks, Small Finance Banks, and debt funds.

Despite declining interest rate scenario during FY22, the company's cost of borrowings increased from 11.77% in FY21 to 12.23% in FY22. The company raised high-cost borrowings during FY21, bulk of which were raised during Q4, consequently, the full impact of which is visible during FY22.

Key rating weaknesses

Moderate profitability: During FY22, the company reported PAT of Rs. 17 Cr. [P.Y.: Rs. 15 Cr.] on total income of Rs. 176 Cr. [P.Y.: Rs. 135 Cr.] NIM decreased by 43 basis points from 7.60% during FY21 to 7.17% during FY22, on account of decreased yield on portfolio by 33 bps and increased cost of borrowings by 46 bps. While the company disbursed new loans at lower rates of interest, in line with competition, its cost of borrowings continued to remain high, thereby impacting margins. Borrowings done in FY 20-21 were at the higher cost considering the Covid scenario. Further a bulk of borrowings were done during Q4FY21, the impact of which is visible during FY22.

Opex recorded a steady rise from 25.76% as on March 31, 2021, to 30.39% as on March 31, 2022, on account of increase in branches, employees' expansion, and IT upgradation. The company has hired approximately 336 employees in FY 22 across collection, audit and other verticals as well as has added 10 more branches to its network. Over the last 2 years, the company has ramped up its collection team by 120 employees, wherein 60 members look after the 0-90 DPD bucket and the remaining 60 members look after the 90+DPD bucket. Credit cost decline of 67 bps during FY22 was primarily on account of some reduction in provisions as well as increase in loan portfolio from Rs. 659 crores in FY 2021 to Rs. 819 crores in FY 2022. Despite increase in the overall loan portfolio, ROTA has declined from 2.14% as on March 31, 2021, to 1.82% as on March 31, 2022, on account of higher opex and declining margins. The company's major source of income and business comes from the two-wheeler segment. The company is planning to expand into a new segment – SME backed by residential property in FY23; CARE will monitor the development on the same and its impact on the profitability in the medium term.

For Q1FY23, PAT stood at Rs. 4 Cr. on total income of Rs. 47 Cr., whereas, for Q1FY22, PAT stood at Rs. -2 Cr. on total income of Rs. 37 Cr.

Geographic and Product Concentration: BFL has high reliance on monoline product segment. Out of the total portfolio of Rs. 850 Cr., 95% is constituted by the two-wheeler segment and the remaining 5% comprises of refinance of 2W, used car, and personal loans amongst others. Further, BFL's portfolio & presence is majorly concentrated in the state of Maharashtra. Out of a network of 102 branches across 6 states, 45 branches are in Maharashtra itself. Maharashtra constituted 51% of the total loan portfolio as on March 31, 2022, followed by Chhattisgarh (20%), Madhya Pradesh (13%), Telangana (10%), Gujarat and Karnataka (6%) thereby exposing the company to concentration risk.

Moderate asset quality: The company has moderate asset quality parameters. As on March 31, 2022, the company's GNPA and NNPA stood at 2.15% [PY: 2.50%] and 1.36% [PY: 1.36%] respectively. The company implemented the revised IRAC norms, on account of which, the GNPA and NNPA as on March 31, 2022, stood at 3.07% [June 30, 2022: 3.56%] and 2.23%

[June 30, 2022: 2.42%] respectively. The overall net NPA to tangible net-worth stood at 7.35% as on March 31, 2022 (P.Y.:8.28%).

The company has been able to reduce its GNPA from 5.15% as on June 30, 2021, through recoveries and repossession. During FY22, the company repossessed and auctioned vehicles amounting to Rs. 24.5 crore [PY: Rs. 13.64 Cr.] while vehicles amounting to Rs. 28.7 crore [PY: Rs. 16.57 Cr.] were repossessed and released back to customers upon paying dues.

Further post resumption of economic activities, the company has witnessed sequential improvement in its monthly current collection efficiency from 69% in month of Mar'20 to 90% during Mar'22 and to further 91% during June 22. Overall monthly collection efficiency excluding prepayments improved from 53% in month of Mar'20 to 71% during Mar'22 and to further 69% during June 22.

However, BFL continues to have delinquencies in softer buckets. The delinquencies in the 30-90 DPD bucket stood at 4% as on March 31, 2022. While m-o-m collection efficiency has been improving, CARE will continue to monitor asset quality.

Inherent risks in two-wheeler financing portfolio: The company is exposed to inherent risks in two-wheeler financing portfolio owing to its customer profile and its higher vulnerability to economic shocks. The company mainly caters to underserved geographies; 30 branches out of 100 are in underserved states of Madhya Pradesh and Chhattisgarh, ~90% of branches are located in rural/ semi-urban locations, two-thirds of branches are in geographies with a population of less than 0.20 crore and one-third in catchments with less than 0.10 crore population.

Moderate MIS & IT systems: Over the last few quarters, the company has been upgrading its MIS & IT and risk management systems in line with its portfolio growth. BFL has implemented new technology, FinnOne Neo, post which the branches have been configured with HO on a real-time basis, thereby improving TAT in sync with defined credit risk parameters. However, with the significant growth plans, the company needs to continuously focus on improving its MIS and IT system which will be critical for its prospects.

Liquidity: Adequate

The ALM of the company dated March 31, 2022, is comfortable with no negative cumulative mismatch for any of the buckets. Further, the company has unutilised lines of credit of Rs. 95 Crore (CC-65 Cr., TL-30Cr.) to support liquidity and meeting growth.

The cash flow debt coverage of Berar Finance Ltd. for next one year stood at 2.41x as on March 31, 2022. Cash and cash equivalents stood at Rs. 154 crores as on March 31, 2022, as against next one-year repayments due including interest of Rs. 413 crores.

Analytical approach: Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Non Banking Financial Companies](#)

About the company

Founded in 1990, Berar Finance Ltd. (BFL) is primarily a two- vehicle financing NBFC operating in Central and West India. The company operates through a network of 102 branches spread across the states of Maharashtra, Chhattisgarh, Madhya Pradesh, Telangana, Gujarat, and Karnataka. Mr. M. G. Jawanjar, is the founder & Executive Chairman of the company. The day-to-day operations of the company are headed by Mr. Sandeep Jawanjar, MD and son of founder Mr. M. G. Jawanjar. Mr. Sandeep joined the company in 2006. The promoter family holds 33% stake in the company. Apart from two- vehicle financing, the company also provides personal loans & car loans. The company follows a centralised approach operating out of Nagpur and extending coverage to nearby states. Berar has a network of 102 branches across 6 states, Maharashtra (51%), Chhattisgarh (20%), Madhya Pradesh (13%), Telangana (10%), Gujarat and Karnataka (6%). Berar focuses on catering to underserved geographies; 30 branches out of 100 are in underserved states of Madhya Pradesh and Chhattisgarh, ~90% of branches are located in rural/ semi-urban locations.

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (A)	Q1 FY23 (UA)
Total operating income	104.85	134.86	175.60	47.39
PAT	14.65	15.38	17.43	3.69
Interest coverage (times)	1.43	1.30	1.25	1.21
Total Assets	551.17	885.91	1,030.98	996.35
Net NPA (%)	1.79	1.74	2.23*	2.42*
ROTA (%)	3.03	2.14	1.82	1.46

A: Audited

*As per revised IRAC norms

Status of non-cooperation with previous CRA: Not Applicable**Any other information:** Not Applicable**Rating history for the last three years:** Please refer Annexure-2**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3**Complexity level of various instruments rated for this company:** Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	Feb-22	-	Aug-23	466.61	CARE BBB+; Stable
Proposed Fund-based - LT-Term Loan	-	-	-	-	33.39	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE998Y07014	22-06-2020	12.50%	22-06-2023	10.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE998Y07048	11-09-2020	14.00%	11-09-2023	10.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE998Y07055	18-11-2020	13.75%	30-03-2023	15.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE998Y07063	23-12-2020	13.75%	23-12-2023	15.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE998Y07071	24-02-2021	13.18%	24-02-2024	18.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE998Y07089	24-03-2021	13.91%	05-02-2025	34.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE998Y07113	05-08-2022	11.26%	05-08-2024	20.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE998Y07113	05-08-2022	11.26%	05-08-2024	5.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE998Y07121	05-08-2022	11.27%	07-08-2024	15.00	CARE BBB+; Stable
Proposed Debentures-Non-Convertible Debentures	-	-	-	-	30.00	CARE BBB+; Stable
Debentures-Market Linked Debentures	INE998Y07097	17-09-2021	13.63%	31-10-2024	13.00	CARE PP-MLD BBB+; Stable
Debentures-Market Linked Debentures	INE998Y07105	17-09-2021	13.63%	30-11-2024	12.00	CARE PP-MLD BBB+; Stable
Fixed Deposit	-	-	-	-	150.00	CARE BBB+; Stable
Proposed Fixed Deposit	-	-	-	-	20.00	CARE BBB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	500.00	CARE BBB+; Stable	1)CARE BBB+; Stable (05-Aug-22)	-	-	-
2	Debentures-Non-Convertible Debentures	LT	172.00	CARE BBB+; Stable	1)CARE BBB+; Stable (05-Aug-22)	-	-	-
3	Fixed Deposit	LT	170.00	CARE BBB+; Stable				
4	Debentures-Market Linked Debentures	LT	25.00	CARE PP-MLD BBB+; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Simple
2	Fixed Deposit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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