Berar Finance Limited

August 30, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	700.00 (Enhanced from 500.00)	CARE BBB; Stable	Revised from CARE BBB+; Stable
Market Linked Debentures	25.00	CARE PP-MLD BBB; Stable	Revised from CARE PP-MLD BBB+; Stable
Non-Convertible Debentures	147.00 (Reduced from 172.00)	CARE BBB; Stable	Revised from CARE BBB+; Stable
Fixed Deposit	250.00 (Enhanced from 210.00)	CARE BBB; Stable	Revised from CARE BBB+; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities, debt instruments/FD of Berar Finance Limited (BFL) is primarily on account of moderation in its asset quality and profitability metrics as well as lower than anticipated portfolio growth.

The ratings continue to remain constrained by its moderate profitability & asset quality indicators, geographical & product concentration, evolving IT systems & risk management controls and the risks inherent in two-wheeler financing business.

The ratings, however, continue to factor in its long track record of operations, comfortable capitalization levels, presence of institutional investors, diversified resource base and adequate liquidity. CARE also takes cognisance of the company's expansion in newer locations/ product segment like loan against property wherein its performance with portfolio seasoning will remain key monitorable going forward.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Significant and sustained increase in scale of business
- Geographic and portfolio diversification
- Increase in profitability metrics with Return on assets (RoA) increasing above 3% on a sustainable basis
- Maintenance of comfortable asset quality metrics with GNPA below 4% on a sustainable basis
- Maintaining adequate capitalization profile with gearing below 4 times on a steady basis

Negative factors: Factors that could, individually or collectively, lead to negative rating action/downgrade:

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

Analytical approach:

Standalone

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

Outlook: Stable

The 'Stable' outlook is on account of the company's comfortable capitalisation levels and adequate liquidity which is expected to support the business growth. The company's ability to diversify its product portfolio and maintain asset quality in newer locations are key monitorables.

Detailed description of the key rating drivers:

Key strengths

Long track record of operations:

BFL is a deposit taking NBFC which started its lending operations in 1990. Although the company has completed 33 years of operations, the business has scaled up significantly since 2016. BFL's portfolio has witnessed 5-year CAGR of 26% and stood at Rs. 964 Crore as on March 31, 2023 [P.Y.: Rs. 850 Crore]. Along with portfolio growth, the company has also witnessed growth in its deposits with 4-year CAGR of 25% and stood at Rs. 180 Crore as on March 31, 2023 [P.Y.: Rs. 151 Crore]. While the company continues to focus on existing geographies, it has expanded into new locations within the existing geographies over the last few years with branch network increasing from 51 as on March 31, 2019, to 116 as on March 31, 2023 [P.Y.: 102].

Experienced board and management:

The company is headed by the first-generation promoter Mr. Maroti Gendaru Jawanjar, Executive Chairman, who has over 36 years of experience. The day-to-day operations of the company are headed by Mr. Sandeep Jawanjal, the Managing Director – Promoter Director, who has been associated with the company since 2006. The Board of Directors of Berar Finance comprises of ten directors, of which four directors are independent, and four are non-executive directors, amongst whom 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 & controls as well as business diversification. In FY22, the company had appointed Mr. Ashok Krishnamurthy, Ex-ED of Repco Home Finance, as a consultant for company's foray into LAP segment. In FY24, the company has appointed Mr. Ravindra Dorle as the new CFO w.e.f. August 12, 2023. Mr. Ravindra Dorle is a qualified Chartered Accountant with an experience of more than 12 years in Finance, Taxation and Accounting. Going forward, the company intends to strengthen its credit team (LAP) and mid- management team and has hired VP – risk, credit head, HR head, business head, IT head who are expected to join in the near term.

Healthy capitalisation levels:

As on March 31, 2023, Berar Finance Ltd. had a healthy capital adequacy ratio of 26.33% [P.Y.: 28.84%], with Tier I CAR at 25.90% [P.Y.: 28.51%]. CAR stood at 27.52% as on June 30, 2023. 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). At gearing of 3.22x as on March 31, 2023 [P.Y.: 3.03x], the company is adequately geared. Going forward, CARE expects the company's gearing to remain below 4x levels on steady state basis.

Diversified resources raising:

Berar has a diversified borrowing profile comprising of Term Loans (58%), NCDs (1 8%), Cash Credit (2%), Deposits (22%) and Securitization (0.35%). The company had 40 lenders as on March 31, 2023, encompassing NBFCs, Public Sector banks, Private Banks, Small Finance Banks, and debt funds. The company's cost of borrowings increased from 12.23% in FY22 to 12.65% in FY23. During FY23, the company got RBI approval to raise deposits from 5 more branches vis-à-vis the current location of Nagpur.

The company's deposits have been granular with a renewal rate of 95% and the top 20 depositors constituting 12.82% of the total deposits.

Key weaknesses

Moderate profitability metrics:

During FY23, the company's overall profitability was impacted on account of changes in accounting policy w.r.t. penal charges and high credit costs. While the penal charges were earlier accounted on accrual basis, the same has been changed to cash basis which impacted Profit Before Tax (PBT) by Rs. 11 Crore. Credit costs increased three-fold on account of accretion to NPAs, change in ECL assumptions as well as introduction of write-off policy. Although, the company witnessed expansion in margins by 269 basis points to 9.84% [P.Y.: 7.16%] since a portion of its borrowings (roughly 40%) is fixed in nature which helped it in increasing interest rate scenario, however, this was largely offset by higher opex and credit costs which impacted profitability during FY23. Further, inspite of the disbursements increasing by around 13% to Rs. 836 Crore [P.Y.: Rs. 740 Crore], the company has witnessed lower than anticipated portfolio growth during FY23. ROTA has declined from 1.82% as on March 31, 2022, to 1.59% as on March 31, 2023.

Going forward, CARE expects profitability metrics to remain range bound in the range of 1.8%-2.0% given the company's expansion plans in the near to medium term.

Deterioration in asset quality:

The company's GNPA as on March 31, 2023, increased in both absolute and relative terms to Rs. 44 Crore, 4.67% [P.Y.: Rs. 26 Crore, 3.07%] primarily on account of slippages from new branches in the existing locations. Asset quality issues were also partially contributed by migration to FinnOne Neo software under which allocation of repayments are respectively made towards instalments and penalties compared to earlier system which adjusted repayments primarily towards instalments. Delinquencies in softer buckets too increased with dpd in 1-30 and 31-60 buckets rising to 11.17% [P.Y.: 9%] and 4.45% [P.Y.: 3%] respectively as on March 31, 2023. As on June 30, 2023, the GNPA and NNPA further deteriorated to 6.09% [P.Y.: 3.56%] and 3.76% [P.Y.: 2.42%] respectively contributed by continued slippages and delay in auction of repossessed vehicles.

The overall net NPA to tangible net-worth increased to 10.99% as on March 31, 2023 [P.Y.: 7.36%]. During FY23, the company's average monthly current collection efficiency marginally improved to 86.48% as compared to 83.25% during previous year, whereas the company's average monthly collection efficiency (including prepayments) marginally improved to 72.99% as compared to 62.81% during previous year.

The company's ability to maintain asset quality while expanding into newer locations/ product segments continue to be a key monitorable.

Evolving IT systems & risk management controls:

Over the last few months, the company has been upgrading its IT systems and risk management controls. 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. Oracle NetSuite has been implemented Jul'23 onwards for generation of trial balance and financial statements.

On risk controls front, the company is putting in place better checks, monitoring and collection systems so as to prevent slippages and frauds from newer geographies/ locations in addition to hiring mid-level management across verticals. The company introduced credit write-offs policy along with conservative ECL assumptions during FY23 so as to improve its provision cover. While CARE notes the changes in risk management controls & systems, the same is evolving and needs to be strengthened further so as to support future growth plans and check asset quality issues.

Geographic and Product Concentration:

BFL has high reliance on monoline product segment. As on March 31, 2023, out of the total portfolio of Rs. 964 Crore, 95% is constituted by the two-wheeler segment and the remaining 5% comprises of refinance of 2W, used car, and personal loans amongst others. In FY22, the company had also expanded into a new segment – LAP (small ticket property loan) backed by self-occupied residential properties as a new product. The LAP portfolio is in its nascent stage and is expected to ramp up FY24 onwards, which will remain a key monitorable.

Further, BFL's portfolio & presence is majorly concentrated in the state of Maharashtra. As on March 31, 2023, out of a network of 116 branches across 6 states, 43 branches are in Maharashtra. Maharashtra constituted 46% of the total loan portfolio as on March 31, 2023, followed by Chhattisgarh (20%) [P.Y.: 20%], Madhya Pradesh (17%) [P.Y.: 13%], Telangana (9%) [P.Y.: 10%], Gujarat (4%) [P.Y.: 3%] and Karnataka (4%) [P.Y.: 3%] thereby exposing the company to concentration risk.

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. As on March 31, 2023, 32 branches out of 116 are in underserved states, ~90% of branches are located in rural/ semi-urban locations, two-thirds of branches are in geographies with a population of less than 20 lakhs and one-third in catchments with less than 10 lakhs population. Since the company mainly caters to underserved geographies and to vulnerable customers, its asset quality is expected to remain prone to cyclical trends.

Liquidity: Adequate

As per the ALM dated March 31, 2023, without considering the interest and undrawn lines, there are positive cumulative mismatches across all time buckets. For the next 1 year, the company has debt obligations including interest repayment of Rs. 392.04 Crore, operating expenses of Rs. 89.11 Crore, vis-à-vis the inflows from loan portfolio of Rs. 713.37 Crore translating into cash flow debt coverage of 172%. Additionally, it had unutilised CC limits to the tune of Rs. 50 Crore as on June 30, 2023.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks : Not Applicable

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Market Linked Notes
Non Banking Financial Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non-Banking Financial Company (NBFC)

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 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 Jawanjal, MD and son of founder Mr. M. G. Jawanjar. Mr. Sandeep joined the company in 2006. 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. As on March 31, 2023, Berar has a network of 116 branches across 6 states, Maharashtra (64%), Chhattisgarh (20%), Madhya Pradesh (17%), Telangana (9%), Gujarat (4%) and Karnataka (4%). Berar focuses on catering to underserved geographies; 32 branches out of 116 are in underserved states, ~90% of branches are located in rural/ semi-urban locations.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	134.86	175.60	217.96	57.37
PAT	15.38	17.43	17.08	4.97
Interest coverage (times)	1.30	1.25	1.22	1.27
Total Assets*	885.91	1,033.27	1,122.28	NA
Net NPA (%)	1.74	2.23	3.03	3.76
ROTA (%)	2.14	1.82	1.59	NA

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'; NA: Not Available; *Net of intangible and deferred tax assets

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Mar-27	486.57	CARE BBB; Stable
Proposed Fund-based - LT-Term Loan	-	-	-	-	213.43	CARE BBB; Stable
Fixed Deposit	-	-	-	Ongoing	190.31	CARE BBB; Stable
Proposed Fixed Deposit	-	-	-	-	59.69	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE998Y07048	Sep-20	14.00%	Sep-23	10.00	CARE BBB; Stable

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE998Y07063	Dec-20	13.75%	Dec-23	15.00	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE998Y07071	Feb-21	13.18%	Feb-24	18.00	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE998Y07089	Mar-21	14.06%	Jan-25	34.00	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE998Y07113	Aug-22	11.25%	Aug-22	25.00	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE998Y07121	Aug-22	11.25%	Aug-22	15.00	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE998Y07139	Sep-22	11.50%	Mar-25	30.00	CARE BBB; Stable
Debentures-Market Linked Debentures	INE998Y07097	Sep-21	13.63%	Nov-24	13.00	CARE PP-MLD BBB; Stable
Debentures-Market Linked Debentures	INE998Y07105	Sep-21	13.63%	Nov-24	12.00	CARE PP-MLD 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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	700.00	CARE BBB; Stable	-	1)CARE BBB+; Stable (01-Sep-22) 2)CARE BBB+; Stable (05-Aug-22)	-	-
2	Debentures-Non Convertible Debentures	LT	172.00	CARE BBB; Stable	-	1)CARE BBB+; Stable (01-Sep-22) 2)CARE BBB+; Stable	-	-

						(05-Aug-22)		
3	Fixed Deposit	LT	250.00	CARE BBB; Stable	-	1)CARE BBB+; Stable (05-Jan-23) 2)CARE BBB+; Stable (01-Sep-22)	-	-
4	Debentures-Market Linked Debentures	LT	25.00	CARE PP-MLD BBB; Stable	-	1)CARE PP-MLD BBB+; Stable (01-Sep-22)	-	-
5	Fund-based - LT-Term Loan	LT	14.50	CARE A- (CE); Stable	-	1)CARE A- (CE); Stable (20-Feb-23)	-	-
6	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB+	-	1)CARE BBB+ (20-Feb-23)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Market Linked Debentures	Highly Complex
2	Debentures-Non-Convertible Debentures	Simple
3	Fixed Deposit	Simple
4	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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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About us:
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