

May 02, 2023

## Berar Finance Limited: Rating reaffirmed, removed from non-cooperation and withdrawn for bank lines

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed deposit (FD) programme	170.00	170.00	[ICRA]BBB (Stable); reaffirmed, put on notice for withdrawal for 6 months and removed from issuer non-cooperation category
Long term – Fund-based term loan (TL)	14.50	-	[ICRA]A-(CE) (Stable); reaffirmed, withdrawn and removed from issuer non-cooperation category
Long term – Fund-based TL	467.92	-	[ICRA]BBB (Stable); reaffirmed, withdrawn and removed from issuer non-cooperation category
Principal protected non-convertible market linked debentures	25.00	25.00	PP-MLD[ICRA]BBB (Stable); reaffirmed and removed from issuer non-cooperation category
Non-convertible debentures (NCDs)	97.00	97.00	[ICRA]BBB (Stable); reaffirmed and removed from issuer non-cooperation category
NCDs	15.00	-	[ICRA]BBB (Stable); reaffirmed, withdrawn and removed from issuer non-cooperation category
<b>Total</b>	<b>789.42</b>	<b>292.00</b>	

\*Instrument details are provided in Annexure I

#### Rating without explicit credit enhancement

[ICRA]BBB

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

### Rationale

ICRA has reaffirmed the ratings of Berar Finance Limited (Berar) and has removed the same from the Issuer Not Cooperating (INC) category on the payment of surveillance fees.

The ratings factor in Berar's long and successful track record in the two-wheeler (2W) financing business and its established relationships with dealers, which helped it scale up its 2W financing portfolio over the years. This is likely to aid future growth. The ratings also factor in Berar's adequate capitalisation (gearing of 3.1x and CRAR of 24.81% as on December 31, 2022).

The ratings remain constrained by the inherent risk in Berar's primary business (2W financing) and its target borrower segment (around 85% of the borrower segment is in rural areas and 50% is self-employed) as well as the monoline nature of its business (98% of the portfolio comprised 2W financing and 2W refinancing as of December 31, 2022). While the company has ventured into the new secured small and medium-sized enterprise (SME) lending segment, its ability to grow the business profitably is to be seen.

While Berar has been expanding its geographical presence (currently present in six states), it has significant geographical concentration in Maharashtra (47% of the portfolio as on December 31, 2022; improved from 71% as on March 31, 2019). Its

asset quality remains moderate with gross and net stage 3<sup>1</sup> at 5.5% and 3.8%, respectively, as on December 31, 2022, compared to 2.2% and 1.4%, respectively, as on March 31, 2022, partly impacted by the alignment with the Reserve Bank of India's (RBI) November 2021 circular. Berar's ability to improve its asset quality will remain a key rating monitorable.

The Stable outlook on the ratings factors in the steady growth in the assets under management (AUM) and the adequate capitalisation with the management's stated intent of maintaining the gearing at/below 4x.

ICRA has withdrawn the ratings assigned to Berar's Rs. 482.42-crore long-term fund-based term loan (TL) based on no - objection certificate from lenders, on Rs. 15-crore non-convertible debenture (NCDs) on full repayment of the same and has put the Rs. 170-crore fixed deposit (FD) programme on notice of withdrawal based on management declaration at the company's request and in accordance with ICRA's policy on the withdrawal of credit ratings.

## Key rating drivers and their description

### Credit strengths

**Long track record and established relationships with dealers** – Berar, which started operations in 1990, has a long track record and experience in the 2W finance business. Over the years, the company has established a strong relationship with ~1,500 dealers/sub-dealers for business sourcing, which has enabled its loan book to grow at a healthy pace over the years. The loan book grew by 20% YoY to Rs. 981 crore as on December 31, 2022 (Rs. 832 crore as on March 31, 2022) with a five-year compound annual growth rate (CAGR) of ~28% till 9M FY2023. The company targets to grow its loan book to Rs. 1,200 crore by March 2024.

**Adequate capitalisation** – Berar's capitalisation profile remains adequate with a gearing of 3.1x as on December 31, 2022 (2.9x as on March 31, 2022). The capitalisation has been supported by an equity raise of Rs. 150 crore in multiple tranches including the recent raise of Rs. 100 crore in March 2022. This led to a reduction in the stake of the promoters to 33.43% as of December 31, 2022 from 52.4% in FY2019, while Amicus Capital had an 18.74% stake followed by Maj Invest at 15.74%.

Berar reported a lower RoA of 1.8% in FY2022 compared to 2.1% in FY2021 largely due to higher operating expenses, which were partially offset by lower credit costs. The operating expenses were further elevated in 9M FY2023 (annualised RoA of 1.9%), largely due to information technology (IT) related expenses as the company is looking to improve its loan origination and management systems by building a digital platform. With the change in the recognition of penalty income, comprising penal interest and check bounce penalty, from accrual to receipt basis, fee and commission income was impacted in 9M FY2023 (0.5% in 9M FY2023 from 1.7% in FY2022). In the medium-to-long-term, the company's ability to maintain good operating efficiency levels and control the credit costs would be critical for incremental profitability. With the moderation in the profitability in recent years and given the targeted loan book growth, Berar will need to raise capital to maintain a gearing of 4x.

**Improved funding profile** – Berar has been able to diversify its borrowing profile over the last few years. It has funding relationships with more than 35 lenders. A sizeable part of its borrowings is from banks, non-banking financial companies (NBFCs) and other financial institutions (57% of the total borrowings as on December 31, 2022) in the form of TLs and cash credit facilities. This declined from 81% in FY2020 as the company increased its borrowings through NCDs (21% of borrowings as of December 31, 2022) and public deposits (21%). Going forward, Berar's ability to diversify its funding sources while improving its funding cost will be a key rating monitorable.

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<sup>1</sup> As per new RBI guidelines on classification of NPAs

## Credit challenges

**Relatively weak customer profile** – Berar’s portfolio vulnerability remains comparatively high on account of the inherent risks associated with 2W financing and the relatively moderate credit profile of the borrowers. Also, its customers are highly dependent (direct and indirect) on agriculture-based income.

Berar’s gross stage 3 increased to 5.5% (net stage 3% – 3.8%) as on December 31, 2022 from 2.2% (net stage 3% – 1.4%) as of March 31, 2022. The increase was partly due to Berar’s alignment with the RBI circular, dated November 12, 2021, on the definition of defaults (90+ days past due (dpd) stood at 4.2% as on December 31, 2022). Further, the company’s stage 3 assets are typically elevated during the year and decline in Q4, post the resale/release of repossessed assets, which is largely done in Q4. ICRA also notes the improvement in the collection efficiency in January-February 2023 to 95% from 88% in December 2022. While the 90+dpd of 4.2% as on December 31, 2022 is higher than the negative trigger of 4%, ICRA expects it to reduce to less than 4% by the end of March 2023. ICRA notes that Berar has 1,500 repossessed vehicles with a realisable value of Rs. 7.5 crore, which is included in the stage 3 assets (0.8% of loan book) as of December 31, 2022.

**Moderate scale and high geographical concentration; monoline nature of business** – Despite the growth, the company’s scale remained moderate with the loan book at Rs. 981 crore as on December 31, 2022. Also, its operations remain focused in Maharashtra, leading to geographical concentration. As of December 31, 2022, Maharashtra accounted for 47% of the loan book though the same improved from 71% as on March 31, 2019 (51% as on March 31, 2022). Berar has expanded its operations to Chhattisgarh, Madhya Pradesh, Telangana, Karnataka and Gujarat, which accounted for 53% of the total portfolio as on December 31, 2022. It aims to diversify its geographical presence with an increase in the scale of operations in the long term.

Further, Berar’s nature of business is largely monoline with 98% of the portfolio comprising 2W financing (95%) and refinancing (3%) as of December 31, 2022. It has ventured into a new segment (secured SME lending), which would be secured against residential property. ICRA expects that the new 2W loans and SME lending would be the key focus areas for the company. The company’s long track record of operations in the 2W segment provides some comfort. However, the performance of the new secured SME lending segment and Berar’s ability to keep the asset quality under control remain key monitorables.

## Liquidity position: Adequate

The liquidity position is adequate with no negative cumulative mismatches in the Statement of Structural Liquidity as on December 31, 2022, given the largely similar tenor of the loan book and borrowings. Berar had unencumbered cash and cash equivalents and liquid investments of Rs. 96.4 crore and unutilised bank lines of Rs. 103 crore as on January 31, 2023 against scheduled debt repayments of Rs. 241 crore (excluding FDs) due till July 2023.

## Rating sensitivities

**Positive factors** – ICRA could revise the outlook to Positive or upgrade the ratings if the company is able to increase its scale of operations while improving its asset quality and profitability and maintaining adequate capitalisation.

**Negative factors** – ICRA could downgrade the ratings or change the outlook if there is a deterioration in the profitability or asset quality with a 90+dpd of more than 4% on a sustained basis. Further, a sustained increase in the gearing to over 5.5x could exert pressure on the ratings.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-banking Finance Companies</a> <a href="#">Policy on Withdrawal of Credit Ratings</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

## About the company

Berar Finance Limited (Berar) is a Nagpur-based public, unlisted, deposit-taking non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). It is promoted by Mr. M. G. Jawanjar and was incorporated in 1990. Berar primarily finances two-wheelers (2Ws). It also provides used car loans, commercial vehicle loans, agriculture equipment loans and personal loans.

While its operations are concentrated in Maharashtra, Berar has, over the years expanded to five other states, i.e. Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka. As on December 31, 2022, the company's loan book was Rs. 981 crore. In 9M FY2023, Berar reported a profit after tax (PAT) of Rs. 17 crore on operating income of Rs. 85 crore vis-à-vis a PAT of Rs. 15 crore on operating income of Rs. 67 crore in FY2021. As on December 31, 2022, the company reported a PAT of Rs. 16 crore on operating income of Rs. 86 crore.

### Key financial indicators (audited)

Berar Finance Limited	FY2021	FY2022	9M FY2023*
Total income	135	176	159
Profit after tax	15	17	16
Net worth	146	259	276
Loan book	672	832	981
Total assets	891	1,038	1,156
Return on assets	2.1%	1.8%	1.9%^
Return on net worth	12.0%	8.6%	7.9%^
Gross gearing (times)	4.9	2.9	3.1
Gross Stage 3	2.5%	2.2%	5.5%
Net Stage 3	1.7%	1.4%	3.8%
Solvency (Net Stage 3/Net worth)	7.8%	4.4%	13.3%
CRAR	20.5%	28.8%	24.8%

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

**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 Mar 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022			Date & Rating in FY2021						
				May 02, 2023	Oct 27, 2022	Jun 02, 2022	Mar 04, 2022	Dec 10, 2021	Sep 24, 2021	Mar 18, 2021	Feb 23, 2021	Dec 29, 2020	Jul 21, 2020	Jun 23, 2020	Jun 10, 2020	
1	Long term – Fund-based TL	Long term	14.50	Nil	[ICRA]A-(CE) (Stable); withdrawn	[ICRA]A-(CE) (Stable) ISSUER NOT COOPERATING	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)	-	-	-	-	-	-	-
2	FD programme	Long term	170.00	Nil	[ICRA]BBB (Stable); Put on notice for withdrawal for 6 months	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	[ICRA]BBB (Stable)	MA- (Stable)	MA- (Stable)	MA- (Stable)	MA- (Stable)	MA- (Stable)	MA- (Stable)	MA- (Stable)	MA- (Stable)	MA- (Stable)
3	Principal protected non-convertible market linked debentures	Long term	25.00	25.00	PP-MLD[ICRA]BBB (Stable)	PP-MLD[ICRA]BBB (Stable) ISSUER NOT COOPERATING	PP-MLD[ICRA]BBB (Stable)	PP-MLD[ICRA]BBB (Stable)	PP-MLD[ICRA]BBB (Stable)	PP-MLD[ICRA]BBB (Stable)	-	-	-	-	-	-
4	Long term – Fund-based TL	Long term	467.92	Nil	[ICRA]BBB (Stable); withdrawn	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
5	NCD programme	Long term	97.00	87.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
6	NCD programme	Long term	15.00	Nil	[ICRA]BBB (Stable); withdrawn	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based TL <sup>^</sup>	Very Simple
Principal protected non-convertible market linked debentures	Complex
NCDs	Moderately Complex
Long term – Fund-based TL	Very Simple
FD programme	Very Simple

<sup>^</sup> Backed by credit enhancement

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE998Y07063	NCD programme	Dec 23, 2020	13.75%	Dec 23, 2023	15.00	[ICRA]BBB (Stable)
INE998Y07089	NCD programme	Mar 24, 2021	*	Feb 05, 2025	34.00	[ICRA]BBB (Stable)
INE998Y07048	NCD programme	Sep 11, 2020	14.00%	Sep 11, 2023	10.00	[ICRA]BBB (Stable)
INE998Y07014	NCD programme	Jun 22, 2020	12.50%	Jun 21, 2023	10.00	[ICRA]BBB (Stable)
INE998Y07071	NCD programme	Feb 24, 2021	13.18%	Feb 24, 2024	18.00	[ICRA]BBB (Stable)
INE998Y07055	NCD Programme	Nov 18, 2020	13.75%	Mar 30, 2023	15.00	[ICRA]BBB (Stable); withdrawn
Not placed	NCD programme	Not applicable	Not applicable	Not applicable	10.00	[ICRA]BBB (Stable)
INE998Y07097	Principal protected non-convertible market linked debentures	Sep 17, 2021	BSE Sensex Linked	Oct 31, 2024	13.00	PP-MLD[ICRA]BBB (Stable)
INE998Y07105		Sep 17, 2021		Nov 30, 2024	12.00	PP-MLD[ICRA]BBB (Stable)
Unallocated	Long term – Fund-based TL	Not Available	Not Available	Not Available	467.92	[ICRA]BBB (Stable); withdrawn
Unallocated	Long term – Fund-based TL	Not Available	Not Available	Not Available	14.50	[ICRA]A-(CE) (Stable); withdrawn
Unutilised	FD programme	Not applicable	Not applicable	Not applicable	170.00	[ICRA]BBB (Stable); Put on notice for withdrawal for 6 months

\* 15% until Jun 15, 2021, 14.5% from Jun 15, 2021 until Sep 15, 2021, 14% from Sep 15, 2021 until Dec 15, 2021, and 13.9069% from Dec 15, 2021 until the final settlement date

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

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