

December 07, 2023

Berar Finance Limited: Ratings reaffirmed; Rating withdrawn for fixed deposit and non-convertible debentures

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed deposit (FD) programme	170.00	-	[ICRA]BBB (Stable); reaffirmed and withdrawn
Principal protected non-convertible market linked debentures	25.00	25.00	PP-MLD[ICRA]BBB (Stable); reaffirmed
Non-convertible debentures (NCDs)	67.00	67.00	[ICRA]BBB (Stable); reaffirmed
NCDs	30.00	-	[ICRA]BBB (Stable); reaffirmed and withdrawn
Total	292.00	92.00	

*Instrument details are provided in Annexure I

Rationale

The ratings factor in Berar Finance Limited'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 3.02x and CRAR of 27.55% as on September 30, 2023).

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 September 30, 2023). While the company has ventured into the new secured small and medium-sized enterprise (SME) lending segment, its ability to grow this business profitably is to be seen.

Although Berar has been expanding its geographical presence (currently present in six states), it has significant geographical concentration in Maharashtra (44% of the portfolio as on September 30, 2023; declined from 71% as on March 31, 2019). Its asset quality moderated in H1 FY2024 with the gross and net stage 3 at 5.6% and 3.6%, respectively, as on September 30, 2023, compared to 4.7% and 3.0%, respectively, as on March 31, 2023 (3.1% and 2.2%, respectively, as on March 31, 2022). This was due to the alignment with the Reserve Bank of India's (RBI) November 2021 circular from October 2022, the delay in the resale of repossessed vehicles and the change in the allocation of repayments from instalments only to instalments and penalties.

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 rating assigned to Berar's Rs. 30-crore non-convertible debenture (NCD) programme at the company's request and as there are no dues outstanding against the same and the Rs. 170-crore fixed deposit (FD) programme 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 14% YoY to Rs. 947 crore as on March 31, 2023 (Rs. 832 crore as on March 31, 2022) with a 4-year compound annual growth rate (CAGR) of ~27% till FY2023. While the loan book declined in Q1 FY2024 due to the shortage of supply of 2Ws from Honda, post the introduction of BS6 Phase 2 by the Government, disbursements started picking up pace from August 2023, leading to an increase in the loan book to ~Rs. 1,000 crore by October 31, 2023.

Adequate capitalisation – Berar’s capitalisation profile remains adequate with a gearing of 3.02x as on September 30, 2023 (3.00x as on March 31, 2023). The capitalisation has been supported by an equity raise of Rs. 150 crore in multiple tranches including the last raise of Rs. 100 crore in March 2022. This led to a reduction in the stake of the promoters to 33.44% as of September 30, 2023 from 52.4% in FY2019, while Amicus Capital had an 18.74% stake and Maj Invest had a 15.74% stake.

The return on managed assets¹ (RoMA) declined to 1.5% in FY2023 from 1.8% in FY2022 largely due to higher credit costs, though the profitability was partially supported by better net interest margins (NIMs). The operating expenses were elevated in FY2023, 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 (and consequent reversal of accrued penalty), fee and commission income was impacted in FY2023 (1.0% of assets in FY2023 from 1.7% in FY2022). The RoMA increased to 2.0% in H1 FY2024 (1.3% in H1 FY2023), supported by higher NIMs. However, credit costs continued to increase (2.9% of average managed assets; AMA) with higher write-offs due to a shift in the write-off policy from selective write-offs to 720 days past due (dpd). This is a one-time impact and is expected to normalise in the coming quarters. The company’s ability to maintain good operating efficiency and control the credit costs in the medium-to-long-term 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 40 lenders. A sizeable part of its borrowings is from banks, non-banking financial companies (NBFCs) and other financial institutions (67% of the total borrowings as on September 30, 2023) in the form of term loans and cash credit facilities. This declined from 81% in FY2020 as the company increased its borrowings through NCDs (13% of borrowings as of September 30, 2023) 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.

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 4.7% (net stage 3 – 3%) as of March 31, 2023 from 3.1% (net stage 3 – 2.2%) as of March 31, 2022. This was partly due to its alignment with the RBI circular, dated November 12, 2021, on the definition of default. The stage 3 increased further to 6.1% (net stage 3 – 3.8%) as of June 30, 2023, partly because of the decline in the loan book base and also due to the delay in the sale of repossessed vehicles. With higher write-offs due to the change in the write-off

¹ *Managed assets = Total assets + Impairment allowance on loan assets*

policy and the growth in the loan book in Q2 FY2024, the stage 3 assets declined to 5.6% (net stage 3 – 3.6%) as of September 30, 2023. The 90+ dpd stood at 3.96% as on September 30, 2023 (3.27% as on March 31, 2023).

Further, Berar has 939 repossessed vehicles with a realisable value of Rs. 4.7 crore, which is included in the stage 3 assets (0.5% of loan book) as of September 30, 2023.

Moderate scale and high geographical concentration; monoline nature of business – Despite the growth, the company's scale remains moderate with the loan book at Rs. 937 crore as on September 30, 2023. Also, its operations remain focused in Maharashtra, leading to geographical concentration. As on September 30, 2023, Maharashtra accounted for 44% of the loan book though the same declined from 71% as on March 31, 2019 (46% as on March 31, 2023). Berar has expanded its operations to Chhattisgarh, Madhya Pradesh, Telangana, Karnataka and Gujarat, which accounted for 56% of the total portfolio as on September 30, 2023. 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 2W refinancing (3%) as of September 30, 2023. 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. Berar's long track record of operations in the 2W segment provides some comfort. However, the performance of the new secured SME lending segment and the company'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 September 30, 2023, given the largely similar tenor of the loan book and borrowings. Berar had unencumbered cash and cash equivalents and liquid investments of Rs. 128 crore and unutilised bank lines of Rs. 90 crore as on September 30, 2023 against scheduled debt repayments of Rs. 263 crore due in the six months till March 2024.

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 on a sustained basis. Further, a sustained increase in the gearing to more than 5.5x could exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Credit Ratings
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 September 30, 2023, the company's loan book was Rs. 937 crore. Berar reported a profit after tax (PAT) of Rs. 17 crore on operating income of Rs. 118 crore in FY2023 vis-à-vis Rs. 17 crore and Rs. 85 crore, respectively, in FY2022. As on September 30, 2023, the company reported a PAT of Rs. 12 crore on operating income of Rs. 69 crore.

Key financial indicators (audited)

Berar Finance Limited	FY2022	FY2023	H1 FY2024*
Total income	176	218	116
Profit after tax	17	17	12
Net worth	259	275	286
Loan book	832	947	937
Total assets	1,044	1,141	1,181
Return on managed assets ^	1.8%	1.5%	2.0%
Return on net worth^	8.6%	6.4%	8.4%
Gross gearing (times)	2.9	3.0	3.0
Gross stage 3	3.1%	4.7%	5.6%
Net stage 3	2.2%	3.0%	3.6%
Solvency (Net stage 3/Net worth)	7.1%	10.2%	11.5%
CRAR	28.8%	26.3%	27.6%

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	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2023 (Rs. crore)	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years											
				Date & Rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022			Date & Rating in FY2021						
				Dec 07, 2023	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	FD programme	Long term	170.00	-	[ICRA]BBB (Stable); reaffirmed and withdrawn	[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)
2	Principal protected non-convertible market linked debentures	Long term	25.00	25.00	PP-MLD[ICRA]BBB (Stable)	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)	-	-	-	-	-	-
3	NCD programme	Long term	67.00	67.00	[ICRA]BBB (Stable)	[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)	[ICRA]BBB (Stable)
4	NCD programme	Long term	30.00	-	[ICRA]BBB (Stable); reaffirmed and withdrawn	[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)	[ICRA]BBB (Stable)
5	Long term – Fund-based TL	Long term	-	-	-	[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)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Instrument	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years													
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2023 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022			Date & Rating in FY2021						
				Dec 07, 2023	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	
						ISSUER NOT COOPERATING											
6 Long term – Fund-based TL	Long term	-	-	-	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable) ISSUER NOT COOPERATING	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	Provisional [ICRA]A-(CE) (Stable)	-	-	-	-	-	-	-	-
7 NCD programme	Long term	-	-	-	[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)	[ICRA]BBB (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Principal protected non-convertible market linked debentures	Complex
NCDs	Moderately Complex
FD 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 / 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)
INE998Y07071	NCD programme	Feb 24, 2021	13.18%	Feb 24, 2024	18.00	[ICRA]BBB (Stable)
INE998Y07048	NCD programme	Sep 11, 2020	14.00%	Sep 11, 2023	10.00	[ICRA]BBB (Stable); reaffirmed and withdrawn
INE998Y07014	NCD programme	Jun 22, 2020	12.50%	Jun 21, 2023	10.00	[ICRA]BBB (Stable); reaffirmed and withdrawn
Not placed	NCD programme	Not applicable	Not applicable	Not applicable	10.00	[ICRA]BBB (Stable); reaffirmed and withdrawn
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)
Unutilised	FD programme	Not applicable	Not applicable	Not applicable	170.00	[ICRA]BBB (Stable); reaffirmed and withdrawn

* 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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

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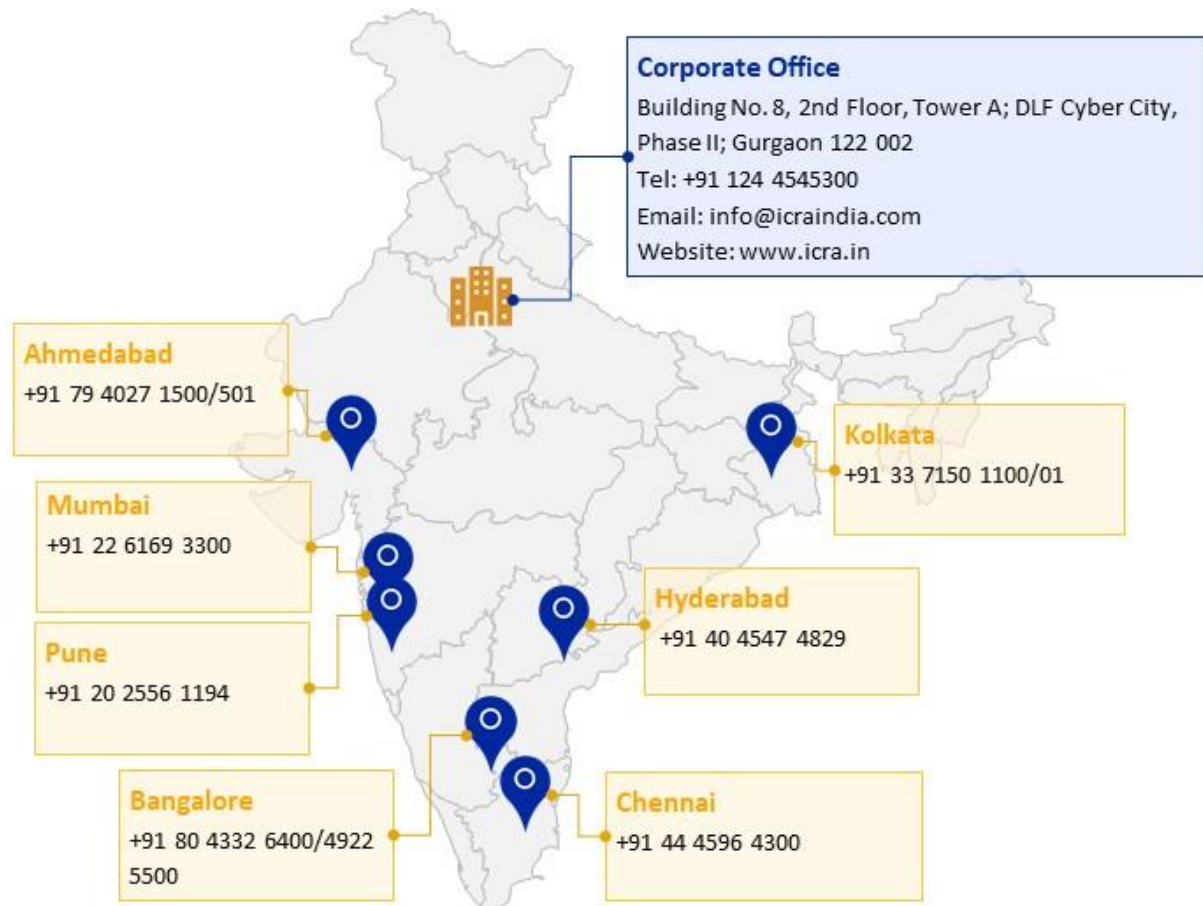
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