

November 28, 2024

Berar Finance Limited: Ratings reaffirmed and ratings withdrawn for matured instruments

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures (NCDs)	34.00	34.00	[ICRA]BBB (Stable); reaffirmed
NCDs	33.00	-	[ICRA]BBB (Stable); reaffirmed and withdrawn
Principal protected non-convertible market linked debentures	25.00	-	PP-MLD[ICRA]BBB (Stable); reaffirmed and withdrawn
Total	92.00	34.00	

*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 consider Berar's adequate capitalisation (gearing of 3.62x and capital-to-risk weighted assets ratio (CRAR) of 23.6% as on September 30, 2024).

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 on September 30, 2024). While the company has ventured into the secured micro, small and medium enterprise (MSME) lending segment, its ability to grow the business profitably is to be seen. Although Berar has been expanding its geographical presence (currently present in seven states), it has geographical concentration in Maharashtra (39% of the portfolio as on September 30, 2024; declined from 46% as on March 31, 2023). The asset quality moderated in H1 FY2025 with the gross and net stage 3 at 5.7% and 3.5%, respectively, as on September 30, 2024, compared to 4.6% and 2.8%, respectively, as on March 31, 2024. The ability to manage the asset quality through cycles will have a bearing on the profitability.

The Stable outlook on the rating factors in the steady growth in the assets under management (AUM) and the adequate profitability and capitalisation with the stated intent of the management to maintain the gearing at/below 4x.

ICRA has withdrawn the ratings assigned to Berar's Rs. 33-crore non-convertible debenture (NCD) programme and Rs. 25-crore principal protected non-convertible market linked debenture (PP-MLD) programme at the company's request with no dues outstanding against the same 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 17% YoY to Rs. 1,118 crore as on March 31, 2024 (Rs. 947 crore as on March 31, 2023) with a 5-year

compound annual growth rate (CAGR) of 19.1% till FY2024. It grew further to Rs. 1,157 crore as on September 30, 2024 and is expected to be Rs. 1,350 crore by March 31, 2025.

Adequate capitalisation – Berar’s capitalisation profile remains adequate with a gearing of 3.62x as on September 30, 2024 (3.28x as on March 31, 2024). The capitalisation has been supported by an equity raise of Rs. 150 crore in multiple tranches, including the last infusion of Rs. 100 crore in March 2022. The equity infusion was mainly by Amicus Capital and Maj Invest, which now have a stake of 19.11% and 16.05%, respectively.

The return on managed assets¹ (RoMA) increased to 1.8% in FY2024 from 1.5% in FY2023 largely due to the improvement in the net interest margin (NIM), though the profitability was partially offset by the increase in operating expenses and credit costs. Operating expenses were elevated in FY2024, largely due to information technology (IT) related expenses and employee expenses, as the company has been investing to improve its loan origination and management systems by building a digital platform. Also, with the expansion into secured MSME lending, operating expenses are expected to remain high in the near term. The RoMA improved to 2.2% in H1 FY2025 (2.0% in H1 FY2024), supported by the decline in credit costs. 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. ICRA expects growth to be supported by capital infusions with the gearing maintained at 4x.

Diversified funding profile for the scale of operations – 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 (69% of the total borrowings as on September 30, 2024) in the form of term loans and cash credit facilities. Apart from this, the company has borrowings through public deposits (19% of the borrowings as on September 30, 2024), securitisation (8%) and NCDs (~4%). Going forward, Berar’s ability to improve its funding cost will be one of the key drivers of an improvement in its profitability.

Credit challenges

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

Berar reported 90+ days past due (dpd) of 2.8% as on March 31, 2024 (3.3% as on March 31, 2023). Including write-offs during the year, the 90+ stood at 5.0% as on March 31, 2024. The gross stage 3 or gross non-performing assets (NPAs) was higher at 4.6% (net stage 3 or net NPAs of 2.8%) as on March 31, 2024. The 90+dpd stood at 3.3% and gross stage 3 at 5.7% as on September 30, 2024. Berar’s ability to improve the asset quality through collections and sale of repossessed vehicles will have a bearing on its credit costs and profitability. The company has 961 repossessed vehicles with a realisable value of Rs. 4.8 crore (0.4% of gross loan book), which is included in the net stage 3 assets of 12.0% as on September 30, 2024.

Moderate scale; monoline nature of business – Despite the growth, the company’s scale remains moderate with a loan book of Rs. 1,157 crore as on September 30, 2024. Further, Berar’s nature of business is largely monoline with 98% of the portfolio comprising 2W financing (94%) and 2W refinancing (4%) as on September 30, 2024. ICRA expects that new 2W loans and small and medium enterprise (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 monitorable factors.

As on September 30, 2024, Maharashtra accounted for 39% of the loan book though the same improved from 46% as on March 31, 2023. Apart from Maharashtra, Madhya Pradesh and Chhattisgarh are the key states accounting for 22% and 21%, respectively, of the loan book as on September 30, 2024. The company has also expanded its operations to Telangana,

Karnataka and Gujarat and has opened 6 branches in Odisha. Berar aims to diversify its geographical presence with an increase in its scale of operations in the long term.

Liquidity position: Adequate

The liquidity position is adequate with no negative cumulative mismatches in the Statement of Structural Liquidity as on September 30, 2024, given the largely similar tenor of the loan book and borrowings. Berar has unencumbered cash and cash equivalents and liquid investments of Rs. 152.7 crore and unutilised sanctioned lines of Rs. 113.5 crore as on September 30, 2024 against scheduled debt repayments of Rs. 339.5 crore (including interest repayment and operating expenses) due in the next six months till March 2025.

Rating sensitivities

Positive factors – An increase in the scale of operations with sustained improvement in the asset quality and earnings profile while maintaining adequate capitalisation, could positively impact the rating.

Negative factors - A deterioration in the profitability or asset quality or an increase in the gearing to more than 5.5 times on a sustained basis could exert pressure on the rating.

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). The company is promoted by Mr. M. G. Jawanjar and was incorporated in 1990. Berar primarily finances two-wheelers (2Ws). It also provides used car loans, personal loans and secured MSME loans. Berar has now discontinued the used car loans segment.

While its operations are concentrated in Maharashtra, Berar has expanded to five other states, i.e. Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka. It commenced operations in Odisha in FY2025. As on September 30, 2024, the company's loan book was Rs. 1,157 crore.

Key financial indicators (audited)

Berar Finance Limited	FY2023	FY2024	H1 FY2025*
Total income	218	252	140
Profit after tax	17	22	16
Total managed assets	1,170	1,351	1,513
Return on managed assets [^]	1.5%	1.8%	2.2%
Managed gearing (times)	3.0	3.3	3.6
Gross stage 3	4.7%	4.6%	5.7%
CRAR	26.3%	25.0%	23.6%

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	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Nov 28, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
NCD programme	Long term	34	[ICRA]BBB (Stable)	07-Dec-23	[ICRA]BBB (Stable)	27-Oct-22	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	04-Mar-22	[ICRA]BBB (Stable)
				02-May-23	[ICRA]BBB (Stable)	02-Jun-22	[ICRA]BBB (Stable)	10-Dec-21	[ICRA]BBB (Stable)
								24-Sep-21	[ICRA]BBB (Stable)
NCD programme	Long term	-	[ICRA]BBB (Stable); reaffirmed and withdrawn	07-Dec-23	[ICRA]BBB (Stable)	27-Oct-22	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	04-Mar-22	[ICRA]BBB (Stable)
				02-May-23	[ICRA]BBB (Stable)	02-Jun-22	[ICRA]BBB (Stable)	10-Dec-21	[ICRA]BBB (Stable)
								24-Sep-21	[ICRA]BBB (Stable)
Market linked debenture long term	Long term	-	PP-MLD[ICRA]BBB (Stable); reaffirmed and withdrawn	07-Dec-23	PP-MLD[ICRA]BBB (Stable)	27-Oct-22	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	04-Mar-22	PP-MLD[ICRA]BBB (Stable)
				02-May-23	PP-MLD[ICRA]BBB (Stable)	02-Jun-22	PP-MLD [ICRA]BBB (Stable)	10-Dec-21	PP-MLD[ICRA]BBB (Stable)
								24-Sep-21	PP-MLD[ICRA]BBB (Stable)
FD programme	Long term			07-Dec-23	[ICRA]BBB (Stable); reaffirmed and withdrawn	27-Oct-22	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	04-Mar-22	MA- (Stable)
				02-May-23	[ICRA]BBB (Stable); Put on notice for withdrawal for 6 months	02-Jun-22	[ICRA]BBB (Stable)	10-Dec-21	MA- (Stable)
								24-Sep-21	MA- (Stable)
NCD programme	Long term			07-Dec-23	[ICRA]BBB (Stable); reaffirmed and withdrawn	27-Oct-22	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	04-Mar-22	[ICRA]BBB (Stable)
				02-May-23	[ICRA]BBB (Stable)	02-Jun-22	[ICRA]BBB (Stable)	10-Dec-21	[ICRA]BBB (Stable)
								24-Sep-21	[ICRA]BBB (Stable)

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Nov 28, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Long term – Fund-based TL	Long term			02-May-23	[ICRA]BBB (Stable)	27-Oct-22	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	04-Mar-22	[ICRA]BBB (Stable)
						02-Jun-22	[ICRA]BBB (Stable)	10-Dec-21	[ICRA]BBB (Stable)
								24-Sep-21	[ICRA]BBB (Stable)
Long term – Fund-based TL	Long term			02-May-23	[ICRA]A-(CE) (Stable)	27-Oct-22	[ICRA]A-(CE) (Stable) ISSUER NOT COOPERATING	04-Mar-22	[ICRA]A-(CE) (Stable)
						02-Jun-22	[ICRA] A-(CE) (Stable)	10-Dec-21	Provisional [ICRA]A-(CE) (Stable)
NCD programme	Long term			02-May-23	[ICRA]BBB (Stable)	27-Oct-22	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	04-Mar-22	[ICRA]BBB (Stable)
						02-Jun-22	[ICRA]BBB (Stable)	10-Dec-21	[ICRA]BBB (Stable)
								24-Sep-21	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Principal protected non-convertible market linked debentures	Complex
NCDs	Moderately Complex

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); reaffirmed and withdrawn
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); 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); reaffirmed and withdrawn
INE998Y07105		Sep 17, 2021		Nov 30, 2024	12.00	PP-MLD[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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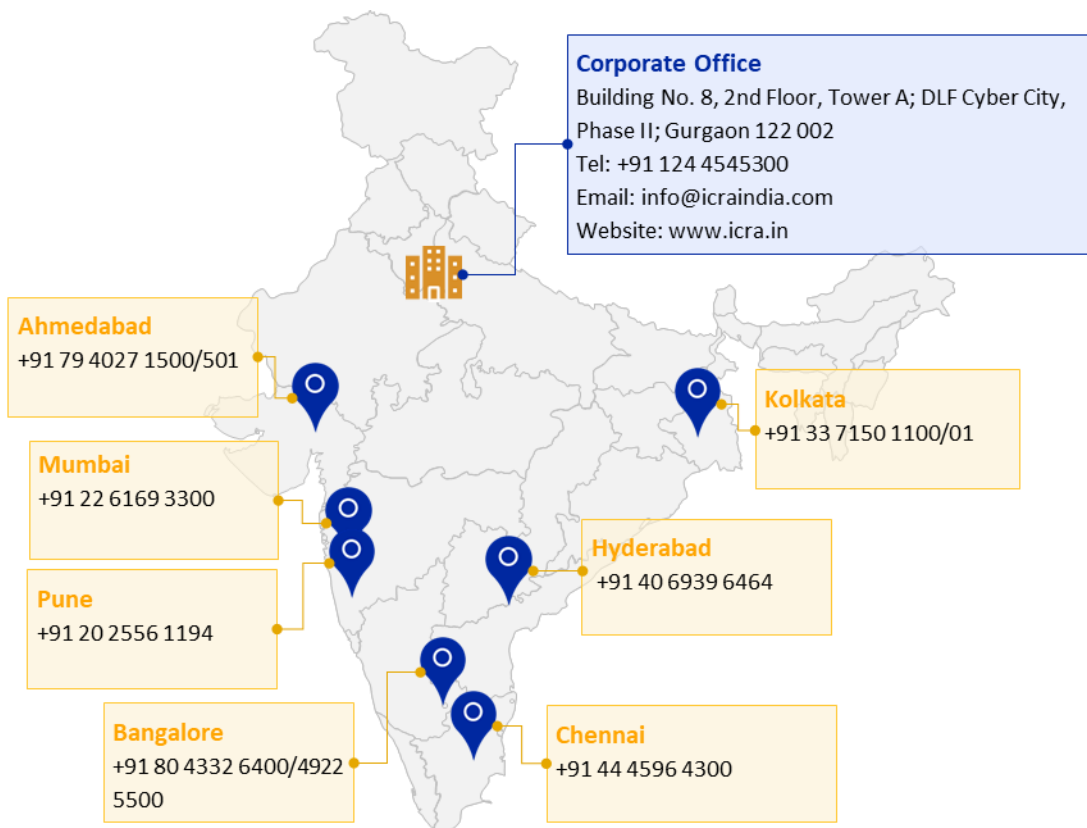
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