

April 30, 2020 ^(Revised)

Northern Arc Capital Limited: Ratings confirmed for Pooled Loan Issuance (PLI) programme – Northern Arc P.L.I. XI Sep 2019 arranged by Northern Arc Capital Limited, as final

Summary of rating action

Sl.	Borrower Name*	Initial Loan Amount (Rs. crore)	Rated Amount (Rs. Crore)	Rating Action
1	Orange Retail Finance India Private Limited	15.00	15.00	Provisional [ICRA]BBB+(CE) confirmed as final; Stable outlook assigned
2	Amrit Malwa Capital Limited	8.00	8.00	Provisional [ICRA]BBB+(CE) confirmed as final; Stable outlook assigned
3	Western India Transport Finance Company Ltd	6.00	6.00	Provisional [ICRA]BBB+(CE) confirmed as final; Stable outlook assigned
4	G U Financial Services Private Limited	5.00	5.00	Provisional [ICRA]BBB+(CE) confirmed as final; Stable outlook assigned
5	Vaya Finserv Pvt. Ltd	15.00	15.00	Provisional [ICRA]BBB+(CE) confirmed as final; Stable outlook assigned
	TOTAL	49.00	49.00	

*Instrument details are provided in Annexure I

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 its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The table below captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Sl.	Borrower Name	Rating Without Explicit Credit Enhancement
1	Orange Retail Finance India Private Limited	[ICRA]BB+
2	Amrit Malwa Capital Limited	[ICRA]BB+
3	Western India Transport Finance Company Ltd	[ICRA]BB+
4	G U Financial Services Private Limited	[ICRA]BB-
5	Vaya Finserv Pvt. Ltd	[ICRA]BBB

ICRA also has a rating outstanding on the other rated facilities/instruments of the following entities:

Western India Transport Finance Company Ltd: Refer to this [link](#) for details.

G U Financial Services Private Limited: Refer to this [link](#) for details.

Vaya Finserv Pvt. Ltd: Refer to this [link](#) for details.

Rationale

In October 2019, ICRA had assigned provisional [ICRA]BBB+(CE) ratings to each of the loan facilities (aggregating to Rs. 49.00 crore) given under Pooled Loan Issuance (PLI) programme of five borrowers mentioned in the table above. Since the executed transaction documents are in line with the rating conditions for the transaction have been provided to ICRA, the said ratings have now been confirmed as final.

Adequacy of credit enhancement

The common partial guarantee is legally enforceable, irrevocable, unconditional, covers the tenor of the rated instruments and has a well-defined invocation and payment mechanism. The payment mechanism is as follows:

Trigger Date	Action Points
T-3	Borrower shall pay monthly interest and principal due along with other obligations (if any) to the lender by 4 PM, 3 days prior to the due date
T-2	In the event of the failure of the borrower to make the payment due as per the above-mentioned timeline, the lender (or lender's agent) will invoke the guarantee and send one business day notice to the guarantor to make the payment due
T-1	Guarantor to make the payment due

Note: T stands for due date

Salient covenants of the rated facility

- » *Cross-default by the borrower is an event of non-compliance*
- » *In the event of non-compliance as defined in the transaction documents, the borrower is to make weekly principal repayments. The schedule shall be drawn up to ensure that the last payment date of an approximate 4-week period (or 5-week period as applicable) shall fall on a principal repayment date*
- » *In the event of default as defined in the transaction documents, all outstanding amount of the facilities shall stand accelerated and will be payable within 2 business days*

Key rating drivers

Credit strengths

- Most entities are profitable and have moderate track record in the lending industry.
- Stable collection efficiency and good asset quality demonstrated in the lending portfolio in the past by most of the Borrowers in the current PLI programme
- The PLI structure provides geographical diversification with 5 borrower entities with operations across multiple states
- The PLI structure provides diversification with five borrower entities from varied industries
- Common guarantee to the extent of 31.00% of the total PLI amount from Northern Arc Capital Limited ([ICRA]A+ / [ICRA]A1+); guarantee coverage expected to increase with principal amortisation on underlying loans

Credit challenges

- High borrower level concentration in the current PLI programme, with top borrower entity constituting 30.61% of the initial PLI amount.
- Weak to moderate stand-alone credit quality of the Borrowers in long-term
- An adverse sector-wide development could impact the stand-alone credit quality of multiple Borrowers in the programme; also, the asset quality and consequently the credit quality of the Borrowers could be correlated and is vulnerable to various political, communal and environmental issues —these could in turn result in downgrade of the PLI programme; however, given the moderate tenure of the loans, likelihood of such a development should be low

Description of key rating drivers highlighted above

The rating for the loans factors in the benefit of the common corporate guarantee to the extent of 31.00% of the initial value of the loans, which enhances the credit quality of the loans under the PLI programme over the respective borrower's standalone credit quality. The standalone credit quality of the borrowers is weak to moderate with a modest liquidity profile and a low to moderate length of operating track record. Most of the borrowers have demonstrated their ability to raise debt from banks and other institutional lenders though the number of lenders for some of the borrowers has been limited. The capitalisation profile can be characterised as modest-to-good for the borrowers. There is high borrower-level concentration in the PLI with the top borrower entity comprising 30.61% of the initial PLI amount.

The rating also draws comfort from the fact that the loans are supported by a security in the form of a charge over receivables with a security cover of 1.1 times. However, the rating is constrained by the weak to moderate standalone credit quality of the borrowers in the long term. The rating is also constrained by the vulnerability of the borrowers to any adverse sector-wide development and to any political or environmental issues that could affect their portfolio performance.

The rating is sensitive to certain features of the transaction structure such as the potential acceleration of the loan repayments under certain events (defined as 'event of default'), which could trigger a downgrade of the loans. Moreover, the credit enhanced rating has been confirmed as final taking into account the relative share of each borrower in the PLI programme.

Key rating assumptions

In the present PLI programme, the servicing of each loan is firstly the obligation of the individual borrower. However, even in the event of stress on a borrower's financial position to meet the scheduled payments on the loans, the lender's agent can utilise the common corporate guarantee to meet the shortfall. Thus, for rating the said PLI programme, the approach has been to factor in the likelihood of an individual borrower defaulting on its debt obligations (which is a function of its standalone credit rating) and the corporate guarantee. Any shortfall in meeting the scheduled lender payout is to be met through the common guarantee till it is available. The resulting probability of default on the lender, which would be lower than that of the standalone default probability of the individual borrowers owing to the benefit of the credit enhancement, is then compared with ICRA's internal benchmarks for the PLI rating.

The rating is sensitive to certain features of the transaction structure such as the potential acceleration of the loan repayments under certain events (defined as ‘event of default’), which could trigger a downgrade of the loans. Moreover, the credit enhanced rating has been confirmed as final taking into account the relative share of each borrower in the PLI programme.

Liquidity position: Adequate

Liquidity is available in the form of an unconditional and irrevocable common partial guarantee to the extent of 31.00% of the outstanding value of the aggregate PLI amount.

Rating Sensitivities

Positive triggers – The provisional ratings could be upgraded on the basis of amortisation of the loan facilities leading to build up of guarantee cover over the future payments to 43% (assuming no guarantee reset has been exercised in due course).

Negative triggers – Deterioration in the credit quality of the underlying entities, could lead to pressure on the provisional ratings. The ratings could also be downgraded in the rating of the common guarantor below the covenanted level and failure by the relevant Guarantor to provide a cash collateral equal to the amount guaranteed by it within 15 (Fifteen) Business Days of such downgrade.

Analytical approach

The rating action is based on the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions ICRA Rating Methodology for Partially Guaranteed Debt Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the Guarantor

Chennai-based NACL is a systemically important non-banking finance company. It provides diverse financing solutions to entities providing microfinance, affordable housing finance, commercial vehicle finance, agri finance, small business loans, and to corporates as well. NACL provides loans and other structured debt products including guarantees to its clients. It also facilitates securitisation transactions for its clients and generally invests in subordinated tranches.

The company’s scheme of arrangement/amalgamation was approved by the National Company Law Tribunal in February 2019. As per the scheme, IFMR Holdings Private Limited’s (IFHPL; erstwhile holding company of NACL) investments in NACL and the national pension scheme (NPS) aggregation business were transferred to Dvara Investments Private Limited (DIPL), which was later merged with NACL. As of December 2019, IIFL Special Opportunities Fund is the largest shareholder with a stake of 26.4% in NACL, followed by Leapfrog Financial Inclusion India II Limited (23.4%), Augusta Investments II Pte Ltd (18.3%), Eight Roads Investments (Mauritius) (II) Limited (~10.6%), Dvara Trust (10.0%), Accion (6.0%), and SMBC (~5.4%) excluding the ESOP pool.

For the detailed rating rationale on Northern Arc Capital Limited, please refer to this [link](#).

About the borrowers

Orange Retail Finance India Private Limited (Orange)

Based in Chennai, Orange Retail Finance Private Limited (Orange) is a non-banking finance company, engaged in providing two-wheeler loans, predominantly in the rural and semi-urban markets. The has also entered into a co-lending arrangement with an NBFC (Incred financial Services Private Limited). Currently, it has 73 branches across Tamil Nadu, Andhra Pradesh and Kerala. The company's asset under management stood at Rs.325.9 crore as on Jun 2019. The company is managed Ms. S. Magesh and Mr. Ebenezer Daniel. Orange is present in Tamil Nadu, Andhra Pradesh, Kerala, Karnataka and Telangana.

Amrit Malwa Capital Limited (Amrit Malwa)

The company was incorporated as a private limited company under the name of Amrit Hire Purchase Pvt. Ltd. under the Companies Act, 1956 in 1987 and later the name changed to Amrit Hire Purchase Ltd. in 1996. The company obtained NBFC license from RBI and it is majorly in the business of asset (vehicle) financing. It was merged in May 2018 with another group company Malwa Ludhiana Motors Private Limited to form a bigger entity under the name Amrit Malwa Capital Limited. The vehicles funded by Amrit Malwa are mainly two wheelers. The company finances vehicles of brands such as Hero, Honda, Bajaj and others. The company had a portfolio of Rs. 208 crore as on June 30, 2019. The company is present in Punjab, Himachal Pradesh and Rajasthan.

Western India Transport Finance Company Private Limited (Witfin)

Western India Transport Finance Company Ltd. is a NBFC incorporated in April 2006 and was granted RBI registration as NBFC in August 2011. The company is promoted by Mr. Nikhil Swadi, who is member of Swadi family which is into transportation business since more than 40 years. The company lends majorly to the 'used commercial vehicle' segment which constituted around 88% of the total outstanding portfolio as on March 2019. The major focus of the company is towards lending of light commercial vehicle (LCV) and Heavy Commercial Vehicle (HCV) forming around 61% of outstanding portfolio as on June 2019 while the rest being three-wheeler loading vehicles, passenger cars and others. The company has presence in Gujarat, Maharashtra, Rajasthan and Punjab. As on June 2019, company's AUM stood at Rs. 151.06 crore.

G U Financial Services Private Limited (GUFSP)

G U Financial Services Private Limited (GUFSP) is a non-banking financial company – microfinance institution (NBFC-MFI) with its registered and corporate office in Bhubaneswar, Odisha. The company extends products and services in the microcredit space in order to promote financial inclusion in Odisha. GUFSP primarily offers collateral-free loans to rural women through the group/JLG model. It also provides micro housing (MHL) and water, sanitation & hygiene (WASH) loans. As on February 29, 2020, the company was operating in Odisha and Chhattisgarh with a network of 42 branches spread across 17 districts with a managed portfolio of Rs. 131 crore.

Key financial indicators (audited) - GUFSP

Particulars	FY2017 (IGAAP)	FY2018 (IGAAP)	FY2019 (IGAAP)
Total income	4.88	8.11	18.00
Profit after tax	0.67	0.94	1.56
Net worth	7.91	8.85	11.42
On-book portfolio	14.81	35.55	68.38
Off-balance sheet portfolio	37.04	36.59	43.65
Gross loan portfolio	51.85	72.14	112.03
Return on average managed assets (%)	1.55%	1.31%	1.47%
Return on average net worth (%)	8.78%	11.18%	15.39%
Operating expenses / AMA	7.59%	5.28%	5.78%
Net worth / Managed advances	15.26%	12.27%	NA
Gearing (times)	1.38	4.38	6.04
CRAR (%)	41.24%	32.34%	21.97%

Amounts in Rs. crore; Source: Company & ICRA research

Vaya Finserv Private Limited (Vaya)

Vaya Finserv Private Limited, incorporated in March 2014, is a non-banking financial company – microfinance institution (NBFC-MFI) with its registered office in Hyderabad. The company provides microloans under the joint liability group (JLG) model along with credit-linked insurance. VFPL also operates as a business correspondent for RBL Bank and Yes Bank. Its loans qualify for priority sector lending for banks. As on February 29, 2020, the company reported assets under management (AUM) of Rs. 1,251.67 crore with a presence in 7 states and 102 districts, catering to around 7 lakh borrowers through a network of 286 branches.

Key financial indicators (audited) - Vaya

As per For the period ended	IGAAP FY2018	IGAAP FY2019	IGAAP 9M FY2020*
Net interest income	1.2	40.1	42.0
Non-interest income/ Fee income	45.1	64.0	44.3
Profit after tax	3.7	28.3	19.8
Net worth^	53.6	176.1	190.0
Assets under management	689.1	1,109.7	1,213.6
% PAT / Average managed assets	0.59%	2.74%	1.99%
% PAT / Average net worth	10.3%	24.7%	14.45%
% Gross NPAs	0.00%	0.06%	0.89%
% Net NPAs	0.00%	0.05%	0.53%
% Net NPA / Net worth	0.00%	0.11%	1.46%
% Capital adequacy ratio	34.48%	36.82%	29.45%
Gearing (Reported)	2.76	1.93	2.54
Gearing (Adjusted)	5.03	2.12	4.28

*Unaudited; ^Including compulsorily convertible preference shares; Amounts in Rs. crore; Source: Company & ICRA research

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable

Rating history for last three years

S.No	Name of Instrument	Type	Current Rating (FY 2021)		Rating 30-Apr-20	Rating History for the past 3 years		
			Initial Rated Amount	Amount Outstanding		FY 2020 10-Oct-19	FY 2019	FY 2018
1	Northern Arc P.L.I. XI Sep 2019	Orange Retail Finance India Private Limited	15.00	15.00	[ICRA]BBB+(CE) (Stable)	Provisional [ICRA]BBB+(CE)	-	-
		Amrit Malwa Capital Limited	8.00	8.00	[ICRA]BBB+(CE) (Stable)	Provisional [ICRA]BBB+(CE)	-	-
		Western India Transport Finance Company Ltd	6.00	6.00	[ICRA]BBB+(CE) (Stable)	Provisional [ICRA]BBB+(CE)	-	-
		G U Financial Services Private Limited	5.00	5.00	[ICRA]BBB+(CE) (Stable)	Provisional [ICRA]BBB+(CE)	-	-
		Vaya Finserv Pvt. Ltd	15.00	15.00	[ICRA]BBB+(CE) (Stable)	Provisional [ICRA]BBB+(CE)	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [Click Here](#)

Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance	Interest Rate [^]	Scheduled Maturity Date	Rated Amount (Rs. crore)	Current Rating
Northern Arc P.L.I. XI Sep 2019	Orange Retail Finance India Private Limited			September 2022	15.00	[ICRA]BBB+(CE)(Stable)
	Amrit Malwa Capital Limited			September 2022	8.00	[ICRA]BBB+(CE)(Stable)
	Western India Transport Finance Company Ltd	September 2019	Blended yield of 12.22%	September 2022	6.00	[ICRA]BBB+(CE)(Stable)
	G U Financial Services Private Limited			September 2021	5.00	[ICRA]BBB+(CE)(Stable)
	Vaya Finserv Pvt. Ltd			September 2022	15.00	[ICRA]BBB+(CE)(Stable)

[^] Weighted average interest rate to lender

Corrigendum:

Document dated April 30, 2020 has been corrected with revisions as detailed below:

Sections where revision has been made:

- Rating history for last three years section for “Northern Arc P.L.I. XI Sep 2019” on page 6

Revisions made:

In the Rating History Table:

For “Northern Arc P.L.I. XI Sep 2019”, under the “Chronology of Rating History for the Past 3 Years” section the date for ratings in FY2020 was changed from 09-Oct-19 to **10-Oct-19**

On Pg no. 2, two section namely “Adequacy of credit enhancement” and “Salient covenants of the rated facility” are duly added.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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