

## Berar Finance Limited

August 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	700.00	CARE BBB; Positive	Reaffirmed; Outlook revised from Stable
Non-convertible debentures	64.00* (Reduced from 147.00)	CARE BBB; Positive	Reaffirmed; Outlook revised from Stable
Market Linked Debentures	25.00	CARE PP-MLD BBB; Positive	Reaffirmed; Outlook revised from Stable
Fixed Deposit	250.00	CARE BBB; Positive	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

\* Reduced on account of redemption of ISINs

### Rationale and key rating drivers

Ratings of bank facilities, debt instruments/ fixed deposits (FD) of Berar Finance Limited (BFL) has been reaffirmed at 'CARE BBB' with outlook being revised from 'Stable' to 'Positive'. Ratings factors its long track record of operations, supported by presence of institutional investors, diversified resource base, adequate liquidity and capitalisation, improvement in scale of operations and evolving IT and MIS systems. However, ratings are constrained by risks inherent in two-wheeler(2W) financing business, moderate profitability and asset quality indicators, geographic and product concentration.

### 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 along with improvement in profitability metrics.
- Geographic and portfolio diversification.
- Increase in profitability metrics with Return on assets (ROTA) increasing above 2.5% on a sustained basis.
- Maintenance of comfortable asset quality metrics with GNPA (PAR 90+) below 4% on a sustained 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 4 times.
- Deterioration in the asset quality with GNPA (PAR 90+) greater than 4%, on a sustained basis leading to impact on the earnings profile.
- Lack of significant scale up in loan book over medium term.

### Analytical approach: Standalone

### Outlook: Positive

The positive outlook factors growth in scale of operations, expected capital infusion, evolving although improving credit underwriting system. CARE Ratings Limited (CARE Ratings) expects BFL to maintain comfortable asset quality and diversified resource profile while securing funds at competitive rates.

### Detailed description of key rating drivers:

#### Key strengths

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### Long track record of operations in 2W space

BFL is a deposit-taking non-banking financial company (NBFC), which started lending operations in 1990. Although the company completed 34 years of operations, business has scaled up significantly since 2016. BFL's asset under management (AUM) witnessed five-year compound annual growth rate CAGR of 24% and stood at ₹1124 crore as on March 31, 2024 [PY: ₹964 crore]. Along with portfolio growth, the company has also seen growth in deposits with four-year CAGR of 23% and stood at ₹197 crore as on March 31, 2024 [PY: ₹180 crore]. AUM for Q1FY25 stood at 1158 crore.

CARE Ratings believes that promoters' experience and their connects in the market, and ability to raise capital should help BFL in scaling up its portfolio, going forward.

### 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 company's 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. BFL's Board of Directors of comprise ten directors, of which, four are independent, and four are non-executive directors, among 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 and controls, and business diversification. The company has appointed Mr. Ravindra Dorle as the new CFO on August 12, 2023. Mr. Ravindra Dorle is a qualified Chartered Accountant with an experience of over 12 years in finance, taxation and accounting. The company also appointed Mr. Ashish Rathi as 2W business head and Mr. Vikas Mane as credit and digital onboarding head, both having over 13 years of experience in the business.

### Comfortable capitalisation levels

As on March 31, 2024, BFL had healthy capital adequacy ratio (CAR) of 24.95% [PY: 26.33%], with Tier I CAR at 24.25% [PY: 25.90%]. Since FY20, the company has collectively raised ₹150 crore in multiple tranches from institutional investors namely Amicus Capital Partners and Maj Invest. Post infusion, institutional investors hold 34% stake in the company, the promoter family holds 33% and remaining 33% is held by others (friends and family). At gearing of 3.50x as on March 31, 2024 [PY: 3.22x], the company is adequately geared. As of June 30, 2024, the CAR is 24.64% and gearing is 3.39x. CARE Ratings expects the company's gearing to remain under 4x levels on a steady basis.

Currently, the company is in talks with investors for capital infusion, which is expected to be raised in FY25, which remains a key monitorable.

### Adequate resource profile

BFL has a diversified borrowing profile comprising of term loans (66%), non-convertible debentures (NCDs - 8%), cash credit (5%), deposits (20%) and securitisation (2%). The company had 38 lenders as on March 31, 2024, encompassing NBFCs, public sector banks, private banks, small finance banks, and debt funds. The company's deposits have been granular with a renewal rate of 90% and top 20 depositors constituting 13% of total deposits. The company's cost of borrowings(calculated) including deposits decreased from 12.65% in FY23 to 11.47% in FY24.

Going forward, the company's ability to raise resources at competitive rates and increase stable funding from domestic banking and other lenders continues to be a key rating monitorable.

### Evolving-yet-improving IT systems and risk management controls

In the last year, the company upgraded its IT systems and risk management controls. BFL hired new senior management for business head and digital onboarding. The company implemented software such as FinnOne Neo, Oracle Netsuite and Autonom8. LOS implementing software improved the company's overall performance. Autonom8 system is used for onboarding and credit underwriting replacing FinnOne system, which per management, had less flexibility automation related, verification related, API related. Through Autonom8 system, credit decision for approving cases is done through rules-based engine with deviation goes to Head office for approval. BFL has implemented new technology, FinnOne Neo, post which, branches have been configured with HO on a real-time basis, improving turnaround time (TAT) in sync with defined credit risk parameters. Oracle NetSuite has been implemented since July 2023 for generating trial balance and financial statements.

On risk controls front, the company is placing better checks, monitoring and collection systems to prevent slippages and frauds from newer geographies/locations in addition to hiring mid-level management across verticals.

While CARE Ratings notes changes in risk management controls and system have improved, they are evolving and will be monitored to assess the impact in terms of better underwriting and operating efficiency.

## Key weakness

### Moderate profitability metrics

The company reported a ROTA of 1.83% as of March 31, 2024, against 1.58% as of March 31, 2023. Increase in ROTA was primarily considering higher fee and commission income and a slight increase in net interest margins (NIMs), which together, subdued the impact of slightly increased credit costs and operating expense. In FY24, the total operating and other expenses/average total assets increased slightly to 6.52% against 6.04% in FY23, while the credit cost as a percentage of average total assets increased at 3.23% of average total assets in FY24 as compared to levels as reported in FY23 at 2.85%. The increased opex was due to increase in number of employees primarily senior management resulting in higher employee expenses and technology developments. Increase in its credit cost was due to marginal increase in the asset quality and increasing provision coverage. As of June 30, 2024, the annualised ROTA was reported at 2.75% primarily due to lower credit cost. Per the policy the write-offs all contracts with 720+ days past due (DPD) are written-off.

CARE Ratings will continue to monitor BFL's ability to significantly scale up the portfolio amidst increasing competition, and its ability to manage credit costs, operating expenses and profitability metrics.

### Moderate asset quality metrics

The company's GNPA as on March 31, 2024, slightly improved to 4.56% from 4.67% at the end of previous year, while the net NPA (NNPA) improved from 3.03% to 2.82% in the last fiscal. Over the last few years, GNPA has elevated due to the adoption of new IARC norms and the change in receipt allocation by BFL from all receipts being allocated to installments only in earlier software to allocation towards equated monthly instalments and penalty on interest, principal and charges basis in the new Finnone Neo Software. GNPA is anticipated to stay elevated due to nature of the customer segment, which may struggle to clear all dues at once. This will result in some customers falling into the <90+ DPD bucket while still being part of the GNPA. However, the 90+ DPD is expected to remain below 4%. The company maintains provision coverage of ~40% In the last 12 months, average collection efficiency including overdue and excluding prepayments is 98.74%.

CARE Ratings believes that BFL's asset quality shall continue to remain anchored on the income profile of the underlying borrowers as majority are self-employed borrowers and their cash flows remain vulnerable to economic shocks. However, the company's asset quality and profitability could still be impacted by credit costs in weaker economic cycles and hence remains to be a key rating sensitivity going forward.

### Geographic and product concentration and inherent risk in portfolio

BFL has high reliance on 2W product segment. As on March 31, 2024, of the total portfolio of ₹ 1124 crore (PY: ₹964 crore), 95% is constituted by the 2W segment and the remaining 5% comprises refinance of 2W, MSME loans, used car and personal loans. The company recently started offering Micro, small, and medium enterprises loan against property (MSME LAP; small ticket property loan) only for statements of recommended practice (SORP), however, the focus has remained on 2W loans, which constituted ~95% of the loan book in the last three years. In FY24, the company disbursed ₹956 crore of loans against ₹836 crore in the previous year, achieving roughly 14% growth. AUM also reported a 17% growth in FY24 with it reaching ₹1124 cores as against ₹964 crore at the end of FY23. The MSME LAP portfolio is in its nascent stage and is expected to ramp up to ₹100 crore by the end of FY25, whose performance will remain a monitorable.

BFL's portfolio and presence is majorly concentrated in Maharashtra. As on March 31, 2024, from a network of 116 branches across six states, 43 branches are in Maharashtra. Maharashtra constituted 40% (PY: 46%) of the total loan portfolio as on March 31, 2024, followed by Madhya Pradesh (22%) [PY: 17%], Chhattisgarh (21%) [PY: 20%], Telangana (7%) [PY: 9%], Gujarat (6%) [PY: 4%] and Karnataka (4%) [PY: 4%] exposing the company to concentration risk.

The 2W loan industry faces several risks that can impact lenders and borrowers alike, since BFL serves underserved geographies and vulnerable customers, where economic fluctuations and income instability can lead to higher default rates. Resale value of 2Ws can depreciate quickly, affecting collateral value for lenders. Regulatory changes and market competition also pose risks, as they can influence interest rates and loan terms.

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

**Liquidity:** Adequate

The company's liquidity profile is adequate with no negative cumulative mismatch in its less than one-year tenor bucket aided by available cash and liquid investments of ₹117 crore as on March 31, 2024. It has contractual inflows of ₹828 crore, against which, the company has contracted repayments on borrowings (including FDs) of 552 crore in the next one-year. The company maintains roughly three months liquidity buffer in the form of net cash flows for monthly obligations.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

**Applicable criteria**

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Non Banking Financial Companies](#)

[Market Linked Debentures](#)

[Policy on withdrawal](#)

**About the company and industry****Industry classification**

Macro-economic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Non-banking financial company

Founded in 1990, BFL is primarily a 2W vehicle financing NBFC operating in central and west India. The company operates through a network of branches spread across Maharashtra, Chhattisgarh, Madhya Pradesh, Telangana, Gujarat, and Karnataka as on June 30, 2024. M. G. Jawanjar, is the company's founder and Executive Chairman. The company's day-to-day operations are headed by Sandeep Jawanjar, MD and son of founder M. G. Jawanjar. Sandeep joined the company in 2006. Apart from 2W vehicle financing, the company also provides MSME, personal loans and used car loans. The company follows a centralised approach operating from Nagpur and extending coverage to nearby states. As on March 31, 2024, BFL has a network of 116 branches across six states, Maharashtra (40%), Chhattisgarh (21%), Madhya Pradesh (22%), Telangana (7%), Gujarat (6%) and Karnataka (4%). BFL focuses on catering to underserved geographies and ~90% of branches are in rural/ semi-urban locations.

**Standalone financials of BFL**

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total income	176	218	252	70
PAT	17	17	22	9
Total assets*	1033	1122	1298	1304
Gross NPA (%)	3.07	4.57	4.56	5.14
Net NPA (%)	2.23	2.97	2.82	3.17
Gross 90+ dpd (%)	2.16	3.27	2.82	3.26
ROTA (%)	1.82	1.58	1.83	2.75^

A: Audited; UA: Unaudited Note: these are latest available financial results

\*Adjusted for deferred tax assets and intangible assets. ^ROTA for Q1 is annualised for comparison purposes

**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
Debentures-Non-convertible debentures	INE998Y07089	24-Mar-21	14.06%	05-Feb-25	34.00	CARE BBB; Positive
Debentures-Non-convertible debentures	INE998Y07139	16-Sep-22	11.50%	16-Mar-25	30.00	CARE BBB; Positive
Debentures-Non-convertible debentures	INE998Y07048	11-Sept-20	14.00	11-Sept-23	0.00	Withdrawn*
Debentures-Non-convertible debentures	INE998Y07063	23-Dec-20	13.75	23-Dec-23	0.00	Withdrawn*
Debentures-Non-convertible debentures	INE998Y07071	24-Feb-21	13.18	24-Feb-24	0.00	Withdrawn*
Debentures-Non-convertible debentures	INE998Y07113	05-Aug-22	11.25	05-Aug-24	0.00	Withdrawn*
Debentures-Non-convertible debentures	INE998Y07121	05-Aug-22	11.25	07-Aug-24	0.00	Withdrawn*
Debentures-Market Linked Debentures	INE998Y07097	17-Sep-21	13.63	31-Oct-24	13.00	CARE PP-MLD BBB; Positive
Debentures-Market Linked Debentures	INE998Y07105	17-Sep-21	13.63	30-Nov-24	12.00	CARE PP-MLD BBB; Positive
Fund-based - LT-Term loan	-	-	-	Oct-28	678.91	CARE BBB; Positive
Fund-based - LT-Term loan (Proposed)	-	-	-	-	21.09	CARE BBB; Positive
Fixed Deposit	-	-	-	Ongoing	205.64	CARE BBB; Positive
Proposed Fixed Deposit	-	-	-	-	44.36	CARE BBB; Positive

\*Withdrawn on account of complete redemption of the ISIN

**Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	700.00	CARE BBB; Positive	-	1)CARE BBB; Stable (30-Aug-23)	1)CARE BBB+; Stable (01-Sep-22) 2)CARE BBB+; Stable (05-Aug-22)	-
2	Debentures-Non Convertible Debentures	LT	64.00	CARE BBB; Positive	-	1)CARE BBB; Stable (30-Aug-23)	1)CARE BBB+; Stable (01-Sep-22) 2)CARE BBB+; Stable (05-Aug-22)	-
3	Fixed Deposit	LT	250.00	CARE BBB; Positive	-	1)CARE BBB; Stable (30-Aug-23)	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; Positive	-	1)CARE PP-MLD BBB; Stable (30-Aug-23)	1)CARE PP-MLD BBB+; Stable (01-Sep-22)	-
5	Fund-based - LT-Term Loan	LT	4.48	CARE A-(CE); Stable	1)CARE A-(CE); Stable (01-Apr-24)	-	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 (01-Apr-24)	-	1)CARE BBB+ (20-Feb-23)	-

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities – Not applicable**

**Annexure-4: Complexity level of 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 complexity levels of 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 clarifications.

## Contact us

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### About us:

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