BERAR FINANCE LIMITED
Partnership for Prosperity
CIN No. :- U65929MH1990PLC057829
Regd. Office : AVINISHA TOWER, MEHADIA SQUARE, DHANTOLI, NAGPUR - 440 012.
Tel. : (0712) 6663999 ❖ Website : www.berarfinance.com ❖ Email : info@berarfinance.com

BFL: 2023-24/428

Date: August 31, 2023

To,
The Manager (Listing),
The BSE Limited,
P.J. Towers, Dalal Street,
Mumbai-400 001.

Ref: Scrip Code: 973024 Scrip ID: 1318BFL24 ISIN: INE998Y07071
Scrip Code: 973106 Scrip ID: 15BFL25 ISIN: INE998Y07089
Scrip Code: 974200 Scrip ID: 1150BFL25 ISIN: INE998Y07139

Sub: Intimation under Regulation 55 and Regulation 51(2) read with Part B of Schedule III of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (``SEBI Listing Regulations")

Pursuant to the Regulation 55 and 51 (2) read with Part B of Schedule III of the Listing Regulations, we hereby inform you that CARE Ratings Limited has downgraded the ratings as mentioned below:

Details of credit rating									
Current rating details									
Sr. No.	**ISIN**	**Name of the Credit Rating Agency**	**Credit rating assigned**	**Outlook (Stable /Positive/ Negative/ No Outlook)**	**Rating action (new, upgrade, downgrade, re-affirm /Other)**	**Specify other Rating action**	**Date of Credit rating**	**Verification status of Credit Rating Agencies**	**Date of verification**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1	INE998Y07071	CARE Ratings Limited	CARE BBB	Stable	Downgrade	NA	August 30, 2023	Verified	August 30, 2023
2	INE998Y07089	CARE Ratings Limited	CARE BBB	Stable	Downgrade	NA	August 30, 2023	Verified	August 30, 2023
3	INE998Y07139	CARE Ratings Limited	CARE BBB	Stable	Downgrade	NA	August 30, 2023	Verified	August 30, 2023

BERAR FINANCE LIMITED NAGPUR

The press release dated August 30, 2023 by CARE Ratings Limited along with the Company's representation are enclosed herewith for your reference.

The Company has also intimated the credit rating details to BSE Limited in XBRL mode.

For Berar Finance Limited

BERAR FINANCE LIMITED NAGPUR

(Deepali Balpande)
Company Secretary and Compliance officer
ACS: 21290

Copy to following for information:-

1) IDBI Trusteeship Services Limited, Ground Floor, Universal Insurance Building, Sir Phirozshah Mehta Rd, Fort, Mumbai, Maharashtra-400 001.
2) Bigshare Services Private Limited, Office No S6-2, 6th Floor, Pinnacle Business Park, Next to Ahura Centre, Mahakali Caves Road, Andheri (East) Mumbai - 400093.
3) CARE Ratings Limited, 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022.
4) ICRA Limited, 3rd Floor, Electric Mansion, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400025
5) National Securities Depository Limited, 4th Floor, 'A' Wing, Trade World, Kamala Mills Compound, Senapati Bapat Marg, Lower Parel, Mumbai - 400 013, India.
6) Central Depository Services (India) Limited, Marathon Futurex, A-Wing, 25th floor, NM Joshi Marg, Lower Parel (East) Mumbai - 400013.

Berar Finance Limited

August 30, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	700.00 (Enhanced from 500.00)	CARE BBB; Stable	Revised from CARE BBB+; Stable
Market Linked Debentures	25.00	CARE PP-MLD BBB; Stable	Revised from CARE PP-MLD BBB+; Stable
Non-Convertible Debentures	147.00 (Reduced from 172.00)	CARE BBB; Stable	Revised from CARE BBB+; Stable
Fixed Deposit	250.00 (Enhanced from 210.00)	CARE BBB; Stable	Revised from CARE BBB+; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities, debt instruments/FD of Berar Finance Limited (BFL) is primarily on account of moderation in its asset quality and profitability metrics as well as lower than anticipated portfolio growth.

The ratings continue to remain constrained by its moderate profitability & asset quality indicators, geographical & product concentration, evolving IT systems & risk management controls and the risks inherent in two-wheeler financing business.

The ratings, however, continue to factor in its long track record of operations, comfortable capitalization levels, presence of institutional investors, diversified resource base and adequate liquidity. CARE also takes cognisance of the company's expansion in newer locations/ product segment like loan against property wherein its performance with portfolio seasoning will remain key monitorable going forward.

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
- Geographic and portfolio diversification
- Increase in profitability metrics with Return on assets (RoA) increasing above 3% on a sustainable basis
- Maintenance of comfortable asset quality metrics with GNPA below 4% on a sustainable basis
- Maintaining adequate capitalization profile with gearing below 4 times on a steady 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 5 times
- Deterioration in the asset quality (GNPA> 4%), on a sustained basis, thereby impacting profitability
- Lack of significant scale up in loan book over medium term

Analytical approach:

Standalone

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable

The 'Stable' outlook is on account of the company's comfortable capitalisation levels and adequate liquidity which is expected to support the business growth. The company's ability to diversify its product portfolio and maintain asset quality in newer locations are key monitorables.

Detailed description of the key rating drivers:

Key strengths

Long track record of operations:

BFL is a deposit taking NBFC which started its lending operations in 1990. Although the company has completed 33 years of operations, the business has scaled up significantly since 2016. BFL's portfolio has witnessed 5-year CAGR of 26% and stood at Rs. 964 Crore as on March 31, 2023 [P.Y.: Rs. 850 Crore]. Along with portfolio growth, the company has also witnessed growth in its deposits with 4-year CAGR of 25% and stood at Rs. 180 Crore as on March 31, 2023 [P.Y.: Rs. 151 Crore]. While the company continues to focus on existing geographies, it has expanded into new locations within the existing geographies over the last few years with branch network increasing from 51 as on March 31, 2019, to 116 as on March 31, 2023 [P.Y.: 102].

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 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. The Board of Directors of Berar Finance comprises of ten directors, of which four directors are independent, and four are non-executive directors, amongst 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 & controls as well as business diversification. In FY22, the company had appointed Mr. Ashok Krishnamurthy, Ex-ED of Repco Home Finance, as a consultant for company's foray into LAP segment. In FY24, the company has appointed Mr. Ravindra Dorle as the new CFO w.e.f. August 12, 2023. Mr. Ravindra Dorle is a qualified Chartered Accountant with an experience of more than 12 years in Finance, Taxation and Accounting. Going forward, the company intends to strengthen its credit team (LAP) and mid- management team and has hired VP – risk, credit head, HR head, business head, IT head who are expected to join in the near term.

Healthy capitalisation levels:

As on March 31, 2023, Berar Finance Ltd. had a healthy capital adequacy ratio of 26.33% [P.Y.: 28.84%], with Tier I CAR at 25.90% [P.Y.: 28.51%]. CAR stood at 27.52% as on June 30, 2023. Since FY20, the company has collectively raised Rs. 150 crores in multiple tranches from institutional investors namely Amicus Capital Partners & Maj Invest. Post infusion, the institutional investors hold 34% stake in the company, the promoter family holds 33% and remaining 33% is held by others (friends & family). At gearing of 3.22x as on March 31, 2023 [P.Y.: 3.03x], the company is adequately geared. Going forward, CARE expects the company's gearing to remain below 4x levels on steady state basis.

Diversified resources raising:

Berar has a diversified borrowing profile comprising of Term Loans (58%), NCDs (1 8%), Cash Credit (2%), Deposits (22%) and Securitization (0.35%). The company had 40 lenders as on March 31, 2023, encompassing NBFCs, Public Sector banks, Private Banks, Small Finance Banks, and debt funds. The company's cost of borrowings increased from 12.23% in FY22 to 12.65% in FY23. During FY23, the company got RBI approval to raise deposits from 5 more branches vis-à-vis the current location of Nagpur.

The company's deposits have been granular with a renewal rate of 95% and the top 20 depositors constituting 12.82% of the total deposits.

Key weaknesses

Moderate profitability metrics:

During FY23, the company's overall profitability was impacted on account of changes in accounting policy w.r.t. penal charges and high credit costs. While the penal charges were earlier accounted on accrual basis, the same has been changed to cash basis which impacted Profit Before Tax (PBT) by Rs. 11 Crore. Credit costs increased three-fold on account of accretion to NPAs, change in ECL assumptions as well as introduction of write-off policy. Although, the company witnessed expansion in margins by 269 basis points to 9.84% [P.Y.: 7.16%] since a portion of its borrowings (roughly 40%) is fixed in nature which helped it in increasing interest rate scenario, however, this was largely offset by higher opex and credit costs which impacted profitability during FY23. Further, inspite of the disbursements increasing by around 13% to Rs. 836 Crore [P.Y.: Rs. 740 Crore], the company has witnessed lower than anticipated portfolio growth during FY23. ROTA has declined from 1.82% as on March 31, 2022, to 1.59% as on March 31, 2023.

Going forward, CARE expects profitability metrics to remain range bound in the range of 1.8%-2.0% given the company's expansion plans in the near to medium term.

Deterioration in asset quality:

The company's GNPA as on March 31, 2023, increased in both absolute and relative terms to Rs. 44 Crore, 4.67% [P.Y.: Rs. 26 Crore, 3.07%] primarily on account of slippages from new branches in the existing locations. Asset quality issues were also partially contributed by migration to FinnOne Neo software under which allocation of repayments are respectively made towards instalments and penalties compared to earlier system which adjusted repayments primarily towards instalments. Delinquencies in softer buckets too increased with dpd in 1-30 and 31-60 buckets rising to 11.17% [P.Y.: 9%] and 4.45% [P.Y.: 3%] respectively as on March 31, 2023. As on June 30, 2023, the GNPA and NNPA further deteriorated to 6.09% [P.Y.: 3.56%] and 3.76% [P.Y.: 2.42%] respectively contributed by continued slippages and delay in auction of repossessed vehicles.

The overall net NPA to tangible net-worth increased to 10.99% as on March 31, 2023 [P.Y.: 7.36%]. During FY23, the company's average monthly current collection efficiency marginally improved to 86.48% as compared to 83.25% during previous year, whereas the company's average monthly collection efficiency (including prepayments) marginally improved to 72.99% as compared to 62.81% during previous year.

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

Evolving IT systems & risk management controls:

Over the last few months, the company has been upgrading its IT systems and risk management controls. BFL has implemented new technology, FinnOne Neo, post which the branches have been configured with HO on a real-time basis, thereby improving TAT in sync with defined credit risk parameters. Oracle NetSuite has been implemented Jul'23 onwards for generation of trial balance and financial statements.

On risk controls front, the company is putting in place better checks, monitoring and collection systems so as to prevent slippages and frauds from newer geographies/ locations in addition to hiring mid-level management across verticals. The company introduced credit write-offs policy along with conservative ECL assumptions during FY23 so as to improve its provision cover. While CARE notes the changes in risk management controls & systems, the same is evolving and needs to be strengthened further so as to support future growth plans and check asset quality issues.

Geographic and Product Concentration:

BFL has high reliance on monoline product segment. As on March 31, 2023, out of the total portfolio of Rs. 964 Crore, 95% is constituted by the two-wheeler segment and the remaining 5% comprises of refinance of 2W, used car, and personal loans amongst others. In FY22, the company had also expanded into a new segment – LAP (small ticket property loan) backed by self-occupied residential properties as a new product. The LAP portfolio is in its nascent stage and is expected to ramp up FY24 onwards, which will remain a key monitorable.

Further, BFL's portfolio & presence is majorly concentrated in the state of Maharashtra. As on March 31, 2023, out of a network of 116 branches across 6 states, 43 branches are in Maharashtra. Maharashtra constituted 46% of the total loan portfolio as on March 31, 2023, followed by Chhattisgarh (20%) [P.Y.: 20%], Madhya Pradesh (17%) [P.Y.: 13%], Telangana (9%) [P.Y.: 10%], Gujarat (4%) [P.Y.: 3%] and Karnataka (4%) [P.Y.: 3%] thereby exposing the company to concentration risk.

Inherent risks in two-wheeler financing portfolio:

The company is exposed to inherent risks in two-wheeler financing portfolio owing to its customer profile and its higher vulnerability to economic shocks. As on March 31, 2023, 32 branches out of 116 are in underserved states, ~90% of branches are located in rural/ semi-urban locations, two-thirds of branches are in geographies with a population of less than 20 lakhs and one-third in catchments with less than 10 lakhs population. Since the company mainly caters to underserved geographies and to vulnerable customers, its asset quality is expected to remain prone to cyclical trends.

Liquidity: Adequate

As per the ALM dated March 31, 2023, without considering the interest and undrawn lines, there are positive cumulative mismatches across all time buckets. For the next 1 year, the company has debt obligations including interest repayment of Rs. 392.04 Crore, operating expenses of Rs. 89.11 Crore, vis-à-vis the inflows from loan portfolio of Rs. 713.37 Crore translating into cash flow debt coverage of 172%. Additionally, it had unutilised CC limits to the tune of Rs. 50 Crore as on June 30, 2023.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks : Not Applicable

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Market Linked Notes
Non Banking Financial Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non-Banking Financial Company (NBFC)

Founded in 1990, Berar Finance Ltd. (BFL) is primarily a two- vehicle financing NBFC operating in Central and West India. The company operates through a network of branches spread across the states of Maharashtra, Chhattisgarh, Madhya Pradesh, Telangana, Gujarat, and Karnataka. Mr. M. G. Jawanjar, is the founder & Executive Chairman of the company. The day-to-day operations of the company are headed by Mr. Sandeep Jawanjal, MD and son of founder Mr. M. G. Jawanjar. Mr. Sandeep joined the company in 2006. Apart from two- vehicle financing, the company also provides personal loans & car loans. The company follows a centralised approach operating out of Nagpur and extending coverage to nearby states. As on March 31, 2023, Berar has a network of 116 branches across 6 states, Maharashtra (64%), Chhattisgarh (20%), Madhya Pradesh (17%), Telangana (9%), Gujarat (4%) and Karnataka (4%). Berar focuses on catering to underserved geographies; 32 branches out of 116 are in underserved states, ~90% of branches are located in rural/ semi-urban locations.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	134.86	175.60	217.96	57.37
PAT	15.38	17.43	17.08	4.97
Interest coverage (times)	1.30	1.25	1.22	1.27
Total Assets*	885.91	1,033.27	1,122.28	NA
Net NPA (%)	1.74	2.23	3.03	3.76
ROTA (%)	2.14	1.82	1.59	NA

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'; NA: Not Available; *Net of intangible and deferred tax assets

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
Fund-based - LT-Term Loan	-	-	-	Mar-27	486.57	CARE BBB; Stable
Proposed Fund-based - LT-Term Loan	-	-	-	-	213.43	CARE BBB; Stable
Fixed Deposit	-	-	-	Ongoing	190.31	CARE BBB; Stable
Proposed Fixed Deposit	-	-	-	-	59.69	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE998Y07048	Sep-20	14.00%	Sep-23	10.00	CARE BBB; Stable

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	INE998Y07063	Dec-20	13.75%	Dec-23	15.00	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE998Y07071	Feb-21	13.18%	Feb-24	18.00	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE998Y07089	Mar-21	14.06%	Jan-25	34.00	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE998Y07113	Aug-22	11.25%	Aug-22	25.00	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE998Y07121	Aug-22	11.25%	Aug-22	15.00	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE998Y07139	Sep-22	11.50%	Mar-25	30.00	CARE BBB; Stable
Debentures-Market Linked Debentures	INE998Y07097	Sep-21	13.63%	Nov-24	13.00	CARE PP-MLD BBB; Stable
Debentures-Market Linked Debentures	INE998Y07105	Sep-21	13.63%	Nov-24	12.00	CARE PP-MLD BBB; Stable

Annexure-2: Rating history for the 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 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	700.00	CARE BBB; Stable	-	1)CARE BBB+; Stable (01-Sep-22) 2)CARE BBB+; Stable (05-Aug-22)	-	-
2	Debentures-Non Convertible Debentures	LT	172.00	CARE BBB; Stable	-	1)CARE BBB+; Stable (01-Sep-22) 2)CARE BBB+; Stable	-	-

						(05-Aug-22)		
3	Fixed Deposit	LT	250.00	CARE BBB; Stable	-	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; Stable	-	1)CARE PP-MLD BBB+; Stable (01-Sep-22)	-	-
5	Fund-based - LT-Term Loan	LT	14.50	CARE A- (CE); Stable	-	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+ (20-Feb-23)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various 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 the complexity levels of the 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 any clarifications.

Contact Us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in

BERAR FINANCE LIMITED
Partnership for Prosperity
CIN No. :- U65929MH1990PLC057829
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Tel. : (0712) 6663999 ❖ Website : www.berarfinance.com ❖ Email : info@berarfinance.com

Date: August 31, 2023

Dear All (Investors , Lenders, Other Stake Holders)

With respect to the latest press release dated 30th August 2023 from CARE Ratings, We would like torepresent our point wise concerns as follows:

1. **Moderate Profitability Metrics**
   a. Change in Accounting Policy with respect to recognition of penal charges in the books of accounts:

   As mentioned rightly in the press release, the PBT of the company for FY23 has been impacted negatively by Rs. 11 Crores. Even after taking the impact of Rs. 11 crores we have managed to maintain the profitability of previous year.

   b. Change in ECL Policy:

   Highly conservative ECL Norms for Provisioning of Assets were used during the year 22-23 resulting in a higher Loss Given Default, like reduction of tenor of Collection discounting to Present value from the base date to 2 years (from the earlier 3 years) and conservatively restricting the time flow period to the point where NPA Principal value was recovered (thus ignoring interest andfees components received subsequently). For example while Computing ECL for FY 21-22, the behavioral pattern of NPA Position as of 31st March 2019 were reckoned and mapped with the collections made during subsequent 3 years viz 2020, 2021 and 2022, whereas while computing ECL for FY 22-23, the aforesaid behavioral pattern analysis was restricted to two years, i.e. the base of NPA as of 31st March 21 was taken and its behavior mapped during 2022 and 2023, thusleaving out one full year recovery of NPAs from the pattern analysis during FY 22-23 resulting in allocation of higher loss given default %.

   c. Change due to implementation of IRAC Norms in FY23:

   IRAC Norms for NPA Categorization coupled with day end process and roll back procedures, werecompletely revised and was made applicable to NBFCs by RBI w.e.f. 1st October 2022. Prior to the aforesaid period DPD > 90 days were the prevalent norms for recognition of NPAs. A comparativeanalysis for the aforesaid is tabulated below:

PAR 90 (A)	**NPA/IRAC/ECL (B)**	**DIFFERENCE© (B-A)**
Rs 31.55 Crs	Rs 44.15 Crs	Rs 12.60 Crs

   d. The Combined effect (above (b) and (c)) is:

Particulars	**Increase in Impairment Cost Provisioning (INR Crores)**
Change in ECL Policy (Point b)	4.33
Change in IRAC Norms (Point c)	3.63
Total Effect of IRAC norms and change in ECL Policy in FY23	7.96

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e. If we consider the impact of (a) and (d) as mentioned above, the PBT would have been around Rs. 40.68 Crores instead of Rs. 21.73 crores and ROTA would have been around 2.80% which is morethan the range bound as mentioned in the draft press release. These costs are one-off in natureand the Company has had to recognize or incur the same all at one time which has resulted in alarger impact on reported profitability than it should have been.

2. Deterioration in Asset Quality

- As rightly mentioned in the press release report while implementing the Finnone Neo the company has changed the receipt allocation priority from all receipts being allocated to installments only in earlier software to allocation towards EMI and Penalty on IPC (Interest, Principal, Charges) basis in the new Finnone Neo Software. This change in allocation has impacted the calculation of DPD and going ahead we are going to follow the same receipt allocation logic to make a fair YoY comparison.
- Also, as draft press release mentioned about the increase in average monthly current collection efficiency from 83.25% to 86.48% (YoY) and also average monthly collection efficiency including prepayments has been improved significantly by 10%.
- As on June 2023, around 1200 vehicles (which are NPAs) are in stock valuing around Rs. 7 Croreswhich are not netted from the NPA numbers.
- Maximum Collection takes place during Q3 and Q4, since harvest season happens during Q3 andQ4 and the company's 70% portfolio is in rural belt. Hence there is a seasonality in the collectionprocess.
- Rs 2 Crores of incremental NPA Provision has been additionally provided over and above the stipulated ECL norms, which will act as an additional buffer. Even after this the PAT of the company for Q1FY24 has been increased by 35% YoY basis.
- PCR as of June 23 is at a healthy levels of around 40%.
- Considering the default risk, the Company decided to gradually increasing PCR from 36% to 40% and further for any shock which may come up.
- We have introduced tighter controls in our disbursement process which has led to slower growthin AUM but will ensure better risk management.

3. Evolving IT Systems and Risk Management Controls

- Apart from the all the initiatives mentioned in the press release on the IT front, the company is working on the Autonom8 system for the customer onboarding which will make customer onboarding process more accurate, agile. It has its own BRE which will ensure that the entire data capture will be done by complete validation. This will improve the quality of the portfolio. Againthis has been implemented with the Company's core philosophy of ensuring risk mitigation in thebusiness through better controls.
- The Company has implemented M-collect for collection since July 1, 2023 and all the receipts are complete digital. This has brought better control over collection processes of the company.
- Our Company always wishes to embrace at any point of time, the state of art and robust technology suited to our business requirements and always have been evolving to adopt to the latest technological innovations.

4. Geographic and Product Concentration

The geographic concentration risk has been reduced from 65% to 44% as can be observed from thetabulation below:

State/AUM %	March 2020	March 2022	March 2023	June 2023
Maharashtra	65.19%	51.14%	45.75%	44.66%
Chattisgarh	15.46%	20.07%	20.10%	19.60%
Madhya Pradesh	9.19%	13.50%	16.67%	18.09%
Telangana	7.92%	9.68%	8.81%	8.44%
Gujarat	1.71%	2.51%	4.30%	4.67%
Karnataka	0.53%	3.10%	4.37%	4.54%

We have introduced a new product which is secured MSME loan to enable product diversification and reduce risk of being a single product company i.e. 2-wheeler loans. We have on boarded a very experienced consultant who has been helping the Company to roll out this product including formulation of product policy and building the team. We want to expand this product in a calibrated fashion from a risk mitigation perspective.

5. **Inherent Risk in two wheeler financing portfolio:**
   As one can interpret from the draft press release that rural and semi-rural portfolio possesses the higher risk which is not the ground reality in our case. Historically, we have observed that the portfolio of rural and semi-urban area performs much better than urban areas even during black swan events of both the corona waves.

6. **Equity Capital raised from institutional investors**
   The Company has raised Rs.150 crores of equity capital from large and reputed institutional investors since 2020 across multiple rounds. This reinforces the confidence of these investors on the Company's ability to scale profitably. The Company is well capitalized with CRAR position currently at a comfortable 27.52% (June 2023). In spite of the capital raise our rating has been upgraded only once while we have demonstrated strong growth and maintained profitability in the business.

7. **Liquidity**
   As rightly mentioned in the Press Release Company is having very strong liquidity profile. As per the ALM dated March 31, 2023, without considering the interest and undrawn lines, there are positive cumulative mismatches across all time buckets. For the next 1 year, the company has debt obligations including interest repayment of Rs. 392.04 Crore, operating expenses of Rs. 89.11 Crore, vis-à-vis the inflows from loan portfolio of Rs. 713.37 Crore translating into cash flow debt coverage of 172%. Additionally, it had unutilised CC limits to the tune of Rs. 50 Crore as on June 30, 2023

To summarize we would like to highlight the following points:

- The Company has been taking several initiatives to strengthen the organization and has been investing significantly in its growth. The objective is to ensure effective risk management as it scales up;
- It has been able to maintain its profitability in spite of multiple one-off developments which has resulted in the inherent profitability of the business being subdued for the last 2 years.
- The Company continues to remain well capitalized with support of reputed institutional investors.

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In light of the above, we feel that the rating action taken is not in line with happenings at the Company and does not depict true and fair view on the Company. We would continue to work towards further improving results of the Company and making this Company, the Company everyone should be proud of.

Thanking you,

For Berar Finance Limited

SANDEEP MAROTRAO JAWANJAL

Digitally signed by SANDEEP MAROTRAO JAWANJAL
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BERAR FINANCE LIMITED NAGPUR

(Sandeep Jawanjal)
Managing Director
DIN: 01490054