No. CARE/ARO/RL/2020-21/1912

Shri Jayendra Patel
Vice Chairman & Managing Director
Namra Finance Limited
502-503, Sakar III, Opp Old High Court,
Off Ashram Road,Ahmedabad,
Ahmedabad
Gujarat 380014

October 01, 2020

Confidential

Dear Sir,

Credit rating for Non-Convertible Debenture issue

On the basis of recent developments including operational and financial performance of your Company for FY20 (Audited) and Q1FY21 (Unaudited), our Rating Committee has reviewed the following ratings:

Sr. No.	Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
1.	Non-Convertible Debentures	41.50	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
2.	Non-Convertible Debentures	0.00		Withdrawn
	Total Instruments	41.50 (Rs. Forty-One Crore and Fifty Lakhs Only)		

2. The repayment details of NCD are as per Annexure 1.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by October 06, 2020, we will proceed on the basis that you have no any comments to offer.

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

6. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.

8. CARE ratings are not recommendations to buy, sell, or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

Garima Pandey
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Encl.: As above

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure 1

Details of Rated Instruments

Particulars	Details
ISIN	INE229U07020
Size of the issue	Rs.41.50 crore
Mode of issue	Private Placement
Subscriber	AAV Sarl (Luxemborg) Masala Investments Sarl (Luxemborg)
Purpose	Lending to microfinance clients
Issue Date	May 21, 2019
Maturity Date	May 20, 2021
Coupon	13.10% per annum; fixed
Frequency of interest payment	Semi-annually on May 13 and November 13 in each year, for the first time on November 13, 2019 and last on maturity date
Redemption	Bullet; on May 20, 2021
Call/Put Option	Nil
Listing	Not applicable

Annexure 2
Draft Press Release
Namra Finance Limited

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	190.84 (Enhanced from 153.23)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long Term Bank Facilities^	-	**-**	**Withdrawn**
Short Term Bank Facilities	**-**	**-**	**Withdrawn**
Total Facilities	**190.84 (Rs. One Hundred Ninety Crore and Eighty-Four Lakhs Only)**		
Non-Convertible Debentures (Issue-1)	-	**-**	**Withdrawn**
Non-Convertible Debentures (Issue-2)	41.50	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Total Instruments	**41.50 (Rs. Forty-One Crore and Fifty Lakhs Only)**		

Details of facilities / Instruments in Annexure-1; ^withdrawn due to reclassification

Detailed Rationale & Key Rating Drivers

For arriving at the ratings of Namra Finance Limited (NFL), CARE has taken a consolidated view of Arman Financial Services Limited (AFSL), which is the parent entity of NFL, apart from the standalone financing business of NFL. This is on account of the operational, managerial and financial linkages between the two entities. Together the entities are referred to as a 'group'.

The ratings assigned to the bank facilities and instruments of NFL continue to derive strength from group's established track record of operations in financing business, experienced & professional management, diversified operations across three different loan segments, viz. micro-finance, vehicle finance and Micro, Small and Medium Enterprise (MSME) lending and adequate internal control systems.

The ratings also factor in healthy growth in the loan portfolio over the last three years alongwith improvement in profitability during FY20 (refers to period April 1 to March 31), despite additional provisioning in Q4FY20 for likely impact of COVID-19 outbreak.

The ratings further derive strength from increasing geographical diversification of group's operations, adequate liquidity profile, adequate capitalization and healthy asset quality.

The ratings, however, continue to be constrained on account of its moderate loan book with limited track record of operations in new geographies and products, risks associated with unsecured lending in

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

microfinance and MSME loans and its presence in a highly competitive financing industry alongwith regulatory risks pertaining to the microfinance business. Further, the ratings also take note of likely increase in credit cost on account of impact of COVID-19 outbreak on the credit profile of its borrowers.

Moreover, CARE also takes note of the group availing moratorium granted by its lenders for first three months towards terms loans (March to May 2020) and for six months towards working capital limits (March to August 2020), as a COVID relief measure (as permitted by the Reserve Bank of India).

Rating Sensitivities:

Positive factors

- Significant growth in total income driven by expansion of loan portfolio while maintaining the Net Interest Margin (NIM) at 12% or above level alongwith containment of GNPA levels at below 1% on a sustained basis
- Significant capital addition improving overall gearing and CAR of the company on a sustained basis

Negative factors

- Deterioration of profitability with Return on Total Assets (ROTA) falling below 3%
- Significant increase in GNPA going forward
- Deterioration in capital structure with overall gearing increasing to 6 times or higher

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of operations along-with experienced and professional management: AFSL is engaged in the financing business since 1992 and has demonstrated a long track record of operations through various business cycles. The company is promoted by Mr. Jayendra Patel, Managing Director, who has a wide industry experience of more than two decades. He is supported by Mr. Aalok Patel, son of Mr. Jayendra Patel, who is also on the Board of the company and is actively involved in the business. Further, Mr. Alok Prasad is the present Chairman on the board of AFSL. Mr. Prasad has more than 35 years of experience in regulatory, banking and financial services.

Diversified operations across three segments with microfinance comprising major share: The group is present in three segments viz. Micro financing, Vehicle financing and MSME lending, wherein, AFSL on a standalone basis undertakes Vehicle financing and MSME lending, while the microfinance lending is done through NFL, its wholly owned subsidiary. Microfinance and MSME lending witnessed healthy growth in disbursements during FY20 while Microfinance lending continued to be the largest segment for the group constituting 72% of its total AUM as on March 31, 2020.

Growth in loan portfolio and improvement in profitability in FY20, however, down in Q1FY21 due to high credit cost: Group's AUM grew by around 14% y-o-y to Rs.858.19 crore as at FY20 end, due to healthy growth witnessed in Micro financing and MSME lending. The growth was largely driven by growth in the number of loans disbursed due to expansion in branch network and operational set-up.

The group's profitability improved in FY20 owing to growth of higher margin MSME segment during the year. The NIM improved by 107 bps y-o-y to 13.72% (PY 12.65%) and ROTA improved by 58 bps y-o-y to 4.85% in FY20 from 4.27% in FY19 as a result of improvement in NIM. However, the profitability deteriorated during Q1FY21, due to significant increase in credit cost mainly on account of additional COVID-specific provisioning made during the quarter.

Increasing geographical diversification: The group expanded its operations to Rajasthan where it has registered healthy growth in last two years ended FY20; alongwith increasing its penetration in existing states of Madhya Pradesh, Uttar Pradesh and Maharashtra which has gradually resulted in reduced concentration of AUM in Gujarat (43.5% in FY20; 49% in FY19). As on March 31, 2020, the group had presence across more than 78 districts in these six states with a network of 211 branches.

Adequate capitalization and diversified resource base**:** NFL's capital adequacy ratio (CAR) on a standalone level continued to be comfortable at 21.61% as on March 31, 2020. The overall gearing of the group on a consolidated basis also improved from 5.06x as on March 31, 2019 to 4.17x as on March 31, 2020. Going forward, timely infusion of equity shall remain crucial for achieving growth in business operations while maintaining the leverage and capitalization levels.

Further, group's resource base is diversified with presence of 21 banks and 14 non-banking financial companies (NBFCs); alongwith reputed foreign investors and private equity players.

Healthy asset quality: Group's asset quality remained healthy in FY20 with gross NPA of 1.13% and Net NPA of 0.21% as on March 31, 2020. The net NPA to networth reduced during the year from 2.49% as on March 31, 2019 to 1.02% as on March 31, 2020. The collection efficiency for the combined loan portfolio of AFSL and NFL remained healthy at 98% during 11MFY20; before deteriorating from March 2020 onwards due to moratorium extended by group to its borrowers within RBI guidelines and disruptions caused by outbreak of COVID-19 pandemic. Although the collection efficiency has incrementally improved from June 2020 onwards, uncertainty with respect to achieving normalcy persists in the near to medium term.

Key Rating Weaknesses

Moderate loan book alongwith limited track record of operations in new geographies and products: Loan portfolio of the group witnessed healthy growth in last three years, however remained moderate with an AUM of around Rs.858.19 crore as on March 31, 2020. Furthermore, it commenced microfinance lending operations in Rajasthan and Uttarakhand only during the last three years and thus has a limited track record

of exposure to these local economies and their dynamics, in light of the unsecured nature of lending. Also, AFSL commenced unsecured MSME lending only during FY17 end, which scaled up sizably in last three years. Collectively, both these translates into a limited track record for the group in new geographies & products, hence its performance in terms of profitability and asset quality is yet to be established.
Furthermore, seasoning of the loan portfolio is moderate due to inherent short tenure loans with absence of any mid-year top-up. Moreover, delinquencies by borrowers in second, third and fourth loan cycles are greater than by borrowers in first cycle.

Regulatory and inherent risks associated with unsecured lending; albeit adequate internal control systems: Around 89% of the outstanding loan portfolio of the group as on March 31, 2020 was contributed by microfinance and MSME lending. The loans in both these business segments are unsecured in nature, however, NPA's in these categories have been restricted, underlining adequate internal control and risk management systems followed by the management for loan disbursement and recoveries. Furthermore, the company is also exposed to regulatory risks associated with any adverse changes in the regulations guiding such NBFCs, alongwith event based risks associated with micro financing.

Increasing competition in the industry: The group faces competition from larger MFIs and NBFCs who have better access to resources and enjoy the economies of large scale operations. Further, banks are also trying to increase their direct presence in rural areas to meet the priority sector lending requirement. The sector has evolved with the advent of credit bureaus in the sector and subsequent control over asset quality. Further, other models of microfinance including non-governmental organizations (NGOs), co-operatives and trusts have also grown significantly in recent years, adding to the competition in the sector, its growth potential notwithstanding. This apart, Micro-finance players also face competition from unorganized sector lending, which still has prevalence in large parts of the country.

Liquidity: *Adequate*
Liquidity of the group remained adequate with unencumbered cash and bank balance and liquid investments of Rs.120 crore as on September 15, 2020 which is largely equivalent to three months of debt servicing obligations (principal + interest) alongwith low utilization of working capital limits averaging 37% during the 12 months ended July 2020 with adequate undrawn limits.
Further there were no cumulative mismatches in its asset liability management (ALM) statement owing to inherent shorter tenure lending than borrowing.

Analytical Approach: Consolidated
A consolidated approach including AFSL and NFL has been considered for analysis due to the following:

- NFL is a wholly owned subsidiary of AFSL
- Both entities are engaged in similar line of business (lending)

- Both entities operate under common management
- The entities have cash flow fungiblilty amongst each other

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology - Non Banking Financial Companies
Financial Ratios-Financial Sector
Criteria for Short Term Instruments

About the Company
Promoted by Mr. Jayendra Patel, AFSL is a Non-Deposit taking NBFC registered with Reserve Bank of India. Prior to May 2013, AFSL was engaged in the business of two-wheeler financing and microfinance lending business through Joint Liability Group (JLG) model. However, NFL got an NBFC – Micro Finance Institution license from RBI on February 14, 2013 and from May 2013, entire new microfinance lending is being carried out by NFL. In March 2017, AFSL also commenced MSME lending business.
AFSL, on a consolidated basis, operates across six states i.e. Gujarat, Madhya Pradesh, Maharashtra, Uttar Pradesh, Uttarakhand and Rajasthan covering more than 78 districts through a network 211 branches as on March 31, 2020. Microfinance lending is presently the largest business segment of the group, which contributed 72% of its total assets under management (AUM) of Rs.858.19 crore (consolidated) as on March 31, 2020, while the balance was from two-wheeler loans (11%) and MSME loans (16%).

Brief consolidated financials of AFSL are tabulated below:

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	139.58	215.15
PAT	26.43	41.52
Interest coverage (times)	1.61	1.61
Total Assets	774.68	936.83
Net NPA (%)	0.44	0.21
ROTA (%)	4.27	4.85

A: Audited

In Q1FY21, the AFSL (Consolidated) reported total income of Rs.49.39 crore and PAT of Rs.5.31 crore against total income of Rs.48.20 crore and PAT of Rs.12.11 crore in Q1FY20 (Consolidated).

Brief standalone financials of NFL are tabulated below:

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	93.98	148.42
PAT	15.68	25.20

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Interest coverage (times)	1.50	1.49
Total Assets	551.84	689.64
Net NPA (%)	0.07	0.06
ROTA (%)	3.49	4.06

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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 for this company: Please refer Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	July 2022	102.03	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	-	August 2023	45.09	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	-	January 2023	38.72	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	-	5.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	-	0.00	Withdrawn*
Fund-based - ST-Others	-	-	-	-	0.00	Withdrawn@
Debentures-Non Convertible Debentures -I	INE229U07012	September 09, 2016	14.00%	February 07, 2020	0.00	Withdrawn^
Debentures-Non Convertible Debentures - II	INE229U07020	May 21, 2019	13.10%	May 20, 2021	41.50	CARE BBB+; Stable

**withdrawal due to reclassification*

^the rating of the NCD issue has been withdrawn on account of full redemption of the instrument on due date

@short term proposed bank facilities ratings are withdrawn, at the request of NFL, as the company has not availed the said bank facilities

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	102.03	CARE BBB+; Stable	-	1)CARE BBB+; Stable (13-Sep-19)	1)CARE BBB+; Stable (27-Sep-18) 2)CARE BBB+; Stable (14-Sep-18)	1)CARE BBB (SO); Stable (05-Oct-17)
2.	Fund-based - LT-Term Loan	LT	45.09	CARE BBB+; Stable	-	1)CARE BBB+; Stable (13-Sep-19)	1)CARE BBB+; Stable (27-Sep-18) 2)CARE BBB+; Stable (14-Sep-18)	1)CARE BBB; Stable (05-Oct-17)
3.	Fund-based - LT-Term Loan	LT	38.72	CARE BBB+; Stable	-	1)CARE BBB+; Stable (13-Sep-19)	1)CARE BBB+; Stable (27-Sep-18) 2)CARE BBB+; Stable (14-Sep-18)	1)Provisional CARE BBB (SO); Stable (05-Oct-17)
4.	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (13-Sep-19)	1)CARE BBB+; Stable (27-Sep-18) 2)CARE BBB+; Stable (14-Sep-18)	1)CARE BBB; Stable (05-Oct-17)
5.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB+; Stable (13-Sep-19)	1)CARE BBB+; Stable (27-Sep-18) 2)CARE BBB+; Stable (14-Sep-18)	1)CARE BBB (SO); Stable (05-Oct-17)
6.	Fund-based - ST-Others	ST	-	-	-	1)CARE A2 (13-Sep-19)	-	-
7.	Debentures-Non Convertible Debentures (INE229U07012)	LT	-	-	-	1)CARE BBB+; Stable (13-Sep-19)	1)CARE BBB+; Stable (14-Sep-18)	1)CARE BBB (SO); Stable (05-Oct-17)
8.	Debentures-Non Convertible Debentures (INE229U07020)	LT	41.50	CARE BBB+; Stable	-	1)CARE BBB+; Stable (13-Sep-19) 2)CARE BBB+;	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
						Stable (17-May-19)		

Annexure-3: Key covenants of outstanding rated NCDs

Particulars	Detailed explanation
ISIN	INE229U07020
A. Financial Covenants	• Maintain CAR of not less than 15% • Maintain Overall gearing of not higher than 7 times • Uncovered capital ratio below 15% (defined as PAR>90 days + restructured portfolio minus loan loss provisions divided by equity) • Maintain less than 5% of its liabilities and assets in non-INR denominated currency Maintain ratio of outstanding off-balance sheet portfolio to total assets less than 40%
B. Non-financial Covenants	**Event of Default**: In the event of default, the NCD can be declared immediately repayable.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - ST-Others	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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