

CARE/ARO/RL/2017-18/1724

Mr. Jayendra Patel
Managing Director
Namra Finance Limited
502-503, Sakar III, Opp. Old High Court,
Off Ashram road
Ahmedabad – 380 014
Gujarat

October 03, 2017

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your company for FY17 (audited) and Q1FY18 (provisional), our Rating Committee has reviewed the following ratings:

Sr. No.	Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
1	Long-term Bank Facilities [^]	81.95	CARE BBB (SO); Stable [Triple B (Structured Obligation); Outlook: Stable]	Reaffirmed
2	Proposed Long-term Bank Facilities [*]	64.80	Provisional CARE BBB (SO); Stable [Triple B (Structured Obligation); Outlook: Stable]	Reaffirmed
3	Long-term Bank Facilities	13.25	CARE BBB; Stable [Triple B; Outlook: Stable]	Reaffirmed
	Total	160.00 (Rupees One Hundred and Sixty crore only)		

[^]refer clause 3; ^{*}refer clause 4

2. Refer **Annexure 1** for details of rated facilities.
3. The above rating is based on the credit enhancement in the form of unconditional & irrevocable corporate guarantee issued by Arman Financial Services Limited (AFSL; rated CARE BBB; Stable).

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

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4. Further, the above rating is based on the proposed unconditional and irrevocable corporate guarantee to be issued by AFSL.
5. 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 04, 2017, we will proceed on the basis that you have no any comments to offer.
6. 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.
7. 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.
8. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
9. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
10. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

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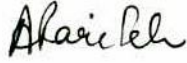
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If you need any clarification, you are welcome to approach us in this regard.

Thanking you,
Yours faithfully,



[Anuja Parikh]
Dy. Manager
anuja.parikh@careratings.com



[Kunal B. Shah]
Sr. Manager
kunalb.shah@careratings.com

Encl.: As above

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. 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. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is 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.

Annexure 1

Details of Rated Facilities

1. Long-term Bank Facilities

1.A Rupee Term Loan

(Rs. Crore)

Sr. No.	Name of Bank	Rated Amount	Debt Repayment Terms
1.	IDBI Bank	12.78	To be repaid in 18 equal monthly installments after a moratorium period of 3 months
2.	State Bank of India	32.63	To be repaid in 30 monthly installments
3.	Oriental Bank of Commerce	17.53	To be repaid in 20 monthly installments after a moratorium period of 7 months
4.	DCB bank	3.01	To be repaid in 22 equal monthly installments starting from third month of disbursal
5.	Union Bank of India	10.00	To be repaid in 36 months including a moratorium period of 3 months
6.	Proposed	64.80	-
	Total	140.75	

1.B Rupee Term Loan

(Rs. Crore)

Sr. No.	Name of Bank	Rated Amount	Debt Repayment Terms
1.	Federal Bank	5.25	To be repaid in 12 equal quarterly installments.
2.	Vijaya Bank	5.00	To be repaid in 12 quarterly installments after a moratorium of 6 months.
	Total	10.25	

1.C Sanctioned Fund Based limits

(Rs. Crore)

Sr. No.	Name of Bank	Cash Credit
1.	IDBI Bank	2.00
2.	State Bank of India	4.00
	Total	6.00

1.D Sanctioned Fund Based limits

(Rs. Crore)

Sr. No.	Name of Bank	Cash Credit
1.	Federal Bank	3.00

Total long-term facilities (1.A + 1.B + 1.C + 1.D): Rs.160.00 crore

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Annexure 2

Press Release

Namra Finance Limited

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities*	81.95	CARE BBB (SO); Stable [Triple B (Structured Obligation); Outlook: Stable]	Reaffirmed
Proposed Long-term Bank Facilities [^]	64.80	Provisional CARE BBB (SO); Stable [Triple B (Structured Obligation); Outlook: Stable]	Reaffirmed
Long-term Bank Facilities [#]	13.25	CARE BBB; Stable [Triple B; Outlook: Stable]	Reaffirmed
Total Facilities	160.00 (Rupees One Hundred and Sixty crore only)		
Non-Convertible Debenture Issue*	33.30	CARE BBB (SO); Stable [Triple B (Structured Obligation); Outlook: Stable]	Reaffirmed

*Backed by unconditional and irrevocable corporate guarantee extended by Arman Financial Services Limited (AFSL, rated CARE BBB; Stable); ^Proposed to be backed by an unconditional and irrevocable corporate guarantee to be provided by AFSL. 'Provisional' rating shall be finalized on submission of the executed corporate guarantee document by AFSL to the satisfaction of CARE; #These facilities of Namra Finance Limited do not carry any credit enhancement by AFSL.

Detailed Rationale & Key Rating Drivers

For arriving at the rating, CARE has taken a consolidated view of Arman Financial Services Limited (AFSL) and its wholly owned subsidiary, Namra Finance Limited (NFL), as both the companies operate on a common management & operational platform. Also, the existing debt and proposed debt of NFL is guaranteed / proposed to be guaranteed by AFSL.

The rating assigned to NFL continues to derive strength from established track record of operations of AFSL & NFL along-with experienced and professional management and diversified operations in asset backed finance & microfinance along with initiation of micro enterprise lending during FY17. The rating further derives strength from AFSL's and NFL's comfortable capital adequacy as on Mar. 31, 2017, moderate ROTA on consolidated basis albeit deterioration in the same during FY17, improvement in resource base and gradual geographical diversification of its operations with onset of operations in Maharashtra and Uttar Pradesh.

The rating, however, continues to be constrained by AFSL's modest scale of operations on consolidated basis, modest growth in loan portfolio during FY17 due to impact of demonetization and high regional concentration of operations in Gujarat. The rating is further

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constrained on account of moderate seasoning of loan portfolio with moderate asset quality, risks associated with unsecured lending to microfinance business under NFL and regulatory risk pertaining to microfinance business.

AFSL's ability to increase its scale of operations through greater geographical diversification in all three segments, scaling up of operations of micro-enterprise lending, improvement in asset quality and profitability indicators along with timely tie-up of envisaged funding from banks and financial institutions to grow its business would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of operations along-with experienced and professional management:

AFSL is headed by an industry veteran, Mr. Chinubhai Shah, who has managerial & board level work experience of more than 30 years. AFSL is in the finance business since 1992 and has demonstrated a long track record of operations through various business cycles.

Diversified operations across three segments coupled with gradual geographical diversification: AFSL, through NFL, operates in the microfinance segment whereas AFSL undertakes two-wheeler financing. Further, during FY17, AFSL has also commenced rural micro-enterprise lending. AFSL also expanded its operations across 4 states with addition of Maharashtra and Uttar Pradesh during FY17.

Comfortable capital adequacy ratio (CAR) with moderate ROTA: CAR of AFSL continued to be comfortable at 38.49% as on March 31, 2017. CAR of NFL also stood comfortable at 27.65% as on March 31, 2017. Further, despite decline in ROTA due to lower PAT, it remained moderate at 3.08% during FY17 on a consolidated basis.

Key Rating Weaknesses

Modest scale of operations with moderate asset quality: AFSL continued to operate on a modest scale with total outstanding loan portfolio on consolidated basis being Rs.180.96 crore as on Mar. 31, 2017. Furthermore, on consolidated basis, asset quality moderated during FY17 on account of impact of demonetization leading to lower collection efficiency and change in NPA norms for asset financing to 120 days or more from 150 days or more during FY16.

Modest growth in loan portfolio during FY17; high regional concentration persists: During FY17, loan portfolio witnessed modest growth on the back of demonetization leading to lower disbursement in microfinance segment. Also, around 81% of outstanding loan portfolio of AFSL was concentrated in Gujarat during FY17.

Analytical Approach: Consolidated.

For arriving at the rating, CARE has taken a consolidated view of AFSL and its wholly owned subsidiary, NFL, as both the companies operate on a common management & operational platform. Also, the existing debt and proposed debt of NFL is guaranteed / proposed to be guaranteed by AFSL.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Rating Methodology: Factoring Linkages in Ratings

Rating Methodology - Non Banking Financial Companies

Financial Ratios-Financial Sector

About the Company

In compliance with RBI directions, AFSL promoted NFL as its wholly owned subsidiary to carry on micro finance business. NFL got Non-Banking Financial Company (NBFC) – Micro Finance Institution (MFI) license from Reserve Bank of India (RBI) on February 14, 2013 and from May 2013, entire new microfinance lending was carried out by NFL. Accordingly, FY14 was the first year of operations for NFL.

NFL has spread its operations in the state of Gujarat, Madhya Pradesh, Maharashtra and Uttar Pradesh with a network of 98 branches as on June 30, 2017. NFL provides small ticket size loan to a Joint Liability Group (JLG) of women members. The loan ticket size gradually increases in three loan cycles and is given for income generating activities of the women borrowers.

Standalone Financials of NFL		
Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	25.75	37.02
PAT	5.50	3.83
Interest coverage (times)	1.78	1.34
Total Assets	129.97	153.28
Net NPA (%)	0.00	0.26
ROTA (%)	5.68	2.70

A: Audited

About the guarantor (AFSL)

Promoted by Mr. Jayendra Patel, AFSL is a (Non-Deposit taking) NBFC registered with RBI. AFSL is engaged in the business of two-wheeler financing and JLG microfinance lending. Further, AFSL commenced rural micro enterprise lending in August 2016.

AFSL (on a consolidated basis) operates in the state of Gujarat, Madhya Pradesh, Maharashtra and Uttar Pradesh with a network 116 branches as on June 30, 2017. Out of these, 98 branches cater to microfinance business, 6 branches cater to two-wheeler financing and 12 branches cater to micro-enterprise lending.

Consolidated Financials of AFSL		
Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	40.69	53.59
PAT	8.00	6.32
Interest coverage (times)	1.79	1.44
Total Assets	195.10	215.08
Net NPA (%)	0.94	1.31
ROTA (%)	4.81	3.08

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Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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

Analyst Contact

Name: Mr. Kunal Shah

Tel: 079 – 4026 5681

Cell: +91-9714714745

Email: kunalb.shah@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE BBB (SO); Stable
Fund-based - LT-Term Loan	-	-	-	64.80	Provisional CARE BBB (SO); Stable
Fund-based - LT-Term Loan	-	-	2020	75.95	CARE BBB (SO); Stable
Fund-based - LT-Term Loan	-	-	2020	10.25	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	3.00	CARE BBB; Stable
Debentures-Non Convertible Debentures	September 09, 2016	14.00%	February 07, 2020	33.30	CARE BBB (SO); Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	6.00	CARE BBB (SO); Stable	-	1)CARE BBB (SO) (06-Sep-16) 2)CARE BBB (SO) (29-Aug-16)	1)CARE BBB-(SO) (18-Sep-15)	1)CARE BBB-(SO) (14-Aug-14)
2.	Fund-based - LT-Term Loan	LT	64.80	Provisional CARE BBB (SO); Stable	-	1)Provisional CARE BBB (SO) (06-Sep-16) 2)Provisional CARE BBB (SO) (29-Aug-16)	1)CARE BBB-(18-Sep-15)	1)CARE BBB-(14-Aug-14)
3.	Fund-based - LT-Term Loan	LT	75.95	CARE BBB (SO); Stable	-	1)CARE BBB (SO) (06-Sep-16) 2)CARE BBB (SO) (29-Aug-16)	1)CARE BBB-(SO) (18-Sep-15)	-
4.	Fund-based - LT-Term Loan	LT	10.25	CARE BBB; Stable	-	1)CARE BBB (06-Sep-16)	-	-
5.	Fund-based - LT-Cash Credit	LT	3.00	CARE BBB; Stable	-	1)CARE BBB (06-Sep-16)	-	-
6.	Debentures-Non Convertible Debentures	LT	33.30	CARE BBB (SO); Stable	-	1)CARE BBB (SO) (05-Oct-16) 2)Provisional CARE BBB (SO) (29-Aug-16)	-	-

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