Mahaveer Finance India Limited [Revised]

February 23, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	75	**CARE BBB-; Stable** [Triple B Minus; Outlook: Stable]	Reaffirmed; Outlook revised from Negative
Total Facilities	**75 (Rs. Seventy-five crore only)**		
Non-Convertible Debenture issue - I	10 (reduced from 20)	**CARE BBB-; Stable** [Triple B Minus; Outlook: Stable]	Reaffirmed; Outlook revised from Negative
Non-Convertible Debenture issue - II	50	**CARE BBB-; Stable** [Triple B Minus; Outlook: Stable]	Reaffirmed; Outlook revised from Negative
Non-Convertible Debenture issue - III	60	**CARE BBB-; Stable** [Triple B Minus; Outlook: Stable]	Reaffirmed; Outlook revised from Negative
Total Instruments	**120 (Rs. One hundred twenty crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities and debt instruments of Mahaveer Finance India Limited (MFIL) continues to factor in the promoters' experience of more than three decades in vehicle finance business, improvement in the scale of operations during FY20 (refers to the period April 01 to March 31), good profitability parameters with slight moderation during FY20 and adequate capitalization levels.

The rating is, however, constrained by its focus on customer segments which are relatively riskier, geographical concentration, new and evolving MIS Systems, low seasoning of portfolio, moderate resource profile and moderate asset quality.

Rating Sensitivities

Positive Factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Significant improvement in the scale of operations along with improvement in asset quality and maintaining profitability on a sustained basis
- Significant improvement in the capital structure

Negative Factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Moderation in asset quality and delinquency levels
- Deterioration in capital adequacy levels
- Weakening of liquidity position

Outlook: Stable

CARE has earlier revised the outlook of MFIL from 'Stable' to 'Negative' in May 2020 considering the stretched liquidity position which was impacted by extension of moratorium to its customers and lower collection efficiency on account of COVID-19-induced economic slowdown. MFIL has raised Rs.50 crore under the TLTRO 2.0 window during May to August 2020 from various banks. Also, with significant improvement in the collections post the moratorium period (September, October, November and December 2020) liquidity position improved. With collection efficiency levels improving sharply in the recent months and improvement in liquidity position supported by fund raising, CARE has revised the outlook of MFIL from 'Negative' to 'Stable'.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations

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

MFIL is operating in the CV financing segment since 1987 and has an established track record of operations of more than three decades. MFIL is promoted by Mr Mahaveer Chand Dugar, Managing Director, who has over five decades of experience in the commercial vehicle finance business. The day-to-day operations are managed by his sons, Mr Deepak Dugar (Joint Managing Director) and Mr Praveen Dugar (Executive Director).

The board consists of directors with three promoter directors, four independent directors and one nominee director from Banyan Tree Capital and is led by Chairman Mr G. Chidambar who is a retired Managing Director of Life Insurance Corporation of India (LIC).

Improvement in the scale of operations during FY20; however, size remained relatively small

Despite having a track record of nearly three decades, the company's size has remained small. The portfolio witnessed moderate growth over the years, as the company was not expanding aggressively and focusing on catering to its existing clients. This apart, MFIL was also into franchisee model of business (apart from managing its own portfolio) where it was referring clients to other larger NBFCs and was receiving commission for the same. The company stopped the franchisee model in 2010, and has started growing the book on its own from FY15.

AUM growth is skewed towards the last 5 years ended March 31, 2020 with a CAGR of 57%. During FY20, AUM grew at 32% to Rs.278 crore as on March 31, 2020 from Rs.210 crore as on March 31, 2019. The growth in AUM is supported by growth in disbursement from Rs.170 crore during FY19 to Rs.199 crore during FY20.

With the rundown in the portfolio and lower disbursement of Rs.29 crore during H1FY21 (Rs.99 crore during H1FY20), AUM remained at Rs.279 crore as on September 30, 2020.

Good profitability parameters with slight moderation during FY20

During FY20, MFIL reported a PAT of Rs.6 crore on a total income of Rs.50 crore as against Rs.5 crore on a total income of Rs.40 crore during FY19. With the moderation in yield on advances from 24.75% during FY19 to 22.86% during FY20 and increase in the gearing from 3.53x as on March 31, 2019 to 3.94x as on March 31, 2020, NIM moderated from 12.49% in FY19 to 10.70% in FY20. With the consolidation of few HCV branches, operating expenses (to average assets) improved from 7.54% in FY19 to 6.47% in FY20. Credit costs stood at 0.99% in FY20 as against 0.90% in FY19. With decrease in NIM, ROTA moderated to 2.35% in FY20 from 2.87% in FY19.

During H1FY21 (Ind-AS), the company reported PAT of Rs.3.76 crore on a total income of Rs.25.68 crore as against a PAT of Rs.2.84 crore on a total income of Rs.22.77 crore during H1FY20 (Ind-AS). Credit costs is expected to increase during FY21 with transition in NPA recognition norms from 120 DPD to 90 DPD and also due to impact of Covid-19.

Adequate capitalization levels

Owing to the growth in AUM, Total CAR and Tier I CAR stood at 20.30% and 19.44% as on March 31, 2020 as against 23.13% and 20.93% as on March 31, 2019, respectively. Overall gearing stood at 3.94x as on March 31, 2020 as against 3.53x as on March 31, 2019.

As on September 30, 2020, Total CAR and Tier I CAR stood at 20.36% and 19.99%, respectively. Overall gearing (under Ind-AS) stood at 4.05x as on September 30, 2020. Considering the growth envisaged by MFIL, timely infusion of capital is crucial.

Key Rating Weaknesses

Geographical concentration risk

MFIL has consolidated few of the branches due to market conditions and the total branches reduced from 53 as on March 31, 2019, to 47 as on March 31, 2020 and further to 45 as on September 30, 2020.

As on September 30, 2020, share of Tamil Nadu on AUM stood at 58% with 20 branches, Andhra Pradesh at 30% with 18 branches, Telangana at 10% with 6 branches and Pondicherry at 3% with 1 branch.

Relatively riskier asset class

MFIL is in the business of lending against used commercial vehicle with tenure ranging between 2 years and 4 years, which is relatively a riskier asset class, given the residual life of the asset. Furthermore, the clients/ target segment of MFIL are primarily driver-turned-owner segment with little/no past track record on income or repayment and little access to funding through banking channels. Since this segment is highly susceptible to the impact of economic downturn and asset quality is a key monitorable. However, the management team's good knowledge on this target customer segment provides comfort.

Moderate asset quality

Asset quality continues to be moderate with the company reported a GNPA (120 DPD) and NNPA (120 DPD) of 2.57% and 2.22% as on March 31, 2020, as against 2.22% and 1.99% as on March 31, 2019, respectively. Provision coverage ratio (PCR) slightly improved from 10.15% as on March 31, 2019 to 12.17% as on March 31, 2020.

90+ dpd (On AUM basis) stood at 3.40% as on March 31, 2020, as against 3.19% as on March 31, 2019. With the moratorium provided for the standard customers, payments received from delinquent customers was adjusted on FIFO basis. Hence, delinquency in the softer buckets improved during FY20. 0+ DPD (On AUM Basis) as on March 31, 2020 stood at 16.98% as against 24.01% as on March 31, 2019.

As on September 30, 2020 (On AUM Basis), GNPA (120 DPD) and NNPA (120 DPD) stood at 2.00% and 1.80%, respectively. 0+DPD (On AUM Basis) as on September 30, 2020 stood at 9.60%.

MFIL is adopting Ind-AS from FY21 and Gross and Net Stage III Assets (90 DPD) as on September 30, 2020 stood at 2.69% and 2.41% as against 3.73% and 3.57% as on March 31, 2020. Stage III provision coverage stood at 10.53% as on September 30, 2020.

Monthly Collection Efficiency (including overdue and prepayments) improved from 10% during April 2020 to 99% during September 2020 and further to 125% during December 2020.

With high growth plan envisaged by the company over different geographies, the ability of the company to maintain asset quality at comfortable level to avoid any impact on their profitability remains critical.

Adequate processes for the current scale of operations and evolving MIS

MFIL sources its clients through referrals from existing customers and through the dealer network that the branch managers have established. The customer report is generated at the branch level and report along with collected original documents is couriered to the credit department at HO. After the approval by the credit team, final approval is given by Joint Managing Director. The loan is sanctioned based on a grid developed internally based on the manufacturer, model and year of the vehicle.

The company currently uses Smartlend 3G MIS, and the branches are connected through the software.

Moderate resource profile

MFIL has Cash credit (CC) facility of Rs.29.50 crore from various banks. Share of borrowings from NBFC (including AIF) has improved from 74.50% as on March 31, 2019 to 61.38% as on March 31, 2020. Share of bank borrowings stood at 25.50% as on March 31, 2019 to 38.62% as on March 31, 2020.

During H1FY21, The company has raised Rs.50 crore under TLTRO 2.0 for a tenure of 3 years from various banks. With funds raised under TLTRO 2.0, share of bank borrowings increased significantly to 51.42% as on September 30, 2020.

Industry Outlook

The outlook for NBFCs and HFCs has turned negative due to Covid-19 outbreak. The sector which grappled with liability side disruptions could see another wave of challenges, this time in the form of asset quality. Amidst these, funding challenges could mount again, as banks become more selective in extending credit. While asset quality of NBFCs has witnessed moderation in FY20, the impact of COVID-19 on the asset quality remains to be seen.

Impact of Covid-19

MFIL has requested moratorium from all of its lenders as per the RBI circular, most of them have accepted for the same during moratorium 1.0 and few accepted during moratorium 2.0. During the moratorium period from March 2020 to August 2020, the company has provided moratorium to all of its customers on opt-out basis. With the additional Covid-19 provision of Rs.0.84 crore during H1FY21, total Covid-19 related provision as on September 30, 2020 stood at 1.14 crore. Out of the total live accounts as on November 30, 2020, 29% of the customers has not availed moratorium for any of the 6 months and 28% of the customers has availed moratorium for all 6 months.

Liquidity: Adequate

Liquidity remains adequate with no cumulative ALM mismatches in any of the time brackets as on September 30, 2020, and the company has contractual obligations (Principal alone) of Rs.30 crore in Q4FY21. With more than 75% of the AUM having a tenure of less than 36 months and the borrowings remaining similar tenure, ALM looks adequate. As on September 30, 2020 (Ind-AS), MFIL has a cash and cash equivalents of Rs.6.92 crore, liquid investments of Rs.7.03 crore and unavailed CC limits of Rs.8.75 crore.

During H1FY21, MFIL has raised fresh debt of Rs.55 crore as against Rs.56 crore during H2FY20 and Rs.46 crore during H1FY20.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial Ratios-Financial Sector]
[CARE's Rating Methodology for Non-Banking Finance Companies (NBFCs)]

About the Company

Mahaveer Finance India Limited (MFIL) was incorporated in the year 1981 as NBFC - Asset Finance Company [Now NBFC - Investment & Credit Company]. In 1987, the present management had taken over the company. The company is promoted by Mr Mahaveer Chand Dugar (Managing Director) who has more than three decades of experience in vehicle finance. The day-to-day operations are managed by his sons Mr Deepak Dugar (Joint Managing Director) and Mr Praveen Dugar (Executive Director). As on September 30, 2020, 63.89% of the shareholding is held by the promoters and their relatives, 34.77% by Banyan Tree Capital and the remaining is held by public. MFIL is primarily engaged in used Commercial Vehicle (CV)/Passenger Vehicles (PV) financing in Tamil Nadu, Andhra Pradesh, Telangana and Pondicherry through its network (as on September 30, 2020) of 45 branches. As on January 31, 2021, the total outstanding AUM was Rs.294 crore with an average ticket size of Rs.5 lakh. The average interest rate is around 24% and tenor of the loan ranges between 24 months and 48 months.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total Operating Income	40	51
PAT	5	6
Interest Coverage (Times)	1.41	1.32
Total Assets	227	272
Net NPA/stage III (%)	1.99	2.26
ROTA (%)	2.87	2.35

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Complexity level of various instruments rated for this company: Please refer Annexure-3
Covenants of rated instrument / facility: Not Applicable

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-Cash Credit		-	-	-	29.50	CARE BBB-; Stable
Fund-based-Long Term		-	-	Dec 2023	45.50	CARE BBB-; Stable
Debentures-Non Convertible Debentures-I	INE911L08020	Aug 18, 2017	13.50%	Aug 18, 2022	10.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures-II	INE911L07048	Jul 30, 2020	12.00%	Jul 30, 2023	15.00	CARE BBB-; Stable
	INE911L07055	Aug 14, 2020	11.50%	Aug 14, 2023	10.00	
	INE911L07030	Jul 07, 2020	11.50%	Apr 21, 2023	15.00	
	INE911L07022	Jun 18, 2020	13.50%	Jun 18, 2023	5.00	
	INE911L07014	May 26, 2020	11.50%	May 26, 2023	5.00	
Debentures-Non Convertible Debentures-III	Proposed	-	-	-	60.00	CARE BBB-; 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 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	-	-	-	-	1)Withdrawn (29-Nov-18)	1)CARE BB+; Positive (12-Feb-18) 2)CARE BB+; Stable (22-Aug-17)
2.	Fund-based - LT-Cash Credit	LT	29.50	CARE BBB-; Stable	1)CARE BBB-; Negative (22-May-20)	1)CARE BBB-; Stable (06-Mar-20)	1)CARE BBB-; Stable (29-Nov-18)	1)CARE BB+; Positive (12-Feb-18) 2)CARE BB+; Stable (22-Aug-17)
3.	Fund-based-Long Term	LT	45.50	CARE BBB-; Stable	1)CARE BBB-; Negative (22-May-20)	1)CARE BBB-; Stable (06-Mar-20)	1)CARE BBB-; Stable (29-Nov-18)	1)CARE BB+; Positive (12-Feb-18) 2)CARE BB+; Stable (22-Aug-17)
4.	Debentures-Non Convertible Debentures	LT	10.00	CARE BBB-; Stable	1)CARE BBB-; Negative (22-May-20)	1)CARE BBB-; Stable (06-Mar-20)	1)CARE BBB-; Stable (29-Nov-18)	1)CARE BB+; Positive (12-Feb-18) 2)CARE BB+; Stable (22-Aug-17)
5.	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB-; Stable	1)CARE BBB-; Negative (22-May-20)	-	-	-
6.	Debentures-Non Convertible Debentures	LT	60.00	CARE BBB-; Stable	1)CARE BBB-; Negative (02-Jul-20)	-	-	-

Annexure-3: 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-Long Term	Simple

***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.*

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