Mahaveer Finance India Limited

March 06, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	75 (Rs. Seventy five crore only)	**CARE BBB-; Stable** (Triple B Minus; Outlook: Stable)	**Reaffirmed**
Non-convertible debenture issue	20 (Rs. Twenty crore only)	**CARE BBB-; Stable** (Triple B Minus; Outlook: Stable)	**Reaffirmed**

Details of facility in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the long-term bank facilities and debt instruments of Mahaveer Finance India Limited (MFIL) continues to factor in the promoters' experience of around three decades in vehicle finance business, good profitability parameters and comfortable capitalization levels. The rating also factors in the improvement in the scale of operations during FY19 (refers to the period April 01 to March 31) and 9MFY20 (refers to the period April 01 to December 31).

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 and moderate asset quality.

Going forward, the ability of the company to scale up the operations and expand into different geographies while maintaining comfortable capital adequacy and improving asset quality levels will be the key rating sensitivities.

Rating Sensitivities

Positive factors

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

Negative factors

- Further moderation in asset quality and delinquency levels
- Deterioration in capital adequacy parameters

Credit Risk Assessment

Key Rating Strengths

Experienced promoters and long track record of operations

MFIL is operating in the CV financing segment since 1987 and has an established track record of operations of around three decades. MFIL is promoted by Mr Mahaveer Chand Dugar, Managing Director, who has over 5 decades of experience in commercial vehicle finance business. The day-to-day operations are managed by his sons Mr Deepak Dugar and Mr Praveen Dugar.

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 MD of LIC. The company is in the process of strengthening the top management and has been recruiting functional heads to take care of the respective functions.

Improvement in scale of operations during FY19 and 9MFY20; however, size remained relatively small

Despite having a track record of close to 3 decades, the company's size 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 NBFC's and was receiving commission for the same. The company stopped the franchisee model in 2010. The company has started growing the book on its own from FY15.

During FY19, AUM grew at 57% from Rs.134 crore as on March 31, 2018, to Rs.210 crore as on March 31, 2019. AUM further grew to Rs.277 crore as on December 31, 2019. Disbursement grew from Rs.104 crore during FY18 to Rs.170 crore during FY19. The growth was supported by expansion of branch network from 4 branches (two states) as on March 31, 2016, to 53 branches as on March 31, 2019 (four states).

Good profitability parameters

NIM improved to 12.30% in FY19 from 11.35% in FY18 because of the increase in yield. Due to branch expansion and employee addition, operating expenses to average assets increased to 7.54% in FY19 from 5.75% in FY18. Credit costs also increased from

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

0.32% in FY18 to 0.89% in FY19. With increase in Opex to average Assets and credit costs, ROTA moderated to 2.88% in FY19 as against 4.39% in FY18.
During 9mFY20, the company reported PAT of Rs.6.62 crore on a total income of Rs.38.01 crore. NIM and ROTA stood at 10.53% and 3.45%, respectively, during 9MFY20.

Comfortable capitalisation levels
During FY18, MFIL has raised capital to a tune of Rs.25 crore in the form of compulsory convertible debentures (CCD), and the company has converted the CCD into equity during FY19. Total CAR and Tier I CAR improved from 19.94% and 13.99% (excluding CCD) as on March 31, 2018, to 23.13% and 20.93% as on March 31, 2019, respectively. Overall gearing stood at 3.51x as on March 31, 2019.
As on December 31, 2019, Total CAR and Tier I CAR stood at 20.44% and 19.31%, respectively. Overall gearing stood at 3.92x as on December 31, 2019. Considering the growth envisaged by MFIL, timely infusion of capital is crucial.
The company's ability to maintain capital adequacy ratios at comfortable level in the back of growing scale of operations over the medium term remains key rating sensitivity.

Key Rating Weaknesses
Relatively riskier asset class
MFIL is in the business of lending against used commercial vehicle with tenure ranging between 2 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 monitor able. However, the management team's good knowledge on this target customer segment provides comfort.

Geographical concentration risk
MFIL has taken measures to expand its portfolio to other states over the last two years. During FY19, the company has expanded its footprint from 30 branches as on March 31, 2018, to 53 branches as on March 31, 2019. Branch expansion majorly happened in Andhra Pradesh and Telangana. Recently, MFIL has consolidated few HCV branches because of the prevailing market conditions and total branches reduced to 48. Currently, MFIL has 23 branches in Tamil Nadu, 18 branches in Andhra Pradesh, 6 branches in Telangana and 1 branch in Pondicherry.

Moderate asset quality
Asset quality continues to be moderate with the company reporting GNPA (120 DPD) and NNPA (120 DPD) of 2.22% and 1.99% as on March 31, 2019, as against 2.12% and 1.90% as on March 31, 2018, respectively. As on March 31, 2019, 90+ dpd stood at 3.19%. As on December 31, 2019, GNPA (120 DPD) and NNPA (120 DPD) further moderated to 3.54% and 3.18%, respectively. 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.

Liquidity: Adequate
ALM profile remains adequate as most of the loans amortize on a monthly basis with majority of the portfolio having a tenure of less than 4 years. The funding profile is concentrated towards long-term funds and the trend is expected to continue going forward resulting in comfortable liquidity profile. As per ALM profile as on December 31, 2019, there are no negative cumulative mismatches in any of the time buckets. The average working capital utilization for the last 6 months ending September 2019 stood at 34%.

Industry Outlook and Prospects
The NBFC sector has witnessed superior growth rates in the last three years ended FY18, mainly driven by slowdown in credit flow from the banks as they grapple with asset quality challenges and capital constraints. The NBFC sector has demonstrated

asset-class-specific expertise with sophisticated credit underwriting methods, increased use of data analytics, multi-channel origination, and faster turnaround times helping them gain market share in both retail and wholesale asset classes. Comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs. The same, however, is being put to test under the prevailing liquidity tightness and changed sentiment towards NFBCs.
The sector witnessed a liability-side disruption post default by a large infrastructure lender, leading to sharp increase in spreads and drying up of the short-term commercial paper (CP) market. Mutual funds, who were major investors in CPs of NBFCs, faced redemptions and as a result CP rollovers reduced drastically. NBFCs running a negative asset-liability gap in the shorter time buckets had to react to the situation by dipping into their liquidity reserves and/or resorting to portfolio sales to banks to generate liquidity. While the sector has largely met the debt obligations since September 2018, it will have to live with high cost of borrowing till the credit markets normalize. The changed scenario on the liability front is likely to impact the portfolio growth as well as profitability of the NBFCs in the medium term. NBFCs having presence in the wholesale and real-estate lending space are likely to be impacted more vis-à-vis their retail counterparts. NBFCs will have to adjust their business models in light of the current scenario and re-visit their growth plans. Asset quality, liquidity and profitability will be the key monitorables for the sector going forward.

Analytical approach: Standalone.

Applicable Criteria
Criteria on assigning ‘Outlook’ and ‘Credit Watch’ to Credit Ratings
CARE Policy on Default Recognition
Rating Methodology- Non Banking Finance Companies
Financial ratios - Financial Sector

About the company
Mahaveer Finance India Limited (MFIL) was incorporated in the year 1981 as NBFC - Asset Finance Company. In 1987, the present management had taken over the company. The company is promoted by Mr Mahaveerchand Dugar (Managing Director) who has more than 5 decades of experience in vehicle finance. The day-to-day operations are managed by his sons Mr Deepak Dugar and Mr Praveen Dugar. As on September 30, 2019, 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. As on March 31, 2019, the total outstanding AUM was Rs.210 crore with an average ticket size of Rs.5 lakh. The average interest rate is around 24% and tenor of the loan ranges between 24-48 months. The company has 48 branches present across Tamil Nadu Andhra Pradesh, Pondicherry and Telangana.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	22.42	40.16
PAT	4.76	5.26
Interest coverage (times)	1.58	1.41
Total Assets	138.27	227.04
Net NPA (%)	1.90	1.99
ROTA (%)	4.39	2.88

Note: a). A – Audited;
b). Ratios have been computed based on average of annual opening and closing balances
c). NIM has been calculated as net interest income/ average annual total 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

Annexure-1: Details of Facility

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	-	-	-	September 2021	29.50	CARE BBB-; Stable
Fund-based-Long Term	-	-	-	-	45.50	CARE BBB-; Stable
Debentures-Non Convertible Debentures	INE911L08020	August 18, 2017	13.50	August 18, 2022	20.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
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)	1)CARE BB+ (17-Nov-16)
2.	Fund-based - LT-Cash Credit	LT	29.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (29-Nov-18)	1)CARE BB+; Positive (12-Feb-18) 2)CARE BB+; Stable (22-Aug-17)	1)CARE BB+ (17-Nov-16)
3.	Fund-based-Long Term	LT	45.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (29-Nov-18)	1)CARE BB+; Positive (12-Feb-18) 2)CARE BB+; Stable (22-Aug-17)	1)CARE BB+ (17-Nov-16)
4.	Debentures-Non Convertible Debentures	LT	20.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (29-Nov-18)	1)CARE BB+; Positive (12-Feb-18) 2)CARE BB+; Stable (22-Aug-17)	-

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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