Mahaveer Finance India Limited

May 22, 2020

Ratings

Facilities / Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	75	**CARE BBB-; Negative** (Triple B Minus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable to Negative
Total Bank Facilities	**75 (Rs. Seventy five crore only)**		
Non-convertible debenture issue	20	**CARE BBB-; Negative** (Triple B Minus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable to Negative
Non-convertible debenture issue (Proposed)	50	**CARE BBB-; Negative** (Triple B Minus; Outlook: Negative)	Assigned
Total Instruments	**70 (Rs. Seventy crore only)**		

Details of facilities 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, 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), good profitability parameters and comfortable 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 and moderate asset quality.

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

Outlook: Negative

The revision in the outlook from Stable to Negative reflects the current liquidity position. The company is extending moratorium to its borrowers following Reserve Bank of India's circular dated March 27, 2020, on the Covid-19 regulatory package and MFIL has also applied for moratorium from its lenders. MFIL has adequate funds to meet its debt obligations during May 2020 as MFIL has obtained moratorium from most of the lenders. However, MFIL is required to mobilize additional funds in the immediate term to meet its cash flow mismatches in case collection efficiency levels do not improve from present levels. The outlook may be revised to stable in the event that the liquidity position improves.

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 nearly 3 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

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

to other larger NBFC's 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.
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 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 the 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 on 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 monitorable. 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. Also, bringing back the collections to normal levels post lockdown remains a key monitorable.

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: Stretched

MFIL has cash and bank balances of Rs.0.20 crore as on May 10, 2020. Unavailed CC as on May 10, 2020 stood at Rs.1.20 crore and contractual repayments (excluding PTC payout) of Rs.11.06 crore during June 2020. The company has requested its lenders to extend moratorium for its borrowings till May 2020 and most of them have accepted the same. The liquidity position is mainly dependent on improvement in collections or raising fresh funds to meet its cash flow mismatches in the near to medium term.

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 five 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 and 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

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

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-; Negative
Fund-based-Long Term	-	-	-	September 2021	45.50	CARE BBB-; Negative
Debentures-Non Convertible Debentures	INE911L08020	August 18, 2017	13.50%	August 18, 2022	20.00	CARE BBB-; Negative
Debentures-Non Convertible Debentures	-	-	-	-	50.00	CARE BBB-; Negative

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-; Negative	-	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-; Negative	-	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	20.00	CARE BBB-; Negative	-	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-; Negative	-	-	-	-

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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