

Mahaveer Finance India Limited

July 02, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Proposed Non-convertible Debenture issue	60 (Rs. Sixty crore only)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Assigned

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed non-convertible debenture issue 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 FY20, 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 outlook is Negative considering the current liquidity position. The company is extending moratorium to its borrowers following Reserve Bank of India's circular, on the Covid-19 regulatory package and MFIL has also applied for moratorium from its lenders. MFIL has raised Rs.10 crore through TLTRO in the months of May and June 2020. This along with improvement in collections in June 2020 has aided its liquidity position. With further extension of moratorium to its customers till August 2020 and lockdown imposed again in few of the geographies where the company operates, bringing back to collections to original levels remains to be seen. 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 further. 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 FY20; 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 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.

During FY19, AUM grew at 57% from Rs.134 crore as on March 31, 2018, to Rs.210 crore as on March 31, 2019. 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). AUM further grew to Rs.278 crore as on March 31, 2020 (Prov.).

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

Good profitability parameters

NIM improved to 12.30% in FY19 from 11.35% in FY18 because of increase in the 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 FY20 (prov.), the company reported PAT of Rs.7.06 crore on a total income of Rs.51.20 crore. NIM and ROTA stood at 10.40% and 2.82%, respectively, during FY20 (prov.).

Comfortable capitalization 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 March 31, 2020 (Prov.), Total CAR and Tier I CAR stood at 20.94% and 20.04%, respectively. Overall gearing stood at 3.84x as on March 31, 2020. 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 the key rating sensitivity.

Key Rating Weaknesses**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 March 31, 2020 (prov.), GNPA (120 DPD) and NNPA (120 DPD) slightly moderated to 2.29% and 2.04%, respectively. As on March 31, 2020 (Prov.), 90+ increased to 3.40%. 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.0.45 crore as on June 25, 2020. Unavailed CC as on June 25, 2020 stood at Rs.13.24 crore and contractual repayments (excluding PTC payout) of Rs.9.11 crore and Rs.10.51 crore during July and August 2020. The company has requested its lenders to extend moratorium for its borrowings till August 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 March 31, 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. As on March 31, 2020 (Prov.), the total outstanding AUM was Rs.278 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.

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures (Proposed)	-	-	-	60.00	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-; 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-; Negative	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	20.00	CARE BBB-; Negative	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-; Negative	1)CARE BBB-; Negative (22-May-20)	-	-	-
6.	Debentures-Non Convertible Debentures	LT	60.00	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.

Contact us

Media Contact

Mradul Mishra

Contact no.: 022 6837 4424

Email: mradul.mishra@careratings.com

Analyst Contact

Name: Mr P Sudhakar

Contact no.: 044-2850 1000

Email: p.sudhakar@careratings.com

Relationship Contact

Name: Mr. V Pradeep Kumar

Contact no.: 044-28497812

Email: pradeep.kumar@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over 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

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.

CARE's 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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**