

Press Release

Mahaveer Finance India Limited

July 22, 2020



Rating Downgraded

Total Facilities Rated	Rs.100.00 Cr.
Total Bank Facilities Rated	Rs.100.00 Cr.
Long Term Rating	ACUITE BBB-/ Negative (Downgraded from ACUITE BBB and outlook revised to Negative from Stable)

*Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) from '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.100.00 Cr. bank facilities of Mahaveer Finance India Limited (MFIL). The outlook is revised to '**Negative**' from '**Stable**'.

Reasons for downward revision and outlook revision from Stable to Negative

The outbreak of the COVID-19 virus and the continued lockdowns have significantly impacted the operations of most of the NBFCs, including MFIL. The lockdowns have impacted the ability of most of the borrowers to carry on their business activities, affecting their cashflows. While nationwide lockdowns have been gradually lifted from the end of May onwards, there are still restrictions on the movement of men and material in certain geographies. The collection efficiency of NBFCs, in general, has also been impacted due to the aforementioned logistical challenges.

MFIL is engaged in the financing of used commercial vehicles comprising cars used for commercial purpose, construction equipment vehicles, commercial passenger vehicles, Light, Heavy and Small goods vehicle and tractors. Of the total assets under management (AUM) of ~Rs.278 Cr. as on March 31, 2020, cars used for commercial purpose comprised ~39 percent of AUM, followed by commercial passenger vehicle ~33 percent and balance comprising of Light, Heavy and Small goods vehicle, construction equipment vehicles and tractors. MFIL currently operates in 4 states and 1 union territory, namely Tamil Nadu, Andhra Pradesh, Telangana, Karnataka and Puducherry with 48 branches in 41 districts as on March 31, 2020. Around 54 percent of its AUM is concentrated in Tamilnadu, as on March 31, 2020.

In line with the general trend in the industry, MFIL had provided moratorium to all their borrowers till June 2020 on account of COVID-19 crisis and has been receiving requests from most of its borrowers to extend the moratorium further till August, 2020. The company is considering the request on case to case basis.

Acuité observes that even before the outbreak of COVID-19, MFIL's asset quality has shown signs of stress with its 90+ dpd (days past due) assets under management increasing to ~Rs.9.5 Cr. (~3.4 percent of AUM) as on March 31, 2020 from ~Rs.6.7 Cr. (~3.0 percent of AUM) as on March 31, 2019. Additionally, the company's repossessed assets have increased to ~Rs.7.5 Cr. as on March 31, 2020 from ~Rs.5.3 Cr. as on March 31, 2019 which is indicative of increasing delinquencies. Acuité believes that current challenging environment will result in intensifying asset quality pressures, especially in view of the asset class of MFIL. MFIL's focus on commercial vehicles renders its portfolio susceptible to the level of economic activity. Since the resumption of normal economic activity will be only in a gradual manner, the cash flows of the borrowers and consequently their credit profile is likely to be impaired. The extent of impairment in asset quality and potential stress will be clear only after the expiry of the moratorium period beyond August 2020, i.e. around the third quarter of FY 2021.

Apart from the on-book exposure, MFIL has raised funds in the past through off book sources like securitisation/pass through certificates and direct assignment transactions with Hinduja Leyland Finance Limited, DCB bank limited and Magma Fincorp Limited. As on March 31, 2020, ~11 percent of AUM comprise off-book exposure. Acuité believes that any significant slowdown in collection efficiency will also have a bearing on the performance of the pools under securitisation transactions.

Besides the asset side challenges mentioned above, MFIL is likely to face headwinds on the resource raising side. MFIL's gearing as on March 31, 2020 (provisional) was around ~3.7 times as against ~3.4 times as on March 31, 2019. As on March 31, 2020(provisional), MFIL's borrowings of ~Rs.209 Cr. are from various banks and NBFCs/FIs. Out of these, outstanding borrowings from banks comprised of ~Rs.69 Cr. (~33 percent of total borrowings of ~Rs.209 Cr.), followed by borrowings from NBFCs/FIs of ~Rs.107 Cr. (~51 percent), and remaining comprising of subordinated debt and unsecured debt from related parties.

In view of the ongoing crisis, MFIL had received moratorium till May 2020 from 14 out of total 17 term loan lenders, comprising ~73 percent of bank and NBFC/FI term loan borrowings. With RBI allowing extension of the moratorium till August 31, 2020, MFIL had sought further extension of moratorium from most of their lenders and had received moratorium from 15 out of 17 term loan lenders for June 2020. As per discussion with MFIL, Acuité understands that majority are yet to communicate their stance for July and August 2020. Acuité believes that as regards to the second phase of moratorium till August 2020, most of the lenders have become selective and are extending the moratorium on a case to case basis.

Against the above backdrop, there will be three key rating monitorable: Firstly, the ability to achieve optimal collection efficiency commensurate with the monthly obligations (both debt servicing obligations and operating expenses). Secondly, the stance of the lenders to extend further moratorium till collection efficiency sufficiently improves. Thirdly, the ability of the promoters to arrange for long term funding support either through equity or through long term debt.

About MFIL:

Chennai based, Mahaveer Finance India Limited (MFIL), incorporated in 1981, was registered with Reserve Bank of India (RBI) as a deposit taking Non-Banking Finance Company. In 2015, MFIL surrendered its deposit-taking license and also delisted itself from Madras Stock Exchange. MFIL, currently a Non-deposit taking NBFC-asset finance company, is engaged in used commercial vehicle financing in rural and semi-urban areas.

The company is promoted by Mr. Mahaveerchand Dugar (Managing Director) and his sons, Mr. Deepak Dugar (Joint Managing Director) and Mr. Praveen Dugar (Executive Director). MFIL operates in 4 states and 1 union territory, namely Tamil Nadu, Andhra Pradesh, Telangana, Karnataka and Puducherry with 48 branches in 41 districts as on March 31, 2020.

Analytical Approach:

Acuité has considered the standalone view on MFIL's business and financial risk profile to arrive at the rating.

Acuité has been guided by recent SEBI circular dated 30th March, 2020 (Circular No: SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/53) while arriving at the rating. Acuité has also relied on the recent RBI circular dated 27th March, 2020 (Circular No: RBI/2019-20/186 in this regard. The company has confirmed to Acuité that they had received full moratorium from a majority of their term loan lenders for April and May 2020. Further, MFIL also confirmed that they received principal moratorium from 15 out of 17 term loan lenders for June 2020 and the majority are yet to communicate their stance for July and August 2020.

Acuité believes that this slippage of payment to lenders for April, May and June 2020 is attributable to the ongoing crisis and hence has not construed the non-payment for April, May and June 2020 as a credit event while arriving at the rating decision. Acuité policy regarding this "Transitory relaxation from compliance with certain provisions under SEBI (Credit Rating Agencies) Regulations,

1999" is as follows: <https://www.acuite.in/transitory-relaxation-from-compliance-with-certain-provisions-under-SEBI.htm>

Key Rating Drivers

Strengths

- Experienced management:**

MFIL, incorporated in 1981, was registered with Reserve Bank of India (RBI) as a deposit-taking Non-Banking Finance Company. It began its lending operations in 1987 with new commercial vehicle financing and since 2000, the company is engaged in used commercial vehicle financing. In 2015, MFIL surrendered its deposit-taking licence and since then is operating as a non-deposit taking NBFC-asset finance company. The company was listed at Madras Stock Exchange Limited, however, in 2015, Madras Stock exchange was closed and resultantly MFIL was delisted. MFIL currently operates in 4 states and 1 union territory, namely Tamil Nadu, Andhra Pradesh, Telangana, Karnataka and Puducherry, with a network of 48 branches in 41 districts as on March 31, 2020.

MFIL is promoted by Mr. Mahaveerchand Dugar (Managing Director), who has over four decades of experience in the financial sector. Mr. Mahaveerchand Dugar currently holds the position of Treasurer with Hindustan Chamber of Commerce and is the Vice Chairman of Finance Companies Association of India.

MFIL's board comprises of various seasoned professionals and is chaired by Mr. Chidambar Ganesan (Chairman). He is a retired Managing Director of LIC of India and has been on the board of India Nippon Electricals Limited. In the past, Mr. Chidambar was on the board of Reliance Industries, LIC Mutual Fund, among others.

The day to day operations is managed by Mr. Mahaveerchand Dugar's sons, Mr. Deepak Dugar (Joint Managing Director) and Mr. Praveen Dugar (Executive Director). Mr. Deepak Dugar, has over two decades of experience in asset financing. He holds an MBA in finance and has been associated with MFIL since 1998. He has been instrumental in setting up of new branches, customer acquisition, credit appraisal, and setting up of the disbursal processes. Mr. Praveen Dugar carries around two decades of experience in the sector and has set up risk management, collection processes and lender relationships in MFIL.

The Dugar family together holds ~64 percent of shareholding in MFIL as on March 31, 2020, and balance of ~36 percent is held by Banyan Tree Growth Capital, a private equity investor and other individuals.

MFIL over the years has been able to increase its assets under management (AUM) to ~Rs.278 Cr. as on March 31, 2020 from ~Rs.134 Cr. as on March 31, 2018.

Acuité believes that MFIL will continue to benefit from its established position and the promoters' experience in commercial vehicle financing.

Weaknesses

- Limited financial flexibility: significant near term obligations adding to liquidity pressure**

MFIL is engaged in used commercial vehicle financing since 2000. MFIL provides financing mainly to self-employed borrowers in rural and semi-urban areas in Tamil Nadu, Andhra Pradesh, Telangana, Karnataka and Puducherry.

The company's networth stood at ~Rs.57 Cr. as on March 31, 2020 (provisional) and total debt stood at ~Rs.209 Cr as on the same date. The company's gearing stood at ~3.7 times as on March 31, 2020 (provisional) as against ~3.4 times as on March 31, 2019. The debt comprises of term loans from Banks/NBFCs/FIs, cash credit facility, subordinated debt and debt from related parties. The borrowings from NBFCs/FIs accounted for ~51 percent of the total borrowings of ~Rs.209 Cr. as on March 31, 2020 (provisional), followed by bank borrowings (incl. cc facility) of ~33 percent and remaining comprising subordinated debt and unsecured debt from related parties.

As mentioned earlier, the improvement in the collection is expected to be gradual and the extent of impairment of asset quality will be known only after the expiry of the moratorium period and resumption of normal collections. In the interim, MFIL could face pressures from its lenders, mostly

NBFCs who would be facing their own balance sheet related challenges. MFIL had sought moratorium extension from the majority of their lenders till August 2020. As per discussion with the company, Acuité understands that majority of the lenders are yet to communicate their stance for July and August 2020. Acuité believes that as regards to the second phase of moratorium till August 2020, most of the lenders have become selective and are extending the moratorium on a case to case basis.

The company has been able to raise additional funding of Rs.25 Cr. through the TLTRO route from three lenders during May, June and July 2020. The company is also in the process of negotiation for additional funding under TLTRO from various banks and special liquidity window with FIs. However, considering its scale of operations and the near term business requirements (including debt servicing obligations), the company may require significant additional funding, especially after the expiry of the moratorium period beyond August 2020.

MFIL's ability to raise long term debt/long term funding (equity or debt) commensurate with business requirements (including debt servicing obligations) will be key determinants of its liquidity and credit profile.

- **Expectations of elevated stress in asset quality**

MFIL extends loans for used commercial vehicles comprising cars used for commercial purpose, construction equipment vehicles, commercial passenger vehicles, Light, Heavy and Small goods vehicle and tractors. The average ticket size of each of these categories is ~Rs.5 lakhs with an average tenure of 3 to 4 years. The borrower profile mostly comprise loans extended to self-employed individuals. The serviceability of these loans is directly dependent on the level of economic activity in the region of their operations. Since the majority of MFIL's portfolio comprises of commercial vehicle financing segment and self-employed borrowers, further stress on asset quality is likely to be expected.

Even before the COVID-19 outbreak, MFIL's asset quality has shown signs of stress with its 90+ dpd (days past due) AUM increasing to ~Rs.9.5 Cr. (~3.4 percent of AUM) as on March 31, 2020 from ~Rs.6.7 Cr. (~3.0 percent of AUM) as on March 31, 2019. Additionally, the company's repossessed assets have increased to ~Rs.7.5 Cr. as on March 31, 2020 from ~Rs.5.3 Cr. as on March 31, 2019 which is indicative of increasing delinquencies. With economic activity likely to resume only in a gradual manner, the delinquencies and stress is expected to increase.

MFIL's overall capital adequacy ratio (CAR) is at 20.94 percent as on March 31, 2020. With any sharp increase in credit costs, MFIL's capitalization buffers could also be impaired.

Acuité believes that containing additional slippages while maintaining the growth in AUM will be crucial.

Rating Sensitivities

- Longer than expected impact of natural calamities like Covid-19 on operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability parameters
- Changes in regulatory environment

Material Covenants:

MFIL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others. As per confirmation received from the client via mail dated June 27, 2020, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity Position: Stretched

The liquidity buffers of MFIL are currently matched between collections from borrowers (cash inflows) and its commitments (debt servicing obligations and operating expenses). MFIL's borrowings have maturity upto 36 months. Out of total bank and NBFC borrowings of ~Rs.176 Cr. as on March 31, 2020, the majority comprises of NBFC/FI borrowings (~61 percent). Subsequent to COVID outbreak, the liquidity crisis has been triggered. MFIL had extended the moratorium to all

its borrowers till May 2020 and had received similar moratorium till May 31, 2020 from 14 out of 17 term loan lenders. With RBI allowing for a further extension till August 31 2020, MFIL had sought moratorium from the majority of its lenders. As per discussion with MFIL, Acuité understands that while 15 out of 17 term loan lenders had extended moratorium for June 2020, majority of the lenders are yet to communicate their stance for July and August 2020. The lenders, especially NBFCs are expected to follow a cautious approach in providing a further extension on a case by case basis because of their own balance sheet challenges. Going by the current developments, it appears that the improvement in collections is likely to be a gradual process.

MFIL's scheduled collections (as per regular schedule) are around Rs.15 Cr. to 16 Cr. on a monthly basis against which its scheduled debt servicing obligations (as per regular schedule) are around Rs.12 Cr. to Rs.13 Cr. and operating costs of ~Rs.0.7 Cr. per month.

The stance of existing lenders and the ability of MFIL to raise long term funding (equity/debt) commensurate with its business requirement (including debt servicing obligations) will be critical to the maintenance of stable liquidity profile.

Outlook: Negative

Acuité believes that MFIL is likely to face elevated asset quality and liquidity pressures over near to medium term, thereby impacting its credit profile. The outlook may be revised to Stable in case MFIL is able to contain its asset quality pressures and demonstrate significant improvement in liquidity buffers through long term funding i.e. either by way of debt or equity. Conversely, a significant reduction in MFIL's liquidity buffers post expiry of moratorium period and higher than expected credit costs could impart negative bias to the rating.

About the Rated Entity - Key Financials:

Parameters	Unit	FY20 (Prov)	FY19(Actual)
Total Assets	Rs. Cr.	274.63	228.03
Total Income*	Rs. Cr.	26.49	22.63
PAT	Rs. Cr.	7.07	5.25
Net Worth	Rs. Cr.	56.76	49.69
Return on Average Assets (RoAA)	(%)	2.81	2.86
Return on Average Net Worth(RoNW)	(%)	13.29	11.15
Total Debt/Tangible Net Worth (Gearing)	Times	3.68	3.40
Gross NPA (120+dpd)	(%)	2.29	2.21
Net NPA (120+dpd)	(%)	2.04	1.98

* Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition -<https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of the Facilities	Term	Size of the Issue (Rs. Cr.)	Ratings/Outlook
03 May, 2019	Cash Credit	Long Term	19.00	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long Term	0.50	ACUITE BBB/Stable (Assigned)
	Proposed Bank Facility	Long Term	70.50	ACUITE BBB/Stable (Assigned)

***Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
-	Cash Credit	-	-	-	19.00	ACUITE BBB-/ Negative (Downgraded from ACUITE BBB and outlook revised from Stable)
-	Cash Credit	-	-	-	5.00	ACUITE BBB-/ Negative (Downgraded from ACUITE BBB and outlook revised from Stable)
-	Cash Credit	-	-	-	5.00	ACUITE BBB-/ Negative (Downgraded from ACUITE BBB and outlook revised from Stable)
-	Cash Credit	-	-	-	0.50	ACUITE BBB-/ Negative (Downgraded from ACUITE BBB and outlook revised from Stable)
-	Proposed Bank Facility	-	-	-	70.50	ACUITE BBB-/ Negative (Downgraded from ACUITE BBB and outlook revised from Stable)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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