

Press Release

Mahaveer Finance India Limited

November 30, 2020



Rating Withdrawn

Total Facilities Rated	Rs.100.00 Cr.
Total Bank Facilities Rated	Rs.100.00 Cr.
Long Term Rating	ACUITE BBB- (Withdrawn)

*Refer Annexure for details

Rating Rationale

Acuité has withdrawn the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.100.00 crore bank facilities of Mahaveer Finance India Limited (MFIL). This rating is being withdrawn on account of the request received by the client along with No Objection Certificate received from the bank as per Acuite's policy.

About MFIL:

Chennai based, Mahaveer Finance India Limited (MFIL) was incorporated in 1981. It 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. 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.

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 Dugar family, collectively holds ~64 percent of shareholding in MFIL as on March 31, 2020. 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. Mr. Praveen Dugar carries around two decades of experience in the sector. 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**

The company's networth stood at ~Rs.55.54 Cr. as on March 31, 2020 and total debt stood at ~Rs.206.83 Cr as on the same date. The company's gearing stood at ~3.72 times as on March 31, 2020 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.206.83 Cr. as on March 31, 2020, followed by bank borrowings (incl. cc facility) of ~33 percent and remaining comprising subordinated debt and unsecured debt from related parties. The improvement in the collection is expected to be gradual in the current economic scenario. MFIL could face pressures from its lenders, mostly NBFCs who would be facing their own balance sheet related challenges. 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

Not Applicable

Material Covenants:

None

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. 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 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. 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.

About the Rated Entity - Key Financials:

Parameters	Unit	FY20 (Actual)	FY19(Actual)
Total Assets	Rs. Cr.	273.64	228.03
Total Income*	Rs. Cr.	26.28	22.63
PAT	Rs. Cr.	5.85	5.25
Net Worth	Rs. Cr.	55.54	49.69
Return on Average Assets (RoAA)	(%)	2.33	2.86
Return on Average Net Worth(RoNW)	(%)	11.12	11.15
Total Debt/Tangible Net Worth (Gearing)	Times	3.72	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
22 Jul, 2020	Cash Credit	Long Term	19.00	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/ Stable)
	Cash Credit	Long Term	5.00	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/ Stable)
	Cash Credit	Long Term	5.00	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/ Stable)
	Cash Credit	Long Term	0.50	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/ Stable)
	Proposed Bank Facility	Long Term	70.50	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/ Stable)
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**

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-(Withdrawn)
Cash Credit	-	-	-	5.00	ACUITE BBB-(Withdrawn)
Cash Credit	-	-	-	5.00	ACUITE BBB-(Withdrawn)
Cash Credit	-	-	-	0.50	ACUITE BBB-(Withdrawn)
Proposed Bank Facility	-	-	-	70.50	ACUITE BBB-(Withdrawn)

Contacts

Analytical	Rating Desk
<p>Mohit Jain Senior Vice President- Rating Operations Tel: 022-49294071 mohit.jain@acuite.in</p> <p>Simranjeet Kaur Rating Analyst - Rating Operations Tel: 022-49294073 simranjeet.kaur@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294021 rating.desk@acuite.in</p>

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.

