

Press Release

Mahaveer Finance India Limited

May 24, 2021

Rating Assigned



Total Proposed Term Loan Facilities Rated*	Rs. 13.00 Cr
Long Term Rating	ACUITE PROVISIONAL BBB+(CE)/ Stable (Assigned)

Rating Rationale

Acuité has assigned a long term rating of '**ACUITE PROVISIONAL BBB+ (CE)/ Stable**' (**read as ACUITE PROVISIONAL triple B plus (Credit Enhancement)**) on the Rs.13.00 Cr. partially credit enhanced proposed loan facilities of Mahaveer Finance India Limited (MFIL). The outlook is '**Stable**'.

The rating factors in MFPL's moderate capitalisation levels at 20.8% as on December 31, 2020 coupled with its demonstrated ability in raising capital. The rating furthers factors in experienced management team with diversified experience as well as adequate liquidity. The rating however constrained by small scale of operations and rising delinquencies. The company's delinquencies in 90dpd+ bucket increased to 4.52 percent as on December 31, 2021. Going forward, MFPL's ability to improve asset quality and earnings profile, strengthen its capitalization levels while growing portfolio in a continuously evolving Covid-19 pandemic would be key monitorables.

The transaction has Partial Credit Enhancement (PCE) in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc (Credit Enhancer/ Guarantor) covering 18% of the initial principal value of the facility amount. The level of guarantee as a percentage of the aggregate outstanding principal of the facility is capped at 24%. Additionally, the facility has security in the form of exclusive first charge on identified book debts and receivables with 110% margin (qualifying under priority sector) in favour of the bank. MFIL shall make payments of interest and principal amounts due along with all other obligations (if any) under the Facility Documents by T-5 business days. In case of non-payment by MFIL, the Guarantors shall be severally and jointly liable to make the payments by the due date.

The rating on facilities is provisional and the final rating is subject to execution of following documents:

1. Debenture Trusteeship Agreement;
2. Debenture Trust Deed
3. Deed of Hypothecation

About Mahaveer Finance India Limited

Chennai based, Mahaveer Finance India Limited (MFIL) was incorporated in 1981. MFIL 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 44 branches in 41 districts as on February 28, 2021.

MFIL's AUM as on February 28, 2021 stood at Rs. 301.32 cr. (Rs. 278.06 cr. as March 31, 2020 and Rs. 210.07 cr. as on March 31, 2019) The AUM comprised of owned portfolio of Rs. 285 cr. (95 percent of AUM) and off-book exposure of Rs. 16 cr. (5 percent of AUM) as on February 28, 2021. The company off-book exposure comprises Direct Assignment and Pass Through Certificates.

About Northern Arc Capital Limited ("Northern Arc")

Northern Arc, previously known as IFMR Capital Finance Ltd., is a Non-Deposit taking Non-Banking Financial Company (ND-NBFC) incorporated in 1989. It is involved in the placement (arranging funding

for its clients via loan syndication, securitisation and assignment among others) and lending business. The company acts as a link between mainstream capital markets investors and high-quality last mile lending institutions and businesses. The company's debt portfolio is diversified across 29 states and 540 districts of India. The company's business is categorized as finance sector exposure, i.e., microfinance, affordable housing finance, commercial vehicle finance, consumer finance, agri finance and small business loans, and non-finance sector exposure, i.e., mid-market finance and corporates.

Northern Arc reported Assets Under Management (AUM) of Rs. 4,480 Cr. as on December 31, 2020 as against Rs. 4,484 Cr. as on March 31, 2020. Northern Arc has moderate asset quality with GNPA (90+dpd) at 1.88% as on December 31, 2020 as against 0.5% as on March 31, 2020. The company's Capital Adequacy Ratio (CAR) stood at 31.34% as on December 31, 2020 (33.16% as on March 31, 2020 and 27.05% as on March 31, 2019). The company's gearing improved to 1.96 times as on March 31, 2020 from 2.55 times as on March 31, 2019. It rose to 2.17 times as on December 31, 2020.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of MFIL, the rating of MFIL (ACUITE BBB-/ Stable), and has further factored in the credit enhancement arising from the structure. The suffix (CE) indicates credit enhancement arising from the PCE in the form of unconditional, irrevocable, payable on demand guarantee covering 18% of the initial principal value of the facility amount. The strength of the underlying structure and continued adherence to the same is central to the rating.

Accounting for the Partial Credit Enhancement, the agency has enhanced the rating of the facility to ACUITE BBB+ (CE)/ Stable. The Credit Enhancement (CE) in the rating is solely for the rated issue and its terms and structure.

The notched up rating of the proposed loan facility incorporates the PCE in the form of guarantee by Northern Arc Capital Limited ("Northern Arc"), acting as the Credit Enhancer/ Guarantor.

Key Rating Drivers

Strengths

- **Strength of underlying structure:**

The transaction has PCE in the form of unconditional, irrevocable, and payable on demand guarantee by Northern Arc covering 18% of the initial principal value of the facility amount. The level of guarantee as a percentage of the aggregate outstanding principal of the facility is, however, capped at 24%.

The Credit Enhancer shall provide PCE, favouring MFIL, in the form of an unconditional, irrevocable guarantee that covers 18% to the extent of Guarantee Cap guaranteeing the repayment of principal and payment of interest amounts in relation to the facility.

If due to the amortisation of the facility, the credit enhancement % exceeds 24% of the aggregate outstanding principal of the facility, the Guarantee Cap shall be reduced to 24% of the aggregate outstanding principal of the facility (Revised Guarantee Cap).

The structure envisages that if the rating of MFIL reaches BBB+ at a standalone level, the Credit Enhancement % shall completely fall off. This will be subject to rating of the facility being maintained at BBB+ post the guarantee fall off.

MFIL shall make payments of interest and principal amounts due along with all other obligations (if any) under the Facility Documents on T-5 business days. In case of non-payment by MFIL, the Guarantors shall be severally and jointly liable to make the payments due.

In case of downgrade of MFIL's senior secured long term rating (as per Acuité's view) to below BBB-, non-maintenance of security cover, non-payment by Borrower and cross default of the borrower, MFIL and the Guarantor shall be jointly and severally liable to also transfer the collections from the security pool to the lender by on T-5 business days. These collections would be used by the lender for prepayment of principal and repayment of interest on the facility.

In the event of failure of MFIL and the Guarantor to comply with the terms above, the lender shall invoke the PCE and send a notice of 1 business day to the Credit Enhancer to make payments. The Credit Enhancer shall make payment on T-1 business days.

The facility and all interest, additional interest, further interest, liquidated damages, commitment charges, indemnification payments, fees, costs, expenses and other monies owing by, and all other present and future obligations and liabilities are further secured by a first and exclusive charge by way of hypothecation over identified receivables. The facility has security in the form of exclusive 1st charge on identified book debts and receivables with 110% margin (qualifying under priority sector) arising out of banks funding in favour of the bank.

The security cover will be met from the date of disbursal of the facility. In case of MFIL senior secured long term rating (as per Acuité view) downgrade to below BBB-, MFIL will ensure that the % of outstanding principal value of PAR > 0 loans in the hypothecated property does not exceed 15% of the outstanding principal value of the hypothecated property.

The transaction might be susceptible to commingling risks due to the absence of a ring-fencing arrangement of the hypothecated pool.

Acuité believes that the proposed structure provides for adequate covenants to safeguard the interest of the lender. The lender has enough buffers available to initiate corrective action and mitigate the risks arising out of non-adherence to the proposed terms and conditions.

- **Experienced management supported by diverse and reputed investors**

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. 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 February 28, 2021.

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 December 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.301 Cr. as on February 28, 2021 from ~Rs.278 Cr. as on March 31, 2020. Acuité believes that MFIL will continue to benefit from its established position and the promoters' experience in commercial vehicle financing.

- **Moderate financial position**

MFIL's net-worth stood at Rs. 55.54 cr. as on March 31, 2020 and reported a capital adequacy ratio (CAR) of 20.30 percent comprising Tier 1 capital at 19.44 percent and Tier II capital at 0.86 percent. The company's leverage stood at 3.72 times as on March 30, 2020 (3.40 times as on March 31, 2019). MFIL's capital adequacy ratio (CAR) improved marginally to 20.79 percent as on December 31, 2020. The company has a strong lender profile comprising Banks and Financial Institutions, with total debt of Rs. 238.93 cr. outstanding as on December 31, 2020 and leverage stood at 3.85 times as on December 31, 2020. The company's ability to raise debt by the company remains challenging due to a selective and cautious approach adopted by Banks and NBFC/FIs. However, MFIL has demonstrated access to funding

from both banks and large NBFC/FIs. Moreover, the capitalization levels are expected to improve FY2021 results as company has received private equity of Rs.20.00 cr. in the form of compulsorily convertible debentures.

Acuité believes, going forward, the company's ability to mobilise lower cost funding through debt/ sub debt and its ability to deploy the funds profitably will be a key rating monitorable.

Weakness

- **Moderate 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 comprises self-employed individuals. The serviceability of these loans is directly dependent on the level of economic activity in the region of their operations.

MFIL's asset quality has shown signs of stress with 90+ dpd (days past due) AUM increasing to ~Rs.13.18 Cr. (~4.52 percent of AUM) as on December 31, 2020 from ~Rs.9.45 Cr. (~3.40 percent of AUM) as on March 31, 2020. MFIL recognizes its NPA after 120 days, thus GNPA stood at 2.70% as on December 31, 2020 as against 2.57% as on March 31, 2020.

The company has made adequate provisions by the end of March 31, 2021. However, asset quality impact on account of second wave of COVID-19 is a key monitorable. Acuité believes that containing additional slippages while maintaining the growth in AUM will be crucial.

Rating Sensitivity

- Movement in collection efficiency and asset quality
- Movement in profitability parameters
- Movement in Liquidity buffers
- Changes in regulatory environment

Assessment for Adequacy of Credit Enhancement

MFIL has significant experience in the auto financing segment, and its moderate capital position has been bolstered by capital infusions. Thus, even after considering risks such as possible asset quality deterioration during the pandemic, Acuité believes that the CE will stand adequate in all scenarios and in the event of any requirement, Northern Arc will provide the necessary support.

Liquidity: Adequate

The company had unencumbered cash and bank balance of Rs. 16.01 crore as on December 31, 2020. The transaction has PCE in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 18% of the initial principal value of the facility amount. The level of guarantee as a percentage of the aggregate outstanding principal of the facility is capped at 24%.

Material Covenants

The following covenant is included in the structure: the maximum permissible ratio of Par > 90 net off Loan Loss Provisions (on MFIL's entire portfolio including receivables sold or discounted on a non-recourse basis) not to exceed 7.00%.

Outlook: Stable

Acuité believes that the rating on the loan facility will maintain a 'Stable' outlook over the near to medium owing to MFIL's presence in auto financing business along with its financial position. The outlook may be revised to 'Positive' in case MFIL is able to demonstrate significant and sustainable growth in its scale of operations while mitigating the asset quality risks in its portfolio. Conversely, the outlook may be revised to 'Negative' in case of any sharp deterioration in its asset quality and profitability levels.

About the Rated Entity - Financials

	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 Net Worth (RoNW)	(%)	11.12	11.15
Total Debt/Tangible Net Worth (Gearing)	Times	3.72	3.40
Gross NPA's	(%)	2.57	2.22
Net NPA's	(%)	2.26	1.99

* 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

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuité will withdraw the existing provisional rating and concurrently assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

The structure would have become null and void for the instrument. The rating of the instrument would have been equated to the standalone rating of the issuer (ACUITE BBB-/ Stable).

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued:

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not applicable

Annexure- Details of Instruments rated

ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outlook
-	Proposed Bank Facility	-	-	-	13.00	ACUITE Provisional BBB+ (CE)/ Stable (Assigned)

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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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