

Press Release

Mahaveer Finance India Limited

August 25, 2021

Rating Assigned



Term Loan Facilities Rated*	Rs. 13.00 Cr
Long Term Rating	ACUITE BBB+(CE)/ Stable (Assigned; converted to Final from Provisional rating)

Rating Rationale

Acuite has converted the provisional rating to final long term rating of '**ACUITE BBB+ (CE)**' (read as **ACUITE triple B plus (Credit Enhancement)**) on the Rs.13.00 Cr. partially credit enhanced term 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 3.58 percent as on March 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 final rating is assigned based on the fulfilment of the structure, terms and covenants detailed in the executed term loan agreement, deed of guarantee, master credit facility agreement, agreement for hypothecation of receivables, collection and payment agreement and other documents relevant to the transaction.

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 March 31, 2021 stood at Rs. 322.92 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 takes off-book exposure through 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. 4,953.7 Cr. (provisional) as on March 31, 2021 as against Rs. 4,484 Cr. as on March 31, 2020. Northern Arc's asset quality moderated with GNPA (90+dpd) at 2.28% (provisional) as on March 31, 2021 as against 0.5% as on March 31, 2020. The company's Profit After Tax (PAT) stood at Rs. 56.05 Cr (provisional) as on March 31, 2021 (Rs. 89.62 Cr as on March 31, 2020). The company's debt/equity ratio was 1.96 times as on March 31, 2020 as compared to 2.55 times as on March 31, 2019. However, the debt/equity ratio increased to 2.53 times as on March 31, 2021.

Analytical Approach

Acuite 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 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, 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 % becomes greater than 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 becomes 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 Acuite'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 disbursement of the facility. In case of MFIL senior secured long term rating (as per Acuite 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.

Acuite believes that the 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 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 NonBanking 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 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 disbursement 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. Acuite 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 increased to Rs. 81.71 Cr as on March 31, 2021 from Rs. 55.54 Cr as on March 31, 2020. As on March 31, 2020, the company 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 indicators 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 ability to raise debt by the company remains challenging due to a very selective and cautious approach adopted by Banks and NBFC/FIs. However, MFIL has demonstrated access to funding from both banks and large NBFC/FIs.

Acuite believes, going forward, the ability of the company to mobilise additional 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 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.

MFIL's asset quality has shown signs of stress with marginal increase in its 90+ dpd (days past due) AUM increasing to Rs.11.53 Cr. (3.58 percent of AUM) as on March 31, 2021 from Rs.9.45 Cr. (3.40 percent of AUM) as on March 31, 2020. MFIL's recognizes its NPA after 90 days, thus its GNPA stood at 4.2% as on March 31, 2021 and its NNPA stood at 3.7% as on March 31, 2021.

The company has made adequate provisions. However, any rise in delinquency is expected due to impact of second wave of COVID-19 as the credit profiles of some of the borrowers could be impaired for a much longer time. Acuite 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
- 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, Acuite 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

Acuite 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	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	375.69	274.65
Total Income*	Rs. Cr.	30.33	25.72
PAT	Rs. Cr.	8.39	5.21
Net-worth	Rs. Cr.	81.71	53.28
Return on Average Assets (RoAA)	(%)	2.58	2.06
Return on Net Worth (RoNW)	(%)	12.43	10.28
Debt/ Equity	Times	3.48	3.95
Gross NPA's**	(%)	4.2	2.57
Net NPA's***	(%)	3.7	2.26

* Total income equals to Net interest income plus other income

**The GNPA was calculated on 120dpd basis in FY20 and on 90dpd basis in FY21

*** The NNPA was calculated on 120dpd basis in FY20 and on 90dpd basis in FY21

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

None

Any other information

Not Applicable

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)

Date	Name of Facilities	Term	Size of Issue (Rs. Cr.)	Ratings/Outlook
May 25, 2021	Proposed Bank Facility	Long Term	13.00	ACUITE PROVISIONAL BBB+(CE)/ Stable (Assigned)

Annexure- Details of Instruments rated

Lender	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outlook
Hinduja Leyland Finance Limited	Term Loan	March 31, 2021	12.25%	March 31, 2024	13.00	ACUITE BBB+ (CE)/ Stable (Assigned; converted to final from provisional rating)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President Tel: 022 49294071 mohit.jain@acuite.in Sumit Pramanik Senior Manager – Financial Sector Ratings Tel: 7001414372 sumit.pramanik@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

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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