

## Press Release

### Mahaveer Finance India Limited

November 23, 2022

### Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.00	ACUITE BBB+   CE   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	13.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has reaffirmed the 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 facility of Mahaveer Finance India Limited (MFIL). The outlook is **'Stable'**.

#### Rationale for the rating

The continues to factor in MFIL's comfortable capitalization levels at 26.13 percent as on September 30, 2022 coupled with its demonstrated fund raising ability in the form of debt. The rating furthers factors in experienced management team with diversified experience as well as adequate liquidity. The rating is however constrained by small scale of operations and rising delinquencies. The company's delinquencies in 90dpd+ bucket increased to 4.54 percent as on September 30, 2022. Going forward, MFIL's ability to improve asset quality and earnings profile, strengthen its capitalization levels while growing the portfolio 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 percent 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 percent. Additionally, the facility has security in the form of exclusive first charge on identified book debts and receivables with 110 percent 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.

#### 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 53 branches in 47 districts as on September 30, 2022.

MFIL's AUM as on September 30, 2022 stood at Rs. 479.47 Cr. (Rs. 411.30 Cr. as on March 31, 2022, Rs. 322.92 Cr. as March 31, 2021 and Rs. 278.06 Cr. as on March 31, 2020). The AUM comprised of owned portfolio of Rs. 395 Cr. (82 percent of AUM) and off-book exposure of Rs. 84 Cr. (18 percent of AUM) as on September 30, 2022. The company takes off-book exposure through Direct Assignment and Pass Through Certificates.

### **About the Guarantor**

Northern Arc, previously known as IFMR Capital Finance Ltd., is a Non-Deposit taking NonBanking 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 highquality last mile lending institutions and businesses. 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. 6874 Cr. as on March 31, 2022 as against Rs. 5,220.87 Cr. as on March 31, 2021. Northern Arc's asset quality improved with GNPA (90+dpd) at 0.51 percent as on March 31, 2022 as against 2.23 percent as on March 31, 2021. The company's Profit After Tax (PAT) stood at Rs. 163.73 Cr for the period ending FY2022 (Rs. 67.51 Cr as of FY2021). The company's debt/equity ratio was 2.53 times as on March 31, 2021 as compared to 1.96 times as on March 31, 2020. However, the debt/equity ratio increased to 3.50 times as on March 31, 2022.

### **Analytical Approach**

Acuité has considered the standalone business and financial risk profile of MFIL 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 percent 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.

**Standalone rating considered for the PCE transaction of Rs. 13.00 Cr:**

ACUITE BBB-/Stable

### **Key Rating Drivers**

#### **Strength**

##### **Strength of underlying structure**

The transaction has PCE in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 18 percent 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 percent. The Credit Enhancer shall provide PCE, favouring MFIL in the form of an unconditional, irrevocable guarantee that covers 18 percent 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 percentage becomes greater than 24 percent of the aggregate outstanding principal of the facility, the Guarantee Cap shall be reduced to 24 percent of the aggregate outstanding principal of the facility (Revised Guarantee Cap).

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-, nonmaintenance 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 percent 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 Acuité view) downgrade to below BBB-, MFIL will ensure that the percentage of outstanding principal value of PAR > 0 loans in the hypothecated property does not exceed 15 percent 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 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 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 Dugar family together holds ~64 percent of shareholding in MFIL as on June 30, 2022, and balance of ~36 percent is held by Banyan Tree Growth Capital, a private equity investor and other individuals. MFIL has been able to increase its assets under management (AUM) to Rs. 479.47 Cr. as on September 30, 2022 from Rs. 322.92 Cr. as on March 31, 2021. Acuité believes that MFIL will continue to benefit from its established position and the promoters' experience in commercial vehicle financing.

### **Healthy financial position**

MFIL's net-worth increased to Rs. 92.28 Cr. as on March 31, 2022 from Rs. 81.71 Cr as on March 31, 2021. As on June 30, 2022, the networth stood at Rs. 95.59 Cr. As on September 30, 2022, the company reported a capital adequacy ratio (CAR) of 26.13 percent comprising Tier 1 capital at 23.23 percent and Tier II capital at 2.90 percent. The company's leverage increased to 4.07 times as on March 31, 2022 from 3.48 times as on March 31, 2021.

MFIL reported a PAT of Rs. 10.49 Cr. in FY22 as against Rs. 8.39 Cr. in FY21. For Q1FY23, the company reported a PAT of Rs. 3.46 Cr. The RoAA and NIM as on FY22 stood at 2.45 percent and 10.17 percent as against 2.58 percent and 9.69 percent in FY21 respectively.

The company has a strong lender profile comprising Banks and Financial Institutions, with total debt outstanding of Rs. 343.64 Cr. with leverage of 3.59 times as on June 30, 2022. MFIL has demonstrated access to funding from both banks and large NBFC/FIs. As on June 30, 2022, MFIL has outstanding debt exposure from 17 NBFCs and 9 Banks (including public sector banks such as SBI and IOB) in the form of term loans, NCDs, sub-debt and CC facilities.

### **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 increase in its 90+ dpd (days past due) AUM increasing to Rs.17.17 Cr. (4.17 percent of AUM) as on March 31, 2022 from Rs.11.53 Cr. (3.58 percent of AUM) as on March 31, 2021. Further, the 90+ dpd increased to Rs. 21.76 Cr. (4.54 percent of AUM) as on September 30, 2022. The company's provision coverage ratio stood at 20.7 percent as on September 30, 2022.

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

### **Assessment of 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.

### **ESG Factors Relevant for Rating**

MFIL belongs to the NBFC sector which continues to complement the efforts of banks in enhancing small ticket retail lending in India. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. The entity has made adequate disclosures regarding its policies on related party transactions, vigil mechanism and whistle blowing. The board of directors consist of 4 independent directors out of a total of 9 directors. Audit Committee consists of 3 directors with majority of them being Independent Directors. In accordance with the guidelines issued by RBI, the entity has reinforced a Risk Management and mitigation mechanism that is responsible for identification, evaluation and mitigation of operational and strategic risks. MFL supports community development through CSR projects mainly aimed at promotion of education, infrastructure development, environmental sustainability, healthcare and social empowerment among other causes.

### **Rating Sensitivity**

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

### **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 percent.

### **Liquidity Position**

#### **Adequate**

MFIL's liquidity profile is adequate with no cumulative mismatches in individual buckets up in near to medium term based on the ALM statement as on June 30, 2022. Further, the company has liquidity buffers of Rs. 27.86 Cr. as on June 30, 2022 available in the form of cash and cash equivalents to support its liquidity.

### **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.

### Other Factors affecting Rating

None

### Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	479.19	375.69
Total Income*	Rs. Cr.	40.29	29.96
PAT	Rs. Cr.	10.49	8.39
Net Worth	Rs. Cr.	92.28	81.71
Return on Average Assets (RoAA)	(%)	2.45	2.58
Return on Average Net Worth (RoNW)	(%)	12.05	12.43
Debt/Equity	Times	4.07	3.48
Gross NPA	(%)	4.17	3.58
Net NPA	(%)	3.31	3.07

\*Total income equals to Net Interest Income plus other income.

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

None

### Any other information

None

### Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)



## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Aug 2021	Term Loan	Long Term	13.00	ACUITE BBB+(CE)   Stable (Assigned)
25 May 2021	Proposed Bank Facility	Long Term	13.00	ACUITE Provisional BBB+(CE)   Stable (Assigned)
30 Nov 2020	Cash Credit	Long Term	0.50	ACUITE BBB- (Withdrawn)
	Cash Credit	Long Term	19.00	ACUITE BBB- (Withdrawn)
	Proposed Bank Facility	Long Term	70.50	ACUITE BBB- (Withdrawn)
	Cash Credit	Long Term	5.00	ACUITE BBB- (Withdrawn)
	Cash Credit	Long Term	5.00	ACUITE BBB- (Withdrawn)
22 Jul 2020	Cash Credit	Long Term	5.00	ACUITE BBB-   Negative (Downgraded from ACUITE BBB   Stable)
	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	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	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)
	Cash Credit	Long Term	19.00	ACUITE BBB   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Hinduja Leyland Finance Ltd.	Not Applicable	Term Loan	Mar 31 2021 12:00AM	12.25	Mar 31 2024 12:00AM	Simple	13.00	ACUITE BBB+   CE   Stable   Reaffirmed

## Contacts

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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