Manba Finance Limited

March 10, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	230.08	CARE BBB+; Stable	Reaffirmed; Outlook revised from Negative
Non-Convertible Debentures	5.00	CARE BBB+; Stable	Reaffirmed; Outlook revised from Negative
Non-Convertible Debentures	10.83	CARE BBB+; Stable	Reaffirmed; Outlook revised from Negative

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the various debt instruments and bank facilities of Manba Finance Limited (MFL) continue to factor in experience of the management in two-wheeler (2W) financing, comfortable capitalization levels and improving profitability parameters. The rating remains constrained by moderate asset quality, muted business growth in FY22 with some traction in current fiscal year, continued geographical & product concentration, moderate resource profile of the company.

The rating has been from "negative" to "stable" on account of improvement in collection metrics from avg. 79% in FY22 to avg. 87% during 9MFY23 leading to improvement in the asset quality parameters as Gross NPA improved from 5.62% as on December 31, 2021 to 4.18% as on December 31, 2022.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could, individually or collectively, lead to positive rating action or upgrade

- Sustained scaling up of the business with significant growth in the loan book of the company while also maintaining healthy asset quality and profitability.
- Material improvement in the liquidity profile of the company with less dependence on the cash credit lines and diversification in the resource profile.

Negative factors: Factors that could, individually or collectively, lead to negative rating action or downgrade

- Continued deterioration in the GNPA beyond 4.5% on sustained basis.
- Lack of significant scale up in loan book over medium term.
- Weakness in profitability and/or capitalization profile with AUM to Tangible net-worth rising above 5 times.

Analytical approach: CARE Ratings has analysed the standalone credit profile of the company.

Outlook: Stable

The stable outlook reflects expectation of continued operational and financial position along with comfortable capitalization levels.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key strengths

Strong experience in 2-Wheeler financing

MFL has been in two-wheeler financing since 1996 having a vintage of 27 years, has gained considerable experience in this segment. Currently it has tie-ups with more than 500 dealers out of which approximately 250 are authorized dealers and the remaining are multi brand outlets (MBOs). The company has expanded its presence in Maharashtra, Gujarat, Rajasthan and Chattisgarh. The company now has its presence in 4 states across 54 locations as on January 2023. The company has now also started financing of used two-wheelers on a steady state basis, given its experience and knowledge in this industry. In addition to this, the company also offers top-up loans to its existing customers against the 2-wheeler financed.

Improvement in profitability parameters in current fiscal year

The profitability of the company stood stable in FY22 with PAT of Rs.9.43 crore on a total income of Rs.107 crore as against the PAT of Rs.9.07 crore on total income of Rs.106 crore in FY21 *(during FY22, the company adopted IND-AS and hence FY21 financial statements have been re-stated).* Consequently, Return on average total assets (ROTA) stood at 1.73% during FY22 (FY21: 1.70%).

However, the profitability saw improvement during 9MFY23 on account of highest ever disbursements of Rs.348 crore (FY22: Rs.313 crore) leading to PAT surpassing FY22 and stood at Rs.12.76 crore. As a result, ROTA also improved to 2.77% during 9MFY23 as against 1.66% during 9MFY22. Given the increasing interest rate environment, the Net Interest Margins (NIM) saw improvement from 10.90% in 9MFY22 to 11.21% in 9MFY23. Due to borrowings on fixed cost and increasing fund raising from Pass-through certificates (PTC), the increase in avg. cost of fund was not significantly impacted.

Given the improvement in 9MFY23 profitability, the FY23 is expected to end at a PAT comparatively higher than FY22. The sustainability of the improved profitability will remain a key monitorable.

Comfortable capitalization and gearing levels

The company continues to maintain healthy capitalization levels. As on March 31, 2022, total Capital Adequacy Ratio (CRAR) stood at 34.24% (entirely comprising of Tier 1 capital) as against 29.68% as on March 31, 2021. The current CRAR level is comfortable as against the regulatory requirement of 15% indicating sufficient capital cushion for business growth as well as to absorb losses (if any). Total debt of the company stood at Rs.394 crore as on March 31, 2022 as against Rs.376 crore as on March 31, 2021. Consequently, gearing stood at similar level at 2.63 times as on March 31, 2022 (2.68 times as on March 31, 2021). As on December 31, 2022, the CRAR of the company stood at 30.65% well above the regulatory requirement with gearing at 3.20 times. Post the capital infusion in FY20, there has been no further capital infusion till date. However, for fiscal 2024, the company plans to raise private equity of around Rs.75 crore-Rs.100 crore.

Key weaknesses

Average; albeit improving asset quality

The asset quality of the loan portfolio was impacted due to Covid-19 pandemic which impacted the earnings and cashflows of the customers. The asset quality started to deteriorate from Jun-21 with Gross NPAs at 6.88% and 5.21% as on September 30, 2021. Further as on December 31, 2021 Gross NPA stood at 5.62%. Though, in absolute terms, the Gross NPA numbers are increasing marginally q-o-q; due to increased base i.e the loan book size and the new IRCAP norms, the ratios seem to be improving post Dec-21 quarter. As on March 31, 2022, the Gross NPA of the company stood at 4.94% with further improvement as on December 31, 2022, as the Gross NPA ratio stood at 4.18% (based on new IRACP norms). Provision coverage for NPA stood at 16.41% leading to Net NPA at 3.52% as on December 31, 2022. There has been no restructuring of loans done by the company during FY21, FY22 as well as current fiscal. During FY22, the company did a write-off of Rs.2.97 crore and in 9MFY23 write-off stood at Rs.1.56 crore.

The company's effort for recovery of overdues and improving the asset quality on absolute basis will remain a key monitorable at least for next 2-3 quarters.

Muted growth in FY22; however, some traction seen in current fiscal year

The lending activity of the company started getting impacted since the beginning of the covid-19 i.e, Mar-2020 which gained traction during the festive season from Oct-2020. However, the second Covid-19 wave again impacted the disbursements for 1st 6 months of FY22. Given the loss of business opportunities, the AUM grew moderately and as on March 31, 2022 stood at Rs.489 crore as against Rs.484 crore as on March 31, 2021. Disbursements in the 9 months of current fiscal year improved as disbursements crossed FY22 levels. As a result, AUM stood at Rs.631 crore as on December 31, 2022.

Given the vintage of the company in the 2-wheeler financing industry, the scale of operation continues to remain moderate. The ability of the company to further grow and expand along with asset quality being maintained at a level which will not lead to an impact on the credit cost of the company will remain a key monitorable.

Geographical and product segment concentration

MFL has high reliance on monoline product segment. As on December 31, 2022, 95% of the AUM was concentrated towards 2-wheeler financing and balance was SME loan book. The company has discontinued the disbursements in SME segment and by FY24 end this segment is expected to run-down.

The company has its presence across 4 states: Maharashtra, Rajasthan, Gujarat and Chhattisgarh. The no. of locations also increased from 28 in FY22 to 50 in 9MFY23 (23 locations in Maharashtra, Gujarat-13, Rajasthan-7 and Chattisgarh-7). However, the portfolio continues to remain concentrated in the state of Maharshtra with 73.32% portfolio concentration (Mumbai contributing 57% of the portfolio) as on December 31, 2022. The concentration level has been coming down from 99% in FY19; it still remains concentrated in the state of Maharashtra, followed by Gujarat 23.55%. These two states together form 96.86% of the total portfolio, 2.49% in Rajasthan and 0.65% in Chhattisgarh.

The company's ability to diversify its geographic presence thereby reducing the concentration in the regions of Maharashtra will continue to remain a key monitorable.

Moderate resource profile

As on December 31, 2022, the total debt of the company stands at Rs.520 crore of which 49% comprises of term loans from NBFCs, 46% from banks and balance in the form of NCDs. Though the borrowing is well diversified between 26 lenders it is skewed towards higher dependency from NBFCs. The incremental borrowings were majorly raised through the NBFCs as it increased from Rs.130 crore as on March 31, 2021 to Rs.171 crore as on March 31, 2022 and Rs.256 crore as on December 31, 2022. A higher share of funding from NBFCs may affect the cost of borrowings for the company in an increasing interest rate scenarios. For 9MFY23, the avg. cost of funds stood at 12.56% as against 12.19% during 9MFY22 (FY22: 12.10%).
The company's ability to raise funds at competitive rates will remain critical going ahead.

Liquidity: Moderate

As on December 31, 2022, the asset-liability management statement of the company had no negative cumulative mismatches in any of the short-term buckets. As on January 31, 2023, the company had cash and bank balance of Rs.31.25 crore along with lien marked FD (for borrowings) of Rs.26.54 crore as against the debt repayment of Rs.60.35 crore (excluding PTC) for next 2 months. It also has undrawn sanctions worth Rs.15 crore in pipeline along with unutilized CC facility of Rs.7.24 crore.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non-Banking Financial Companies

About the company and industry

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non-Banking Financial Company (NBFC)

MFL is a Mumbai based RBI registered NBFC, engaged in two-wheeler (2W) financing in Mumbai. MFL started operations in 1996 and its business is concentrated in Mumbai and its surrounding region. It has tie ups with 600+ dealers. At present, the operations of the company are spread across four states- Maharashtra, Gujarat, Rajasthan and Chhattisgarh with total 54 locations. It has acquired the preferred financer tag for Suzuki, Yamaha, TVS, and Hero in its operating region. The company's day-to-day operations are headed by Mr. Manish Shah, Promoter & Managing Director. MFL is wholly owned by Mr. Manish Shah, in his individual capacity as well as through group companies/ relatives.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Total income	106	107	97.23
PAT	9.07	9.43	12.76
Interest coverage (times)	1.24	1.26	1.42
Total Assets (net of deferred tax assets and intangible assets)	525	562	706
Gross NPA (%)	2.57	4.94	4.18
ROTA (%)	1.70	1.73	2.77

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bank Facilities-Term Loan Long Term	-	-	-	07-12-2025	170.08	CARE BBB+; Stable
Bank Facilities-Fund-based - LT-Cash Credit	-	-	-	-	60.00	CARE BBB+; Stable
Non-Convertible Debentures	INE939X07028	07-08-2020	10.60%	07-08-2023	2.50	CARE BBB+; Stable
Non-Convertible Debentures	INE939X07044	25-03-2021	12.60%	25-03-2023	5.00	CARE BBB+; Stable
Non-Convertible Debentures (Proposed)	-	-	-	-	8.33	CARE BBB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long Term	LT	170.08	CARE BBB+; Stable	-	1)CARE BBB+; Negative (25-Mar-22)	1)CARE BBB+; Negative (26-Mar-21) 2)CARE BBB+; Negative (03-Sep-20)	1)CARE BBB+; Stable (24-Mar-20) 2)CARE BBB+; Stable (05-Apr-19)
2	Fund-based - LT-Cash Credit	LT	60.00	CARE BBB+; Stable	-	1)CARE BBB+; Negative (25-Mar-22)	1)CARE BBB+; Negative (26-Mar-21) 2)CARE BBB+; Negative (03-Sep-20)	1)CARE BBB+; Stable (24-Mar-20) 2)CARE BBB+; Stable (05-Apr-19)
3	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	1)Withdrawn (25-Mar-22)	1)CARE A2 (26-Mar-21) 2)CARE A2 (03-Sep-20)	1)CARE A2 (24-Mar-20)
4	Debentures-Non Convertible Debentures	LT	5.00	CARE BBB+; Stable	-	1)CARE BBB+; Negative (25-Mar-22)	1)CARE BBB+; Negative (26-Mar-21) 2)CARE BBB+; Negative (03-Sep-20) 3)CARE BBB+; Stable	-

							(22-Jun-20)	
5	Debentures-Non Convertible Debentures	LT	10.83	CARE BBB+; Stable	-	1)CARE BBB+; Negative (25-Mar-22)	1)CARE BBB+; Negative (26-Mar-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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