# Manba Finance Limited
**September 03, 2020**

**Ratings**

| Instrument | Amount (Rs. crore) | Existing Rating[1] | Rating Action |
|---|---|---|---|
| Bank Loan Facilities – Term Loan | 173.73 (Rs One hundred seventy three crore and seventy three lakh only) | CARE BBB+; Negative (Triple B Plus; Outlook: Negative) | Rating reaffirmed and outlook revised from Stable to Negative |
| Bank Loan Facilities – Cash Credit | 78.50 (Rs Seventy eight crore and fifty lakh only) | CARE BBB+; Negative (Triple B Plus; Outlook: Negative) | Rating reaffirmed and outlook revised from Stable to Negative |
| Non-Convertible Debentures | 10.00 (Rs Ten crore only) | CARE BBB+; Negative (Triple B Plus; Outlook: Negative) | Rating reaffirmed and outlook revised from Stable to Negative |
| Commercial Paper | 10.00 (Rs Ten crore only) | CARE A2 (A two) | Rating Reaffirmed |

Details of instruments / facilities given in **Annexure – 1**

**Detailed Rationale and Key Rating drivers**

The ratings assigned to the various instruments of Manba Finance Limited (MFL) continue to factor in experience of the management in two-wheeler (2W) financing, healthy business growth and profitability, robust asset quality parameters, comfortable capitalization and gearing levels. The rating is constrained by relatively modest scale of operations, borrower concentration**,** lack of product diversification as well as geographical concentration, albeit expansion in certain geographies and tight liquidity and moderate resource profile of the company. Business growth, liquidity, concentration risk and asset quality are the key rating sensitivities. The Company's ability to raise funds at competitive rates and improve its liquidity, along with maintaining robust profitability and resilient asset quality shall also act as the key rating sensitivities.

**Rating sensitivities**

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

- Sustained scaling up of business over the medium term
- Material improvement in the liquidity profile of the company with resource raising ability and diversification in the same

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

- Inability to raise debt at competitive prices for funding business needs and maintaining adequate liquidity
- Deterioration in profitability; ROTA dropping below 0.5% for consecutive quarters
- Deterioration in asset quality – Gross NPA more than 3% on a sustained basis
- Overall gearing exceeding 5x

**Outlook: Negative**

The outlook is revised to 'Negative' from 'Stable' mainly on account of moderation in liquidity profile due to challenges in raising fresh funds at competitive rates coupled with potential COVID impact on the asset quality & collection metrics going forward. The company had cash & bank balances(unencumbered) of Rs 5.23 crores along with Rs 41.34 crores of cash credit facilities as on August 18,2020 with debt obligations of Rs 56.06 crores in the next 3 months. The lower cash balances in relation to upcoming debt obligations coupled with dependence on unutilized bank/CC facilities as well as the company's inability to raise debt at competitive prices may lead to liquidity challenges going forward. The company's ability to maintain robust profitability amidst muted growth environment as well as higher interest expense and credit cost shall be a key monitorable. The outlook may be revised to 'Stable' if the company is able to raise fresh funds at competitive rates, improve its liquidity profile while maintaining robust asset quality and adequate profitability in the next 2-3 quarters.

**Detailed description of Key Rating Drivers**

**Key Rating Strengths**

**Strong Experience in Two Wheeler Financing**

MFL has been in two-wheeler financing since 1996 and has gained good experience in this segment. Currently it has tie-ups with more than 650+ dealers out of which approximately 250 are authorised dealers and the remaining are multi brand outlets (MBOs). The company is aggressively expanding its presence in Maharashtra, Gujarat and Rajasthan. The company expanded its operations from Borivali to Boisar in Western Mumbai, Thane to Vasai, Bhivandi and Shahapur in Central Mumbai and Kharghar to Panvel in Navi Mumbai. Branches at Pune, Nashik, Ahmedabad and Surat have been commenced in FY19, and are fully operational. The company now has its presence in 24 locations as on March 31,2020.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

**Healthy business growth**

MFL has seen sizeable increase in its disbursements during the last 2 years where its loan portfolio grew by 56% in FY19 and 13% during FY20 enabling it to reach a loan portfolio of Rs.511.59 crore as on March 31, 2020 from Rs. 290.59 crore in FY18. MFL's loan book predominantly comprised of two wheelers loans (91% of the loan portfolio as on March 31, 2020).

**Stable profitability**

During FY20, MFL reported Profit After Tax (PAT) of Rs.18.20 crore on total income of Rs.118.50 crore as compared to PAT of Rs.14.35 crore on total income of Rs.90.33 crore during FY19. MFL's last 3 years ROTA lies in the narrow range of 1.49% in FY18 to 1.72% in FY19 (FY20: 1.74%) indicating stable profitability over the years. Opex/ Avg. Total Assets increased from 8.12% in FY19 to 8.36% in FY20 as the company expanded its dealer network as well as diversified operations in Gujarat, Rajasthan and increased penetration in cities other than Mumbai.

**Robust asset quality**

MFL's asset quality parameters continue to be healthy. The company follows stringent collection practices whereby legal actions are initiated once the customers overdue exceed 90 dpd. An auction is conducted for the bidding process; the highest bidder is sold the repossessed vehicle. The loss borne by the company averages between Rs. 8,000-10,000 per vehicle including repossession costs. As on March 31, 2020, GNPA and NNPA stood at Rs.7.12 crore and Rs.6.14 crore, with GNPA % increased from 1.15% in FY19 to 1.39% in FY20 and NNPA % increased from 1.0% in FY19 to 1.20% in FY20. However, MFL's exposure to two wheeler loans is not immune to COVID lock down. While the collections have improved over the last 3 months, the trend in asset quality shall be key monitorable.

**Comfortable capital adequacy & gearing levels**

The company continues to maintain healthy capitalization levels. As on March 31, 2020, the total CAR improved to 26.10% (entirely comprising of Tier I capital) from 22.33% as on March 31, 2019 on the back of infusion of capital by the promoters and internal accruals. The company had total capital infusion of Rs.15 crores in FY19 whereas during FY20, promoter infused Rs.18.77 crore. Total debt of the company increased from Rs.372.1 crore in FY19 to Rs.394.1 crore in FY20. As on March 31, 2020, the overall gearing improved to 2.91x vis-à-vis 3.60x as on March 31, 2019.

**Key Rating Weaknesses**

**Small size of operations**

Though MFL's business volumes have improved, its scale of operations continues to remain moderate. As on March 31, 2020, the company's loan portfolio and balance sheet size stood at Rs.511.59 crore and Rs.540.90 crore, respectively as compared to Rs454.43 and Rs 505.09 crores as on March 31,2019. The company had made disbursements of Rs. 328 crores in FY19 and Rs. 293 crores during 9MFY20. MFL had disbursements of Rs 22.5 crores during June & July 2020.

**Low product diversification & regional concentration, albeit expansion in certain geographies**

MFL is primarily engaged in financing of 2 wheelers in and around Mumbai region, which has resulted in product and geographic concentration. MFL has presence at 12 locations in Maharashtra, 11 locations in Gujarat and 1 location in Rajasthan. Branches at Pune, Nashik, Ahmedabad and Surat have been commenced in FY19, as the company is expanding its presence in the primary districts of Maharashtra, Gujarat, and Rajasthan. The company currently has presence in 24 locations, with the plan of opening up of branches in FY21 covering Rajasthan, Gujarat and additional branches in Maharashtra. However, in view of the current uncertainty owing to the COVID pandemic, business expansion is expected to be muted for FY21.

**Borrower Concentration**

MFL faces concentration risk in its other loans portfolio comprising of big ticket loans to parties known to the promoter or SME loans to authorised dealers. As on March 31, 2020, top 10 loans constituted 74.05% of other loans portfolio [P.Y.: 61.18%] and 25.27% of net-worth [P.Y.: 29.88%].

**Tight liquidity and moderate resource profile**

As on July 31, 2020, the Company had debt obligations amounting to Rs.75.09 crore falling due in the next 4 months (i.e. August, September, October and November) against which it had Cash and Bank balances (unencumbered) of Rs.5.23 crore along with available CC limit of Rs.41.3 crore as on August 18, 2020. The company remains dependent on unutilized cash credit facilities from banks to support its liquidity position. The Company's liquidity profile is marked with tightly matched accruals and liquidity buffers to cover debt repayments and interest due in the next 9 months. However, the company's collection efficiency improved from 62% in April 2020 to about 82% in July 2020 and it further expects collections to improve in the coming months. The company has received moratorium from four of its lenders till August 2020 and has offered moratorium to 28% of its customers for the month of July 2020. The company's ability to raise adequate debt at competitive pricing shall be a key rating sensitivity.

MFL's major source of external funding has been bank borrowings and loans (unsecured) from promoters and relatives. The promoters along with the relatives have consistently provided support in the form of (unsecured) loans to fund operations which stood at Rs.47.30 crore as on March 31, 2020. The outstanding amount of secured and unsecured NCDs reduced from Rs.32 crores as on March 31, 2019 to Rs.22 crores as on March 31, 2020. Also, during FY20, the company raised funds through securitization transaction amounting to Rs.28.69 crore.

**Analytical approach:** Standalone

**Liquidity profile – Stretched**

As on July 31, 2020, the Company has debt obligations amounting to Rs.75.09 crores falling due in the next 4 months (i.e. August, September, October and November) against which it had Cash and Bank balances (unencumbered) of Rs.5.23 crores along with available CC limit of Rs. 41.3 crore as on August 18, 2020. The company remains dependent on Cash credit facilities from banks to support its liquidity position. The Company's liquidity profile is marked with tightly matched accruals and liquidity buffers to cover debt repayments and interest due in the next 9 months. However, the company's collection efficiency improved from 62% in April 2020 to 81.62% in July 2020 and expects collections to increase in the coming months. The company's ability to raise adequate debt at competitive pricing shall be key rating sensitivity. The company has received moratorium from 4 lenders till August 2020 and has offered moratorium to 28% of its customers for the month of July 2020.

**Applicable Criteria**

Criteria on assigning Outlook to Credit Ratings
CARE's policy on default recognition
Financial Ratios- Financial Sector
CARE's Criteria for NBFC
Criteria for Short term Instruments

**About the company**

Manba Finance Ltd. (MFL) is a Mumbai based small sized 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 650+ dealers. Branches are at Vasai, Pune, Nashik, Karad, Satara, Ahmedabad and Surat as the company is expanding its presence in the primary districts of Maharashtra and Gujarat. It has acquired the preferred financer tag for Suzuki, Yamaha, TVS, Piaggio and UM 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 (Rs. crore) | FY19 (A) | FY20 (A) |
|---|---|---|
| Total income | 90.33 | 118.50 |
| PAT | 14.35 | 18.20 |
| Interest coverage (times) | 1.61 | 1.48 |
| Total Assets | 505.09 | 540.90 |
| Net NPA (%) | 1.00^ | 1.20^ |
| ROTA (%) | 1.72 | 1.74 |

A: Audited; All ratios are as per CARE calculations
^Based on 90+DPD

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

## Annexure – 1: Details of instruments / facilities

| Name of the Instrument | Date of Issuance | ISIN | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Term Loan-Long Term | - | - | - | - | 173.73 | CARE BBB+; Negative |
| Fund-based - LT-Cash Credit | - | - | - | - | 78.50 | CARE BBB+; Negative |
| Commercial Paper | - | - | - | Up to one year | 10.00 | CARE A2 |
| Non-Convertible Debentures | - | INE939X07028 | 10.60% | 07.08.2023 | 10.00 | CARE BBB+; Negative |

## Annexure – 2: Rating history of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Term Loan-Long Term | LT | 173.73 | CARE BBB+; Negative | - | 1)CARE BBB+; Stable (24-Mar-20)<br><br>2)CARE BBB+; Stable (05-Apr-19) | 1)CARE BBB+; Stable (05-Jun-18)<br><br>2)CARE BBB+; Stable (06-Apr-18) | - |
| 2. | Fund-based - LT-Cash Credit | LT | 78.50 | CARE BBB+; Negative | - | 1)CARE BBB+; Stable (24-Mar-20)<br><br>2)CARE BBB+; Stable (05-Apr-19) | 1)CARE BBB+; Stable (05-Jun-18)<br><br>2)CARE BBB+; Stable (06-Apr-18) | - |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 3. | Commercial Paper | ST | 10 | CARE A2 | - | 1)CARE BBB+; Stable (24-Mar-20) | - | - |
| 4. | Proposed Non-Convertible Debentures | LT | 10 | CARE BBB+; Negative | 1)CARE BBB+; Stable (22-Jun-20) | | | |

**Annexure 3: Complexity level of various instruments rated for this company**

| Sr. No | Name of Instrument | Complexity Level |
|---|---|---|
| 1 | Long Term Bank Lines | Simple |
| 2 | Debentures-Non Convertible Debentures | Simple |
| 3 | Commercial Papers | Simple |

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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