

Press Release

Manba Finance Limited

April 26, 2021

Rating Assigned



Total Facilities Rated*	Rs. 265.00 Cr.
Long Term Rating	ACUITE A-/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 265.00 Cr. Bank Facilities of Manba Finance Limited. The outlook is '**Stable**'.

The rating factors in MFL's experienced promoters and established presence in the two wheeler financing segment which has enabled the company to grow its Assets under Management (AUM) from Rs. 289.09 Cr. as on March 31, 2018 to Rs. 537.56 Cr. as on December 31, 2020. The rating also factors in the company's diversified funding profile, adequate capitalization levels supported by overall Capital Adequacy Ratio of 27.99 percent and gearing of 2.65x as on December 31, 2020. MFL has been reporting Monthly Collection Efficiency (inclusive of Overdue Collections) of more than 100% post September 2020 which has helped company in maintaining comfortable asset quality metrics, Gross Non-Performing Assets (GNPA) of 1.81 percent as on December 31, 2020. The company's moderate profitability metrics as characterized by annualized ROAA of 2.43 percent and NIM of 10.2 percent during 9MFY2021.

The rating is constrained due to product concentration of the portfolio and modest scale of company's operations. Further, geographical concentration risk continues to weigh on credit profile of the company which might be exacerbated by another round of possible Covid induced lockdowns and economic disruptions. Going forward the ability of company to profitably scale up its operations, diversify its product portfolio while maintaining asset quality will be key monitorables.

About the company

Manba Finance Limited (MFL) is a Mumbai based Non-Deposit Taking Non-Banking Finance Company (ND-NBFC), founded by Mr. Manish Shah in 1996. The company is engaged in Two-wheeler financing and has also forayed into Personal Loans and Inventory Funding for its dealers. The company has built relations with over 500 dealers. As on December 31, 2020, MFL has operations in 3 states, namely Maharashtra, Gujarat, & Rajasthan with a network of 24 branches.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of MFL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced promoters and Established presence in two-wheeler financing**

MFL has an established presence of over two decades in two-wheeler financing. MFL was founded and promoted by Mr. Manish Shah, having vast experience in the field of two-wheeler financing. Entire shareholding of the company is held by the promoter and promoter group entities. The company commenced its operations in Mumbai and has expanded its operations to other parts of Maharashtra, Gujarat and Rajasthan with a network of 24 branches as on December 31, 2020. Over the years, the company has built relations with over 600 dealers and has acquired the preferred financier tag for Suzuki, Yamaha, TVS, Piaggio and Hero in its operating region.

MFL's Assets under Management (AUM) increased to Rs. 537.56 Cr. as on December 31, 2020 and Rs. 531.95 Cr. as on March 31, 2020 from Rs. 289.09 Cr. as on March 31, 2018. Of the overall AUM as on December 31, 2020, two-wheeler financing comprised ~91 percent and the balance 9 percent comprised of personal loans and Inventory Funding to dealers. The growth in the AUM is supported by way of diversified funding profile and equity infusions by the promoter group at regular intervals.

Acuité believes that MFL's business profile will continue to benefit from the established presence in the area of operations backed by promoter experience.

• **Diversified resources profile**

MFL's capitalization remained comfortable with overall Capital Adequacy Ratio (CAR) of 27.99 percent as on December 31, 2020 as compared to 26.24 percent as on March 31, 2020, comprising of Tier I Capital only. The capitalisation levels are supported by way of Equity Infusion by promoter group at regular intervals and internal accruals. In FY2020, the company raised Rs.15 Cr. via Rights Issue from promoter group. The company has comfortable capitalization levels to support the growth prospects in medium term.

As on December 31, 2020, MFL's borrowing mix comprises of funding raised by way of Term Loans (Secured & Unsecured) (84.79 percent), NCDs (Secured & Unsecured) (5.29 percent) and Cash Credit (9.92 percent). As on December 31, 2020, the company's net worth stood at Rs. 145.96 Crore against the outstanding debt of Rs. 386.16. The gearing of the company has improved from 3.58x as on March 31, 2019 to 2.90x as on March 31, 2020 and further to 2.65x as on December 31, 2020. Over the years, MFL has built relationships with 15 bankers and Financial Institutions. During current year, the company has been able to raise sufficient borrowings of Rs. 206.34 Crore by way of Term Loans, NCDs, PTCs, CP to support its business operations.

Acuité believes that MFL's growth prospectus will be supported by comfortable capitalization levels and ability to attract funding from bankers/financial institutions.

• **Stable Asset Quality**

MFL is primarily engaged in the financing of two-wheeler for average 22 months. MFL's AUM stood at Rs. 537.56 Cr. as on December 31, 2020. The company's asset quality shows signs of sustenance during the pandemic. Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA) stood at 1.81 percent and 1.57 percent as on December 31, 2020 as against 1.55 percent and 1.33 percent as on March 31, 2020. MFL lends to salaried individuals and self-employed individuals for day-to-day usage, which has helped the company maintain comfortable asset quality post moratorium. Though overall collection efficiency has been impacted due to pandemic, the month-on-month collection efficiency has been showing an uptrend. MFL has been reporting Monthly Collection Efficiency (inclusive of Overdue Collections) of more than 100% post September 2020.

Acuité believes that MFL's ability to maintain stable asset quality in the light of continuously evolving economic scenario will be key monitorable.

• **Moderate Earning Profile though improving**

Over the last few years, MFL's portfolio has increased significantly owing to growth in two-wheeler loans. The company's Asset under Management (AUM) has increased from Rs. 289.09 Cr. as on March 31, 2018 to Rs. 531.95 Cr. as on March 31, 2020 and to further Rs. 537.56 Cr. as on December 31, 2020. In order to expand its portfolio and reach, the company has been incurring higher operating expenses for branch and staff expansion. MFL's branch network increased from 3 branches as on March 31, 2018 to 24 as on December 31, 2020. As a result operating expenses to Earning Assets ratio increased to 7.39 percent as on March 31, 2020 as compared to 6.77 percent as on March 31, 2019. Higher operating expenses coupled with rise in credit costs have impacted the company's profitability. However, despite some moderation during FY2020 and 9MFY2021, the company has healthy profitability metrics, The Net Interest Margin (NIMs) and Return on Average Assets (ROAA) have moderated to 10.2 percent and 2.41 percent respectively as on December 31, 2020 as compared to 14.13 percent [P.Y.: 14.96percent] and 3.36 percent [P.Y.: 2.83 percent] respectively as on March 31, 2020.

Acuité believes that going forward ability of the company to grow its loan portfolio while improving its profitability will be key monitorable.

Weaknesses

• **Geographically Concentrated Portfolio**

MFL commenced its operations in 1996 in the Mumbai region. MFL gradually expanded to other states in Western India, namely, other parts of Maharashtra, Gujarat and Rajasthan. As on December 31, 2020, MFL has a network of 24 branches. While MFL expanded to other geographies, Maharashtra constituted ~90 percent of the total AUM as on December 31, 2020 as compared to ~94 percent as on March 31, 2020; followed by Gujarat (9 percent), and Rajasthan (1 percent). The Top 3 branches constitute ~95 percent of the total AUM. Thus, the company's performance is expected to be sensitive to the competitive landscape in these regions and the occurrence of events such as Covid induced lockdowns, economic disruptions and natural calamities, which may adversely impact the credit profile of the borrowers. The company has plans to expand its operations in newer geographies which is expected to improve portfolio diversification in the medium term.

Acuite believes that geographical concentration coupled with moderate earning profile will continue to weigh on the company's credit profile.

Liquidity Position: Adequate

The company had adequate liquidity position with unencumbered Cash and Bank Balances of Rs. 7.25 Cr. and unutilized working capital limits of Rs. 58.19 Cr. as on March 01, 2021. MFL's monthly collections comprises of EMI collections in the range of Rs. 30 to 35 Cr. and prepayments by borrowers against which the company has estimated debt servicing obligations of ~Rs. 25 Cr. The monthly collection efficiency (inclusive of overdue collection) has been more than 100 percent over the last few months. The liquidity profile is further supported by fresh sanctions of Term Loans received in FY2021 (Till February 28, 2021) of Rs. 206.34 Cr. in the form of Term Loans, NCDs and PTCs.

Rating Sensitivities

- Growth in AUM while maintaining asset quality
- Improvement in Earnings Profile
- Changes in Regulatory environment
- Dilution of promoter stake

Material Covenants

MFL is subject to covenants stipulated by its lenders in respect of various parameters. As per confirmation received from client, vide mail dated March 24, 2021. 'The company is complying with the material covenants imposed by its lenders.'

Outlook: Stable

Acuite believes that MFL will benefit from its experienced promoters and established presence in the two-wheeler financing segment, comfortable asset quality and diversified funding profile. The outlook may be revised to 'Positive' if there is significantly higher than expected growth in AUM while maintaining asset quality and improving profitability metrics. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in asset quality and profitability parameters.

About the Rated Entity - Key Financials

	Unit	FY20 Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	540.90	506.49
Total Income*	Rs. Cr.	68.27	55.75
PAT	Rs. Cr.	18.20	14.35
Net Worth	Rs. Cr.	135.98	103.73
Return on Average Assets (RoAA)	(%)	3.47	3.41
Return on Average Net Worth (RoNW)	(%)	15.24	16.28
Debt/Equity	Times	2.90	3.58
Gross NPA	(%)	1.55	1.15
Net NPA	(%)	1.33	1.00

*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

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

None

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Term Loan	25.02.2021	12.50%	25.08.2023	25.00	ACUITE A-/Stable (Assigned)
Cash Credit	13.07.2020	12.50%	Not Applicable	5.00	ACUITE A-/Stable (Assigned)
Cash Credit	30.12.2019	11.15%	Not Applicable	26.50	ACUITE A-/Stable (Assigned)
Cash Credit	06.02.2019	11.15%	Not Applicable	26.50	ACUITE A-/Stable (Assigned)
Cash Credit	03.08.2017	11.55%	Not Applicable	20.00	ACUITE A-/Stable (Assigned)
Overdraft	19.12.2019	10.40%	Not Applicable	0.50	ACUITE A-/Stable (Assigned)
Overdraft	31.12.2019	13.00%	Not Applicable	0.50	ACUITE A-/Stable (Assigned)
Term Loan	30.06.2018	10.04%	18.08.2021	2.00	ACUITE A-/Stable (Assigned)
Term Loan	18.12.2018	12.50%	01.02.2022	11.25	ACUITE A-/Stable (Assigned)
Term Loan	18.09.2019	13.50%	18.02.2023	24.00	ACUITE A-/Stable (Assigned)
Term Loan	31.12.2020	13.00%	30.09.2023	30.00	ACUITE A-/Stable (Assigned)
Term Loan	01.10.2020	12.75%	01.04.2023	22.12	ACUITE A-/Stable (Assigned)
Term Loan	19.12.2019	10.40%	30.06.2021	0.56	ACUITE A-/Stable (Assigned)
Term Loan	19.12.2019	10.40%	30.06.2022	4.40	ACUITE A-/Stable (Assigned)
Term Loan	22.03.2018	11.60%	22.06.2022	3.14	ACUITE A-/Stable (Assigned)
Term Loan	12.02.2019	10.45%	01.12.2021	3.93	ACUITE A-/Stable (Assigned)
Term Loan	30.04.2019	11.47%	31.01.2022	8.00	ACUITE A-/Stable (Assigned)
Term Loan	28.08.2020	11.75%	31.08.2022	4.50	ACUITE A-/Stable (Assigned)
Term Loan	25.06.2019	9.74%	03.01.2022	3.67	ACUITE A-/Stable (Assigned)

Term Loan	06.08.2019	12.00%	04.12.2022	9.80	ACUITE A-/Stable (Assigned)
Term Loan	31.10.2019	13.50%	31.10.2021	3.64	ACUITE A-/Stable (Assigned)
Term Loan	24.01.2020	10.86%	03.02.2022	5.00	ACUITE A-/Stable (Assigned)
Term Loan	12.06.2020	10.86%	03.07.2022	2.50	ACUITE A-/Stable (Assigned)
Term Loan	13.11.2020	12.60%	31.12.2022	13.75	ACUITE A-/Stable (Assigned)
Term Loan	07.08.2020	10.60%	07.08.2023	8.33	ACUITE A-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.41	ACUITE A-/Stable (Assigned)

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About Acuité Ratings & Research:

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