

**Press Release**

**Manba Finance Limited**

**January 07, 2022**



**Rating Assigned and Reaffirmed**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Bank Ratings</b> Loan	265.00	ACUITE A-   Negative   Reaffirmed   Stable to Negative	
<b>Bank Ratings</b> Loan	20.00	Provisional   ACUITE A   CE   Stable   Assigned	
<b>Total</b>	285.00	-	-

**Rating Rationale**

Acuite has assigned a long-term rating of '**ACUITE PROVISIONAL A (CE)**' (read as **ACUITE Provisional A (Credit Enhancement)**) on the Rs.20.00 Cr. of proposed term loan facilities with Partial Credit Enhancement of Manba Finance Limited. The outlook is '**Stable**'. Acuite has reaffirmed a long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) to the Rs 265.00 Cr. bank facilities of Manba Finance Limited. The outlook is revised from '**Stable**' to '**Negative**'.

**Reason for Outlook Revision**

The revision in outlook is on account of increased delinquencies and relatively low collection rate. As on Nov 30, 2021, MFL's GNPA stood at 5.83 percent (2.59 percent as on March 31, 2021) with on time portfolio being 82.05 percent (84.58 percent as on March 31, 2021). Owing to the low fresh disbursements, the AUM declined to Rs 464.32 Cr as on September 30, 2021 from Rs 531.05 Cr as on March 31, 2021. While Acuite takes cognizance of uptick in disbursements and some improvement in delinquencies post September 2021, the quantum of GNPA's and delinquencies in softer buckets continues to remain high. Further, the company has low credit provisioning buffer which might impact its profitability in the event of continued Covid-19 led disruptions. MFL's NNPA stood at 4.92 percent as on Nov 30, 2021 as against 2.24 percent as on March 31, 2021 while its provision cover stood at low 15.60 percent as on Nov 30, 2021. Any further slippages shall require higher provisioning thereby impacting the profitability. During FY21, the company's reported PAT declined to Rs.11.37 Cr. vis a vis Rs.18.20 Cr in the previous year [H1FY22 PAT: Rs.4 Cr.].

The rating continues to factor in MFL's experienced management and operational track record. The rating is further supported by comfortable capitalization levels marked by 36.01 percent with Tier 1 capital only as on Sept 30, 2021 (28.84 percent as on March 31, 2021). Acuite also takes note of the improvement in the gearing levels of MFL which stood at 1.99 times as on Sept 30, 2021 (provisional) as against 2.56 times as on March 31, 2021 While the company's future liquidity position will hinge upon the company's ability to raise resources while continuing to achieve optimal portfolio collections. The rating is further constrained by the company's geographically concentrated operations in Maharashtra (~90 percent of the overall portfolio) as on Nov 30, 2021. Going forward, the company's ability to raise capital (both equity & debt), maintain capitalization & liquidity buffers, improve portfolio while containing delinquencies across different time buckets and its resultant impact on profitability metrics would remain key monitorables.

The Rs 20.00 Cr proposed term loan facilities have Partial Credit Enhancement (PCE) in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc (Credit

Enhancer/ Guarantor) covering 15 percent of the initial principal value of facilities. The level of guarantee as a percentage of the aggregate outstanding principal of facilities is capped at 25 percent. Additionally, the facilities have security by way of a first ranking, exclusive and continuing charge on identified receivables with 110 percent margin in favour of Trustee. MFL shall make payments of interest and principal amounts due along with all other obligations (if

any) under the Transaction Document by T-5 business days. In case of non-payment by MFL, the Trustee shall invoke the PCE.

The rating on the Rs 20.00 Cr facilities is provisional and the final rating is subject to execution of following documents:

1. Deed of guarantee
2. Trust Deed
3. Deed of hypothecation

### **About Manba Finance Limited**

Incorporated in 1996, Mumbai based Manba Finance Ltd (MFL) is a RBI registered Non Deposit taking Non-Banking Finance Company (ND-NBFC), founded by Mr. Manish K Shah. The company is engaged in Two-Wheeler Financing, Used Two-Wheeler Financing and Used Car Financing. The company has also forayed into Personal Loans and Inventory Funding for 2-wheeler dealers. MFL has presence in 3 states namely Maharashtra, Gujarat & Rajasthan with a network of 26 Branches as on Sept 30, 2021.

### **About Northern Arc Capital Limited (“Northern Arc”)**

Northern Arc Capital Ltd, 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 caters to a wide range of NBFCs engaged in microfinance, affordable housing finance, commercial vehicle finance, consumer finance, agri-finance and small business loans, and non-finance sector exposure, i.e., midmarket 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 gearing increased to 2.53 times as on March 31, 2021 as compared to 1.96 times as on March 31, 2020.

### **Analytical Approach**

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

Accounting for the Partial Credit Enhancement, Acuité has enhanced the rating of the facility to ACUITE Provisional A (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.

MFL's standalone (unsupported) rating: **ACUITE A-/ Negative**

### **Key Rating Drivers**

#### **Strengths**

#### **Strength of underlying structure for the Rs 20.00 Cr proposed term loan**

The transaction has a PCE in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 15 percent of the issue size of the facilities. The level of

guarantee as a percentage of the aggregate outstanding principal of the facilities is, however, capped at 25 percent.

If due to the amortisation of the facilities, the credit enhancement percent exceeds 25 percent of the aggregate outstanding principal of the facilities, the Guarantee Cap shall be reduced to 25 percent of the aggregate outstanding principal of the facilities (Revised Guarantee Cap).

The structure envisages that if the rating of MFL reaches A at a standalone level, the Credit Enhancement percent shall completely fall off. This will be subject to rating of the facility being maintained at A post the guarantee falls off.

MFL shall make payments of interest and principal amounts due along with all other obligations (if any) under the Transaction Document on T-5 business days. In the event of failure of the Issuer to comply, on T-4 Business Days, the Trustee shall invoke the PCE and the credit enhancement shall be dipped on T-1 Business days.

The facilities shall be secured by way of a first ranking, exclusive and continuing charge on identified receivables. The Hypothecated Receivables shall at all times be equal to the value of 1.1 times the outstanding amounts of the facility.

In case of Issuer rating (as per Rating Agency's view) downgrade to below BBB+, the borrower and the guarantors shall transfer the collections from the security pool to the lender by 4 PM IST on T-5 Business Days.

Acuité believes that the structure provides adequate covenants to safeguard the interest of the investors.

### **Experienced Promoter 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 26 branches as on Sept 30, 2021. 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) stood at Rs 501 Cr. as on Sept 30, 2021. Of the overall AUM 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.

### **Comfortable Capitalization with low gearing Levels**

The company's capitalization remained comfortable with overall Capital Adequacy Ratio (CAR) of 36.01 percent consisting of Tier I capital only as on Sept 30, 2021 (28.84 percent as on March 31, 2021). The capitalization levels are supported by way of Equity Infusion by promoter group at regular intervals and internal accruals. As on Sept 30, 2021 (provisional), the company's net worth stood at Rs. 151.35 Cr. against the outstanding debt of Rs. 301.69 Cr. As on Sept 30, 2021 (provisional), the overall gearing improved to 1.99 times from 2.90 times as on March 31, 2020.

The company has established relationships with ~25 lenders, public and private sector banks and financial institutions. MFL's borrowing mix comprises of funding raised by way of Term Loans (Secured & Unsecured), NCDs (Secured & Unsecured) and Cash Credit. During H1FY22, the company has been able to raise sufficient borrowings of Rs. 192.07 Cr. by way of Term Loans, PTCs, and Commercial Paper to support its business operations. Additionally, the company maintains adequate liquidity in the form of sufficient cash and bank balance of Rs. 26.38 Cr. as on Sept 30, 2021 (provisional) to meet its funding requirements.

Acuité expects the company to sustain its financial position on the back of its healthy capitalization buffers and maintaining a prudent capital structure.

## **Weaknesses**

### **Increasing Delinquencies and Impact on Profitability.**

The outbreak of the COVID-19 and the intermittent lockdowns have significantly impacted the operations. The business activities of the borrowers have been impacted, affecting the cash flows and thereby impacting the asset quality, and the collection efficiency. The logistical challenges in reaching out to the borrowers for collections have disrupted the operations.

Given the challenges, the delinquencies have increased and the company reported 90+DPD at 5.83 percent as on Nov 30, 2021 as against 2.59 percent as on March 31, 2021 (1.55 percent as on March 31, 2020). The company also reported higher delinquencies in the softer buckets (30-90 DPD). The NNPA stood at 4.92 percent as on Nov 30, 2021 which has increased from 2.24 percent March 31, 2021 resulting in low Provision Coverage Ratio (PCR) of 15.60 percent as on Nov 30, 2021. Any further slippages shall require higher provisioning thereby impacting the profitability. While the company's current collections have been improving since Q3FY2022 on account of sale of repossessed vehicles, the same is expected to remain uncertain in the near term owing to the pandemic.

Significant decline in disbursements, asset quality stress have altogether impacted the profitability. MFL's Profit after Taxes (PAT) declined to Rs 11.37 Cr for FY2021 from Rs. 18.20 Cr for FY2020. For H1FY22, PAT stood at Rs. 4 Cr. The Net Interest Margin (NIMs) and Return on Average Assets (ROAA) have moderated to 12.73 percent as on Sept 30, 2021 (annualized) (13.60 percent as on March 31, 2020) and 1.59 percent as on Sept 30, 2021 (Annualized) (3.47 percent as on March 31, 2020) mainly on account of lower disbursements. The opex to earning assets has increased from 7.65 percent as on March 31, 2021 to 9.28 percent as on Sept 30, 2021. The higher ratio was attributable to higher employees count.

Acuité believes, given the challenges, the company's ability to manage the additional slippages while maintaining the portfolio collections will be crucial.

### **Geographical Concentration:**

MFL is a Mumbai based NBFC having operations spread across three states namely, Maharashtra, Gujarat and Rajasthan with network of 26 branches as on Sept 30, 2021. While the company expanded its presence to newer geographies like Gujarat and Rajasthan, its geographical exposure is concentrated in the Maharashtra contributing 90% of the AUM as on Sept 30, 2021. This exposes the company to geographical concentration risk. Thus, the company's performance is expected to remain exposed to competitive landscape in these regions and occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework thereby impacting credit profile of MFL.

Acuité believes that geographic concentration in its portfolio will continue to weigh on the company's credit profile over the near to medium term.

### **Assessment of Adequacy of Credit Enhancement**

MFL had adequate overall CAR stood at 36.01 percent consisting of Tier I CAR only. The capitalization levels are supported by way of Equity Infusion by promoter group at regular intervals and internal accruals. Thus, even after considering risks such as possible asset quality deterioration during the pandemic, Acuité believes that the credit enhancement will stand adequate in all scenarios and in the event of any requirement, Northern Arc will provide the necessary support.

### **Rating Sensitivity**

- Dilution of promoter stake
- Movement in Asset quality and collection efficiency
- Movement in profitability metrics
- Diversification in geographical profile

### **Material Covenants**

MFL is subject to covenants stipulated by its lenders/investors in respect of various



parameters like capital structure, asset quality among others.

### Liquidity position - Adequate

MFL's overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term as per ALM dated Sept 30, 2021. The company is in talks with various lenders to raise long term debt. The company has unencumbered cash and bank balance of Rs. 26.38 Cr. as on Sept 30, 2021. The company raised Rs. 192 Cr. during H1FY22. While the company future liquidity position will hinge upon the company's ability to raise resources while continuing to achieve optimal portfolio collections.

### Outlook

The outlook for the Rs 20.00 Cr proposed term loan facilities with Partial Credit Enhancement is '**Stable**'. The outlook for the remaining total Rs 265.00 Cr facilities is '**Negative**'.

Acuité believes that MFL's credit profile will be under pressure on account of significant impairment of asset quality and attaining optimal collection efficiency over the near term. The outlook may be revised to 'Stable' in case MFL is able to demonstrate a significant improvement in liquidity buffers through long term funding infusion, either through debt or equity and better than expected performance in maintaining asset quality and growth in the portfolio. The rating may be downgraded if the company faces challenges in raising fresh equity or long term debt funding commensurate with its near term business requirements. Any further deterioration in AUM or profitability or asset quality will also impart a negative bias to the rating.

### Key Financials - Standalone / Originator

	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	534.90	540.90
Total Income	Rs. Cr.	56.07	65.71
PAT	Rs. Cr.	11.37	18.20
Net Worth	Rs. Cr.	147.35	135.98
Return on Average Assets (RoAA)	(%)	2.11	3.47
Return on Average Net Worth (RoNW)	(%)	8.03	15.18
Debt/Equity	Times	2.56	2.90
Gross NPA	(%)	2.59	1.55
Net NPA	(%)	2.24	1.33

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

Not applicable.

### Supplementary disclosures for Provisional Ratings

#### Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuité will withdraw the existing provisional rating and concurrently assign a fresh final rating in the same press release, basis the revised terms of the transaction.

#### Rating that would have been assigned in absence of the pending steps/ documentation

The structure would have become null and void for the instrument. The rating of the instrument would have been equated to the standalone rating of the issuer (ACUITE A-/ Negative).

#### Timeline for conversion to Final Rating for a debt instrument proposed to be issued

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating

continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

### Any other information

Not applicable.

### 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>
- 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
26 Apr 2021	Term Loan	Long Term	30.00	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	0.56	ACUITE A-   Stable (Assigned)
	Proposed Bank Facility	Long Term	0.41	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	13.75	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	8.00	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	2.50	ACUITE A-   Stable (Assigned)
	Cash Credit	Long Term	26.50	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	4.50	ACUITE A-   Stable (Assigned)
	Cash Credit	Long Term	26.50	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	3.14	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	5.00	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	3.64	ACUITE A-   Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	3.67	ACUITE A-   Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A-   Stable (Assigned)
Term Loan	Long Term	9.80	ACUITE A-   Stable (Assigned)	
Term Loan	Long Term	8.33	ACUITE A-   Stable (Assigned)	

Secured Overdraft	Long Term	0.50	ACUITE A-   Stable (Assigned)
Term Loan	Long Term	4.40	ACUITE A-   Stable (Assigned)
Term Loan	Long Term	25.00	ACUITE A-   Stable (Assigned)
Term Loan	Long Term	2.00	ACUITE A-   Stable (Assigned)
Secured Overdraft	Long Term	0.50	ACUITE A-   Stable (Assigned)
Term Loan	Long Term	24.00	ACUITE A-   Stable (Assigned)
Term Loan	Long Term	22.12	ACUITE A-   Stable (Assigned)
Term Loan	Long Term	11.25	ACUITE A-   Stable (Assigned)
Term Loan	Long Term	3.93	ACUITE A-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
A U Small Finance Bank	Not Applicable	Cash Credit	13-07-2020	12.50	Not Applicable	5.00	ACUITE A-   Negative   Reaffirmed   Stable to Negative
Bank of Baroda	Not Applicable	Cash Credit	06-02-2019	12.50	Not Applicable	26.50	ACUITE A-   Negative   Reaffirmed   Stable to Negative
Indian Overseas Bank	Not Applicable	Cash Credit	03-08-2017	11.55	Not Applicable	20.00	ACUITE A-   Negative   Reaffirmed   Stable to Negative
IDFC Bank Ltd	Not Applicable	Overdraft	31-12-2019	13.00	Not Applicable	0.50	ACUITE A-   Negative   Reaffirmed   Stable to Negative
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable		Not Applicable	111.32	ACUITE A-   Negative   Reaffirmed   Stable to Negative
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	20.00	Provisional   ACUITE A   CE   Stable   Assigned
Utkarsh Small Finance Bank Ltd.	Not Applicable	Term Loan	25-02-2021	12.50	25-08-2023	17.89	ACUITE A-   Negative   Reaffirmed   Stable to Negative



IDFC Bank Ltd	Not Applicable	Term Loan	18-12-2018	12.50	01-02-2022	3.75	ACUITE A-   Negative   Reaffirmed   Stable to Negative
IDFC Bank Ltd	Not Applicable	Term Loan	18-09-2019	13.50	18-02-2023	15.00	ACUITE A-   Negative   Reaffirmed   Stable to Negative
IDFC Bank Ltd	Not Applicable	Term Loan	31-12-2020	13.00	30-09-2023	22.00	ACUITE A-   Negative   Reaffirmed   Stable to Negative
Jana Small Finance Bank Ltd.	Not Applicable	Term Loan	01-10-2020	12.75	01-04-2023	15.14	ACUITE A-   Negative   Reaffirmed   Stable to Negative
South Indian Bank	Not Applicable	Term Loan	22-03-2018	11.60	22-06-2022	1.74	ACUITE A-   Negative   Reaffirmed   Stable to Negative
Ujjivan Small Finance Bank	Not Applicable	Term Loan	30-04-2019	11.47	31-01-2022	2.00	ACUITE A-   Negative   Reaffirmed   Stable to Negative
Ujjivan Small Finance Bank	Not Applicable	Term Loan	28-08-2020	11.75	31-08-2022	2.25	ACUITE A-   Negative   Reaffirmed   Stable to Negative
							ACUITE A-

A U Small Finance Bank	Not Applicable	Term Loan	25-06-2019	9.74	03-01-2022	0.66	Negative   Reaffirmed   Stable to
Indusind Bank Ltd	Not Applicable	Term Loan	06-08-2019	12.00	04-12-2022	6.04	ACUTE A-   Negative   Reaffirmed   Stable to Negative
A U Small Finance Bank	Not Applicable	Term Loan	24-01-2020	10.86	03-02-2022	1.25	ACUTE A-   Negative   Reaffirmed   Stable to Negative
A U Small Finance Bank	Not Applicable	Term Loan	13-11-2020	12.60	31-12-2022	8.13	ACUTE A-   Negative   Reaffirmed   Stable to Negative
Bank of Baroda	Not Applicable	Term Loan	07-08-2020	10.60	07-08-2023	5.83	ACUTE A-   Negative   Reaffirmed   Stable to Negative

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### 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 8,850 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 Kanjurmarg, Mumbai.

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