Manba Finance Limited

March 25, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Bank Loan Facilities – Cash Credit	60.00 (Reduced from 79.00) (Rs. Sixty Crore only)	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Reaffirmed
Bank Loan Facilities – Term loan	170.08 (Reduced from 210.58) (Rs. One Hundred Seventy Crore and Eight Lakhs only)	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Reaffirmed
Non-Convertible Debentures	5.00 (reduced from 10.00) (Rs. Five crore only)	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Reaffirmed
Non- Convertible Debentures	10.83 (reduced from 20.00) (Rs. Ten Crore and Eighty-Three Lakhs only)	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Reaffirmed
Commercial Paper	00.00	-	Withdrawn

[1]Details of instruments/facilities in Annexure-1
The reduction in the rated amount is on account of facilities being repaid. The CP withdrawal has been as per CARE's withdrawal policy

Detailed Rationale & 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, comfortable capitalization levels and moderate profitability parameters. The rating is constrained by deterioration in asset quality, muted business growth & continued geographical concentration, borrower concentration and moderate resource profile of the company. Given the aftereffects of various Covid-19 lockdowns and economic disruption, the asset quality of the company has moderated and hence the company's ability to improve the asset quality will remain a key monitorable.

Rating sensitivities

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

- Continued deterioration in asset quality for more than 3 quarters.
- Deterioration in profitability with ROTA dropping below 0.5% for consecutive quarters.
- Inability to raise debt at competitive prices for funding business needs and maintaining adequate liquidity or overall gearing exceeding 5 times.

Outlook: Negative

The outlook continues to be negative mainly on account of the deterioration in asset quality parameters reflecting the overhang of the impact of economic disruptions on account of COVID. At the same time, the collection metrices have reported slower improvements but remained at lower levels. The outlook may be revised to 'Stable' if the company is able to increase its collection efforts leading to an overall improvement in the asset quality to pre-covid levels over the next few 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 founded by the promoter and Managing Director, Mr. Manish Shah. The company having a vintage of 25 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, and Rajasthan. The company now has its presence in 3 states across 27 branches as on December 31, 2021. The company has now also started financing of used two-wheelers on a steady state basis, given its experience and knowledge in this industry.

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

Comfortable capitalization and gearing levels
The company continues to maintain healthy capitalization levels. As on March 31, 2021, total CRAR stood at 28.84% (entirely comprising of Tier 1 capital) as against 26.10% as on March 31, 2020. As on December 31, 2021, it further improved to 33.42% (entirely comprising of Tier 1 capital) given the decline in total assets as well as internal accruals during 9MFY22. Post the capital infusion in FY20, there has been no further capital infusion during FY21 as well as 9MFY22. However, for fiscal 2023, the company plans to raise equity of around Rs.75-Rs.100 crore from both existing as well as new investor. Total debt of the company reduced from Rs.394 crore as on March 31, 2020 to Rs.342 crore as on December 31, 2021 (Rs.377 crore as on March 31, 2021) given the decline in overall business activity as a result of Covid-19.
Consequently, gearing has improved to 2.27 times as on December 31, 2021, from 2.91 times as on March 31, 2020 (March 31, 2021: 2.57 times). Adjusted gearing (including off-book borrowings) stood at 2.50 times as on December 31, 2021.

Moderate profitability parameters
During FY21, MFL reported a decline in Profit After Tax (PAT) of Rs.11.37 crore on total income of Rs.108.55 crore as compared to PAT of Rs.18.20 crore on total income of Rs.118.50 crore during FY20. The interest revenue of the company was impacted on account of lower disbursements as a result of covid-19 induced stress on the lending activities. Consequently, ROTA stood at 2.11% during FY21 as against 3.47% during FY20.
Further during 9MFY22, PAT stood at Rs. 6.63 crore on a total income of Rs.77 crore as against the PAT of Rs.9.89 crore on a total income of Rs.77 crore during 9MFY21. Though, the income remained stable during 9MFY22, PAT was impacted largely due to increase in employee cost. As a result, operating expense/ avg total assets increased to 7.91% during 9MFY22 as against 6.14% during 9MFY21. Given the decline in cost of funds as a result of decline in borrowings, NIM improved to 10.90% during 9MFY22 as against 9.85% during 9MFY21. Credit cost of the company remained low at 0.78% during 9MFY22.
Going forward, we believe that the profitability will be dependent on the company's ability to increase disbursement amidst maturing loan portfolio, coupled with the ability to control interest expense and operating expense. As such, these profitability parameters shall remain as key monitorable.

Key Rating Weaknesses
Deterioration in asset quality
The asset quality of the loan book saw an impact as a result of the economic disruption in the country due to various lockdowns amidst the increasing Covid-19 infections which impacted the earnings and cashflows of the customers. As on March 31, 2021, the Gross NPA (on total AUM) of the company increased to 2.45% as against the Gross NPA of 1.55% as on March 31, 2020. It further got impacted during Q1FY22 and Gross NPA stood at 6.88%. however, post opening up of the economy after second wave, improvement in collections was visible as Gross NPA improved to 5.62% as on December 31, 2021; although still at higher levels. For the month of December 2021, the collections on current dues remained at 75%.
The provisioning done by the company continues to remain low with PCR ratio of 13.22% as on December 31, 2021. The provisioning is low on account of vehicle financed being repossessed by the company once its reaches 61-90 dpd bucket. The company normally takes a haircut in the range of 10%-20% on the seized vehicle while making recoveries from the same.
By end of FY22, the asset quality is expected to improve over December quarter and hence the company's effort for recovery of overdues and improving the asset quality continues to remain a key monitorable.

Muted business growth and continued geographical concentration
The lending activity of the company remained impacted during FY21, as disbursements dipped to Rs.256 crore as against Rs.377 crore during FY20. During 9MFY22, total disbursements stood at Rs.246 crore. The business started to gain momentum mainly during the festive season. As a result, the total AUM as on March 31, 2021 stood at 533 crore as against Rs.532 crore as on March 31, 2020. As on December 31, 2021, AUM declined to Rs.500 crore.
Geographically, even though the company has expanded its reach to 3 states: Maharashtra, Gujarat and Rajasthan, the portfolio remains concentrated with 83% of the total portfolio in the state of Maharashtra and Mumbai being around 60% of the overall business. For FY23, the company has plans to open new branches in Gujarat and also expand to another new state. The company's ability to diversify and grow its loan book will remain a key monitorable.

Borrower Concentration
MFL faces concentration risk in its other loans portfolio comprising of big-ticket loans to parties known to the promoters. These are unsecured loans extended to various borrowers such as authorized dealers, real estate developers, SME's and so on. As on December 31, 2021, top 10 loans constituted ~88% of other loans portfolio and 26% of net-worth. The company will now focus on lending only to the authorized dealers under the other loans segment.

Moderate resource profile
MFL's major source of external funding has been bank borrowings and loans from financial institutions which forms 94% of the total borrowings as on December 31, 2021. However, lender-wise the borrowings are well diversified across various lenders and even during stressed economic scenario, the company was able to raise funds. During FY21, the company raised funds of around Rs.198 crore and during FY22 (till Feb) it raised Rs.205 crore. The company has also started raising funds through off-book exposure in the form of PTCs. As on December 31, 2021, it stood at Rs.41.35 crore.
The company's ability to further diversify and raise adequate debt to support business growth will remain a key monitorable.

Liquidity profile – Moderate
As on February 28, 2022, the Company had debt obligations amounting to Rs.43.65 crore falling due in the next 3 months (i.e. March, April and May) against which it had Cash and Bank balances (unencumbered) of Rs.22.52 crore along with available CC limit of Rs.26.91 crore. While the company has maintained 3 months cover of its debt repayment, we expect the company to maintain the cover more consistently & on a sustainable basis. The company remains dependent on unutilized cash credit facilities from banks to support its liquidity position.

Analytical approach: CARE has analysed the standalone credit profile of the company.
Applicable Criteria
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Non-Banking Finance Companies (NBFCs)
Financial ratios – Financial sector
CARE's policy on the withdrawal of ratings

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 500+ dealers. At present, the operations of the company are spread across three states- Maharashtra, Gujarat and Rajasthan with total 27 branches as on December 31, 2021. 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)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total income	118.50	108.55	76.90
PAT	18.20	11.37	6.63
Interest coverage (times)	1.48	1.30	1.27
Total Assets	540.90	534.90	517.77
Gross NPA (%)	1.55	2.45	5.62
ROTA (%)	3.47	2.11	1.66

A: Audited; UA: Unaudited
All ratios are as per CARE calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bank Facilities- Term Loan-Long Term	-	-	-	-	170.08	CARE BBB+; Negative
Bank Facilities-Fund-based - LT-Cash Credit	-	-	-	-	60.00	CARE BBB+; Negative
Non-Convertible Debentures	INE939X07028	07-08-2020	10.60%	07-08-2023	5.00	CARE BBB+; Negative
Non- Convertible Debentures	INE939X07044	25-03-2021	12.60%	25-03-2023	10.83	CARE BBB+; Negative
Commercial Paper	NA	NA	NA	NA	0.00	Withdrawn

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Term Loan-Long Term	LT	170.08	CARE BBB+; Negative	-	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)	1)CARE BBB+; Stable (05-Jun-18) 2)CARE BBB+; Stable (06-Apr-18)
2	Fund-based - LT-Cash Credit	LT	60.00	CARE BBB+; Negative	-	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)	1)CARE BBB+; Stable (05-Jun-18) 2)CARE BBB+; Stable (06-Apr-18)
3	Commercial Paper-Commercial Paper (Standalone)	ST	-	Withdrawn	-	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+; Negative	-	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+; Negative	-	1)CARE BBB+; Negative (26-Mar-21)	-	-

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
i. Applicability of penal interest	Any adverse deviation from stipulated level in respect of any two of the following parameters: 1. DSCR 2. FACR 3. Interest coverage ratio 4. Debt/EBITDA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non-Convertible Debentures	Simple
3	Fund-based - LT-Cash Credit	Simple
4	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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