Manba Finance Limited

July 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	230.08	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures	0.83 (Reduced from 10.83)	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures	-	-	Withdrawn
Non-convertible debentures	40.00	CARE BBB+; Stable	Assigned

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 capitalisation levels and improving profitability parameters. The ratings remain constrained by moderate asset quality, muted business growth with some traction in current fiscal year, continued geographical & product concentration, and moderate resource profile of the company.

The company's ability to further scale up the business along with improvement in profitability while maintaining healthy asset quality will remain a key monitorable.

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 gross non-performing asset (GNPA) beyond 4.5% on a sustained basis.
- Lack of significant scale up in loan book over the medium term.
- Weakness in profitability and/or capitalisation profile with asset under management (AUM) to tangible net worth (TNW) rising above 5x.

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

Analytical approach: CARE Ratings Limited (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 capitalisation levels.

Detailed description of the key rating drivers:

Key strengths

Strong experience in 2W financing

MFL has been in 2W financing since 1996 having a vintage of 27 years, and has gained considerable experience in this segment. Currently it has tie-ups with more than 500 dealers out of which approximately 250 are authorised dealers and the remaining are multi brand outlets (MBOs). The company has expanded its presence in Maharashtra, Gujarat, Rajasthan and Chhattisgarh. The company now has its presence in four states across 55 locations as on March 31, 2023. The company has now also started financing used 2W 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 2W finance.

Improvement in profitability parameters in current fiscal year

During FY23, the profitability of the company improved and stood at profit after tax (PAT) of ₹15.22 crore as against the PAT of ₹9.43 crore during FY22. Consequently, return on average total assets (ROTA) stood at 2.26% during FY23 (FY22: 1.73%). The improvement in ROTA was driven by increase in the net interest margins (NIMs), as new disbursements were done at an increased lending rate given the increase interest rate environment. As a result, the average yield on advances stood at 22.34% in FY23 as against 19.31% in FY22. During FY23, the disbursements were ₹455 crore; the highest in last 4 years. On the other hand, the average cost of funds improved by 68 bps and stood at 11.41% in FY23, as the company's borrowing through securitisation has increased over a period of time which has benefitted the company as the rates are relatively lower. During FY23, funds worth ₹158 crore were raised through securitisation as against ₹50.81 crore during FY22. The sustainability of the improved profitability will remain a key monitorable.

Comfortable capitalisation and gearing levels

The company continues to maintain healthy capitalisation levels. As on March 31, 2023, total capital adequacy ratio (CRAR) stood at 33.73% (entirely comprising of Tier-1 capital) as against 30.74% as on March 31, 2022. 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). Given the increase in disbursements during FY23, the total debt of the company stood at ₹598 crore as on March 31, 2023 as against ₹394 crore as on March 31, 2022. Consequently, gearing increased to 3.63x as on March 31, 2023 (2.63x as on March 31, 2022). 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 ₹75 crore-₹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 June 2021 with GNPAs at 6.88% and 5.21% as on September 30, 2021. Furthermore, GNPA stood at 5.62% as on December 31, 2021. Though, in absolute terms, the GNPA 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 December 2021 quarter. As on March 31, 2023, the GNPA improved to ₹23.69 crore as against ₹26.57 crore as on December 31, 2022, driven by improvement in on-time collections from 87% in the month of December 2022 to 90% in the month of March 2023. Consequently, GNPA in ratio terms also improved to 3.74% as on March 31, 2023 from 4.18% as on December 31, 2022. Additionally, during Q4FY23, the company sold net loans (includes loans in 90+dpd and 60+ dpd) worth ₹21 crore to asset reconstruction company (ARC). This has helped the company in improving the asset quality in FY23. Provision coverage for NPA stood at 16% leading to net NPA (NNPA) at 3.14% as on March 31, 2023. There has been no restructuring of loans done by the company during FY23. During FY23, the company did a write-off of ₹2.46 crore as against ₹2.97 crore during FY22. The company's effort for recovery of overdues and improving the asset quality on absolute basis will remain a key monitorable at least for the next 2-3 quarters.

Muted growth in FY22; however, some traction seen in FY23

The lending activity of the company started getting impacted since the beginning of the COVID-19, i.e., March 2020 which gained traction during the festive season from October 2020. However, the second COVID-19 wave again impacted the disbursements for first 6 months of FY22. Given the loss of business opportunities, the AUM grew moderately, and as on March 31, 2022, stood at ₹489 crore as against ₹484 crore as on March 31, 2021. Disbursements in FY23 reached its highest level at ₹455 crore as against ₹313 crore in FY22. As a result, loan book stood at ₹630 crore as on March 31, 2023, as against ₹489 crore as on March 31, 2022.

Given the vintage of the company in the 2W 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 March 31, 2023, 95% of the AUM was concentrated towards 2W 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 four states: Maharashtra, Rajasthan, Gujarat and Chhattisgarh. The number of locations also increased from 28 in FY22 to 55 in FY23 (23 locations in Maharashtra, Gujarat-13, Rajasthan-9 and Chattisgarh-10). However, the portfolio continues to remain concentrated in the state of Maharshtra with 69.71% portfolio concentration as on March 31, 2023. The concentration level has been coming down from 99% in FY19; it still remains concentrated in the state of

Maharashtra, followed by Gujarat 26.02%. These two states together form 95.73% of the total portfolio, 2.86% in Rajasthan and 1.42% 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 March 31, 2023, the total debt of the company stood at ₹598 crore of which 48% comprises term loans from banks, 47% from non-banking finance companies (NBFCs) and balance in the form of NCDs. Though the borrowing is well diversified between 28 lenders it is skewed towards higher dependency from NBFCs. The incremental borrowings were majorly raised through the NBFCs as it increased from ₹171 crore as on March 31, 2022 to ₹281 crore as on March 31, 2023. A higher share of funding from NBFCs may affect the cost of borrowings for the company in an increasing interest rate scenarios. The company's ability to raise funds at competitive rates will remain critical going ahead.

Liquidity: Adequate

As on March 31, 2023, the asset-liability management statement of the company had no negative cumulative mismatches in any of the short-term buckets. As on June 30, 2023, the company had free cash and bank balance of ₹18.40 crore along with lien marked FD (for borrowings) of ₹33.78 crore as against the debt repayment of ₹67.05 crore for next 3 months.

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 Manish Shah, Promoter & Managing Director. MFL is wholly owned by Manish Shah, in his individual capacity as well as through group companies/ relatives.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)
Total income	107	134
PAT	9.43	15.22
Interest coverage (times)	1.26	1.37
Total assets (net of deferred tax assets and intangible assets)	562	787
Gross NPA (%)	4.94	3.74
ROTA (%)	1.73	2.26

A: Audited; Note: 'the above results are latest financial results available'

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: 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	0.83	CARE BBB+; Stable
Non-Convertible Debentures	INE939X07044	25-03-2021	12.60%	25-03-2023	0.00	Withdrawn

Non-Convertible Debentures (Proposed)	-	-	-	-	-	0.00	Withdrawn
Non-Convertible Debentures (Proposed)	-	-	-	-	-	40.00	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 2023-2024	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
1	Bank Facilities-Term Loan Long Term	LT	170.08	CARE BBB+; Stable	-	1)CARE BBB+; Stable (10-Mar-23)	1)CARE BBB+; Negative (25-Mar-22)	1)CARE BBB+; Negative (26-Mar-21) 2)CARE BBB+; Negative (03-Sep-20)
2	Bank Facilities-Fund-based - LT-Cash Credit	LT	60.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (10-Mar-23)	1)CARE BBB+; Negative (25-Mar-22)	1)CARE BBB+; Negative (26-Mar-21) 2)CARE BBB+; Negative (03-Sep-20)
3	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	1)Withdrawn (25-Mar-22)	1)CARE A2 (26-Mar-21) 2)CARE A2

								(03-Sep-20)
4	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE BBB+; Stable (10-Mar-23)	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	0.83	CARE BBB+; Stable	-	1)CARE BBB+; Stable (10-Mar-23)	1)CARE BBB+; Negative (25-Mar-22)	1)CARE BBB+; Negative (26-Mar-21)
6	Debentures-Non Convertible Debentures (Proposed)	LT	40.00	CARE BBB+; Stable	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of 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	Bank Facilities-Fund-based - LT-Cash Credit	Simple
3	Bank Facilities- 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.