Manba Finance Limited (revised)
March 26, 2021

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Bank Loan Facilities – Cash Credit	79.00 (Enhanced from 78.50) (Rs. Seventy-Nine Crore only)	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Re-affirmed
Bank Loan Facilities – Term loan	210.58 (Enhanced from 173.73) (Rs. Two Hundred Ten Crore and Fifty-Eight Lakhs only)	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Re-affirmed
Non-Convertible Debentures	10.00 (Rs Ten crore only)	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Re-affirmed
Non- Convertible Debentures	20.00 (Rs. Twenty Crore only)	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Assigned
Commercial Paper	10.00 (Rs Ten crore only)	CARE A2 (A Two)	Re-affirmed

Details of instruments/facilities 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, moderate business growth and profitability, healthy asset quality parameters, comfortable capitalization and gearing levels. The rating is constrained by relatively moderate scale of operations, borrower concentration, lack of product diversification as well as geographical concentration, modest 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 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 while maintaining healthy capitalization, asset quality and profitability
- 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 continue to be negative 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 lower cash balances coupled with higher 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 considerable 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 December 31,2020.

Healthy business growth albeit some moderation

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) and remaining 9% is SME loans.

However, due to Covid impact the disbursements slowed down in the current fiscal. During Q1FY21, the company disbursed around Rs.13.66 crore. The disbursements started picking up slowly in Q2FY21 as there was pent up demand due to the lockdown and in Q3FY21 the demand picked up due to festive season. The company disbursed around Rs.63.71 crore in Q2FY21 and Rs.120.87 in Q3FY21. As on December 31, 2020, total loan book stood at Rs.516 crore as against Rs.513 crore as on March 2020 and Rs.485 crore as on December 31, 2019. CARE will further continue to monitor the growth in the business.

Moderate profitability parameters

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 marginally 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.

However, profitability in the current fiscal saw a dip on account of slow-down in the business. During 9MFY21, PAT stood at Rs.9.89 crore on a total income of Rs.77 crore, a drop of 22% over 9MFY20 on account of lower disbursements during the current fiscal. NIM stood at 9.85% and ROTA stood at 2.47% during 9MFY21. PAT in Q1FY21 stood at Rs.5.47 crore, in Q2FY21 it was Rs.2.74 crore and in Q3FY21 it stood at Rs.1.68 crore. 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 credit cost. As such, these profitability parameters shall remain as key monitorable.

Healthy asset quality

MFL's asset quality parameters continue to be healthy albeit deteriorating modestly in the last few quarters.. 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. It increased marginally as on December 31, 2020 and GNPA stood at Rs.9.33 crore with GNPA % increased to 1.81% as against 1.15% as on March 31, 2020. The collection efficiency stood at 90% as on January 31, 2021. The asset quality of the company got impacted since majority of the customers belong to tier 1 and tier 2 cities which was most impacted due to lockdown on account of COVID-19. The delinquency is further expected to increase as the standstill in asset recognition is relaxed and shall remain key monitorable.

Comfortable capital adequacy & gearing levels

The company continues to maintain healthy capitalization levels. As on December 31, 2020, the total CAR improved to 27.99% (entirely comprising of Tier I capital) from 26.10% as on March 31, 2020 on the back of 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. Tangible Net-worth of the company stood at Rs.145.41 crore as on December 31, 2020 and total debt stood at Rs. 386.61 crore. Due to decline in total debt the gearing improved to 2.66x as against 2.91x as on March 31, 2020.

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 Rs.454.43 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 25.58 crores during June & July 2020 in aggregate. As on December 31, 2020, total loan stood at Rs.516 crore; almost on a same level as on March 31, 2020 on account of lower disbursements. Disbursements saw a dip of 32% during 9MFY21 as against 9MFY20 due to slow- down on account of COVID-19. During 9MFY21, disbursements stood at Rs.198 crore as against Rs.293 crore during 9MFY20.

Low product diversification & regional concentration, albeit expansion in certain geographies
MFL is primarily engaged in financing of two wheelers which forms around 91% of the total portfolio as on December 31, 2020 and the remaining 9% constitute of SME loans. MFL has presence at 13 locations in Maharashtra which forms 90% of the total portfolio and is majorly concentrated in and around Mumbai region, 10 locations in Gujarat (9%) and 1 location in Rajasthan (1%). 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. There are plans to open up branches in 10 new locations and also the company is planning to expand in new states during next fiscal.

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 authorised dealers, real estate developers, SME's and so on. As on December 31, 2020, top 10 loans constituted ~85% of other loans portfolio [FY20.: 74%] and 26% of net-worth [FY20.: 25.27%].However, the company is planning to reduce its exposure under this segment given the fact that this segment is unsecured.

Modest liquidity and resource profile
As on March 01, 2021, the Company had debt obligations amounting to Rs.62.66 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.7.24 crore along with available CC limit of Rs.58.19 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 also has few sanctions in pipe line from banks and financial institutions, the execution of which is under process. The company remains dependent on unutilized cash credit facilities from banks to support its liquidity position. However, the company's collection efficiency improved from 62% in April 2020 to about 82% in July 2020 and it further improved to 90% in January 2021. The collections are yet to reach pre-covid levels and CARE will continue to monitor the collection efficiency of the company.
MFL's major source of external funding has been bank borrowings and loans from financial institutions which forms 90% of the total borrowings as on December 31, 2020. However, lender-wise the borrowings are well diversified across 20 banks and 11 financial institutions. The borrowings through NCDs increased from Rs.36.17 crore from Rs.22 crore as on March 31, 2020. The company is also in the process to further raise funds through NCDs as well as CPs. The company's ability to raise adequate debt to support business growth as well as upcoming debt repayment at competitive pricing shall be a key rating sensitivity.

Analytical approach: Standalone

Liquidity profile – Moderate

As on March 01, 2021, the Company had debt obligations amounting to Rs.62.66 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.7.24 crore along with available CC limit of Rs.58.19 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. However, the company's collection efficiency improved from 62% in April 2020 to about 82% in July 2020 and it further improved to 90% in January 2021.

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

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	-	-	-	-	210.58	CARE BBB+; Negative
Fund-based - LT-Cash Credit	-	-	-	-	79.00	CARE BBB+; Negative
Commercial Paper	21-12-2020	INE939X14016	12.50%	30-03-2021	10.00	CARE A2
Non-Convertible Debentures	07-08-2020	INE939X07028	10.60%	07.08.2023	10.00	CARE BBB+; Negative
Non- Convertible Debentures	25-03-2021	INE939X07044	12.60%	25-03-2023	20.00	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	210.58	CARE BBB+; Negative	1)CARE BBB+; Negative (03-Sept-20)	1)CARE BBB+; Stable (24-Mar-20) 2)CARE	1)CARE BBB+; Stable (05-Jun-18) 2)CARE	-

						BBB+; Stable (05-Apr-19)	BBB+; Stable (06-Apr-18)	
2.	Fund-based - LT-Cash Credit	LT	79	CARE BBB+; Negative	1)CARE BBB+; Negative (03-Sept-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	ST	10	CARE A2	1)CARE A2 (03-Sept-20)	1)CARE A2 (24-Mar-20)	-	-
4.	Non-Convertible Debentures	LT	10	CARE BBB+; Negative	1)CARE BBB+;Stable (22-Jun-20) 2)CARE BBB+; Negative (03-Sept-20)	-	-	-
5.	Non-Convertible Debentures	LT	20	CARE BBB+; Negative	-	-	-	-

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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