June 11, 2024

Mahaveer Finance India Limited: [ICRA]BBB+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based TL	100.00	[ICRA]BBB+ (Stable); assigned
Total	**100.00**	

**Instrument details are provided in Annexure I*

Rationale

The assigned rating takes into consideration Mahaveer Finance India Limited's (MFIL) established track record and its adequate profitability and capitalisation. MFIL has been operating in the vehicle financing segment for over 35 years, with its current focus mainly on the financing of used commercial and passenger vehicles. Its assets under management (AUM) witnessed a cumulative average growth rate of 29% over the last five years (FY2020-FY2024). MFIL expects the AUM to increase at a CAGR of 60-70% over the next two years. It had a managed gearing of 4.5 times and a capital-to-risk weighted assets ratio (CRAR) of 28.3% as of March 2024, supported by the equity infusion of Rs. 50.0 crore by a private equity (PE) investor in March 2024. The company would be required to raise capital in a timely manner to maintain its managed gearing below the targeted level of 6 times. Further, it would have to strengthen and diversify its borrowing profile as it scales up.

MFIL's profitability (PAT/AMA[1]) stood at 1.9% in FY2024 (2.3% in FY2023 as well as FY2022), supported by healthy interest margins and limited credit costs. ICRA notes that the credit cost remained minimal at 0.1% in FY2024 compared to 0.7% in FY2023 as the company recorded low losses from repossessed assets and witnessed recoveries from written-off accounts.

The rating factors in MFIL's geographically concentrated operations with the top 2 states – Tamil Nadu and Andhra Pradesh – accounting for ~84% of the AUM as of March 2024. The rating also considers the moderate credit profile of the borrowers, who are usually first-time vehicle owners or small fleet operators, etc. However, the asset quality indicators had remained under control as the 90+ days past due (dpd) stood at 2.7%[2] of the assets under management (AUM) as of March 2024 (2.7% as of March 2023), supported by timebound repossession and recovery from delinquent assets.

The Stable outlook reflects ICRA's expectation that MFIL will maintain adequate profitability and range-bound asset quality as it scales up.

Key rating drivers and their description

Credit strengths

Established track record in used vehicle financing segment – MFIL was incorporated as a deposit-taking non-banking financial company (NBFC) in 1981 and was acquired by the current promoters in 1987. It has been operating in the vehicle financing segment for over 35 years. The company entered used commercial vehicle (CV) financing in 2001 and steadily expanded its operations across Tamil Nadu, Andhra Pradesh, Telangana, and Puducherry over the years. The board consists of eight directors, including three promoter directors, one investor director and four independent directors with relevant experience in the banking, financial services and insurance (BFSI) space.

Adequate profitability indicators – MFIL has maintained adequate profitability in the past, with PAT/AMA in the range of 1.9-2.3% over the last five fiscals. Its profitability continues to be supported by healthy interest margins given the segment it

[1] Profit after tax/Average managed assets

[2] Gross non-performing assets (GNPAs) of 4.0%

operates in, while credit costs had remained under control on the back of the company's demonstrated ability to achieve recoveries through the repossession of assets. The operating expenses moderated over the years to 4.5% in FY2024 (provisional) from 6.0% in FY2020 as the company had scaled up its operations during this period. The ability to improve its operating efficiency and control its credit costs would be crucial for sustaining the profitability, going forward.

Capitalisation commensurate for near-term growth requirements – As of March 2024 (provisional), MFIL's capitalisation profile was adequate with its managed gearing improving to 4.5 times and CRAR to 28.3% from 5.5 times and 24.6%, respectively, as of March 2023, supported by the capital infusion from a private equity investor. The company had raised Rs. 50.0-crore equity from First Bridge India Growth Fund in March 2024 and capital of Rs. 45 crore[3] from PE investors during 2019-2023. ICRA notes that the company targets to operate with its managed gearing below 6 times and would accordingly need to raise capital in a timely manner to support its growth plans.

Credit challenges

Geographically concentrated operations – MFIL initially had operations in Tamil Nadu and Puducherry and subsequently expanded to Andhra Pradesh and Telangana in 2016 and 2017, respectively. Its AUM increased at a CAGR of ~29% during FY2020-FY2024 and stood at ~Rs. 763 crore as of March 2024. As MFIL targets a significant portfolio growth of about 50-60% in the near to medium term, it would be crucial to expand its branch network, which would support the portfolio growth.

As of March 2024, MFIL's operations were spread across Tamil Nadu, Puducherry, Andhra Pradesh and Telangana with 63 branches. Tamil Nadu and Andhra Pradesh accounted for 83.6% of the AUM as of March 2024. The company's operations are expected to remain concentrated in these four states/Union Territories (UTs) in the near-to-medium term though it is planning to enter new geographies subsequently.

Moderate credit profile of borrowers – MFIL's customers are usually first-time vehicle owners or small fleet operators, who have limited or no credit track record. They are generally more susceptible to economic shocks and have limited income buffers. Thus, the delinquencies in the softer buckets could remain volatile. However, ICRA notes that MFIL has prudent underwriting and risk management practices along with stringent processes for the collection, repossession and recovery of vehicles. As such, the asset quality and credit costs have remained range-bound in the past. As of March 2024, the 90+ dpd stood at 2.7% of the AUM (2.7% as of March 2023), supported by limited slippages and write-offs. MFIL also held adequate provisions of 1.7% of the loan book as of March 2024.

Limited diversification of funding sources – As of March 2024, term loans from banks and NBFCs accounted for 85% of the overall borrowings followed by debentures (9%) and cash credit from banks (6%). MFIL had funding lines from 42 banks/financial institutions (FIs) as of December 2023. Its average cost of funds was relatively high at 13.0% in FY2024 (13.4% in FY2023). Given the expectations of continued tightening of systemic liquidity and hardening of yields, it would be crucial for MFIL to strengthen its borrowing relationships to achieve competitive borrowing rates. Further, ICRA notes that it would be important for the company to diversify its funding sources as it scales up.

Liquidity position: Adequate

As of March 2024, MFIL had on-balance sheet liquidity of Rs. 152.5 crore. These, along with the collections from advances, are expected to be adequate for its debt repayment obligations of Rs. 332.4 crore during April-September 2024. The asset liability management statement, as of December 2023, had positive cumulative mismatches across all buckets.

[3] Rs. 20 crore as compulsorily convertible debentures in FY2020; to be converted in FY2025

Rating sensitivities

Positive factors – The rating could be positively impacted if MFIL scales up its operations while keeping the asset quality under control and improving the return on managed assets (RoMA) on a sustained basis.

Negative factors – The rating could be negatively impacted if the managed gearing crosses 6 times on a sustained basis or the RoMA declines below 1.5% on a prolonged basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of MFIL

About the company

Mahaveer Finance India Limited was incorporated in 1981 as a deposit-taking NBFC and was acquired by the current promoters in 1987. It operates as a non-deposit taking NBFC, providing retail finance for used commercial vehicles from 2001. MFIL operates predominantly in Tamil Nadu and Andhra Pradesh followed by Telangana and Puducherry with 63 branches as of December 2023. It is managed by the promoters – Mr. Mahaveer Chand Dugar (Executive Vice Chairman), and his sons Mr. Deepak Dugar (Managing Director and Chief Executive Officer) and Mr. Praveen Dugar (Deputy Managing Director and Chief Financial Officer). Banyan Tree Growth Capital and First Bridge India Growth Fund (private equity funds) held 28.5% and 18.0%, respectively, of the diluted stake as of March 2024.

It reported a net profit of Rs. 16.6 crore on a managed asset base of Rs. 995.3 crore in FY2024 (provisional) compared to a net profit of Rs. 14.7 crore on a managed asset base of Rs. 726.9 crore in FY2023.

Key financial indicators (Ind-AS)

	FY2022	FY2023	FY2024 (P)
Total income	84.9	104.1	131.1
Profit after tax	10.5	14.7	16.6
Total managed assets	531.0	726.9	995.3
Return on managed assets	2.3%	2.3%	1.9%
Manged gearing (times)	4.6	5.5	4.5
Gross stage 3	4.4%	4.3%	2.1%
CRAR	25.6%	24.6%	28.3%

Source: Company, ICRA Research; Amount in Rs. crore; P – Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					Jun 11, 2024	-	-	-
1	**Long-term fund-based TL**	Long term	100.00	100.00	**[ICRA]BBB+ (Stable)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based TL	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan 1	Nov-11-2023	NA	Dec-18-2026	17.22	[ICRA]BBB+ (Stable)
NA	Term loan 2	Nov-29-2023	NA	Dec-04-2026	8.61	[ICRA]BBB+ (Stable)
NA	Term loan 3	Feb-28-2024	NA	Mar-12-2027	14.17	[ICRA]BBB+ (Stable)
NA	Term loan 4	Feb-29-2024	NA	Mar-30-2029	25.00	[ICRA]BBB+ (Stable)
NA	Term loan-Unallocated	NA	NA	NA	35.00	[ICRA]BBB+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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