

February 17, 2023

ManiBhavnam Home Finance India Pvt. Ltd.: Rating reaffirmed and assigned for enhanced amount

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------|-----------------------------------|----------------------------------|--|
| Term loans | 15.00 | 50.00 | [ICRA]BBB- (Stable); reaffirmed and assigned for enhanced amount |
| Total | 15.00 | 50.00 | |

*Instrument details are provided in Annexure I

Rationale

The rating continues to factor in ManiBhavnam Home Finance India Pvt. Ltd.'s (ManiBhavnam) experienced management team and its adequate capitalisation profile. ICRA also notes the growth in ManiBhavnam's scale of operations though the same remains small. The company reported an increase in disbursements in YTD FY2023, driven by expansion in branches and deeper penetration in the existing locations, and the trend is expected to continue going forward.

The company remains adequately capitalised with a managed gearing¹ of 3.3 times as on December 31, 2022 (2.3 times as on March 31, 2022) and the capital to risk weighted assets ratio (CRAR) of 42.8% was well above the regulatory requirement of 15% as on December 31, 2022. However, given its modest internal capital generation and high growth plans, ManiBhavnam would need to raise additional equity over the near term and its ability to do so while continuing to grow its portfolio will remain a monitorable.

The rating is constrained by ManiBhavnam's small scale of operations and subdued profitability indicators, though both have improved over the last two-three years. The rating also considers increase in its delinquencies and the high portfolio vulnerability, given the marginal target borrower profile comprising low-and-middle-income individuals/families with undocumented and informal sources of income. It reported on-book gross non-performing assets (GNPA) and net NPAs of 2.09% and 1.69%, respectively, as on December 31, 2022² compared to 1.76% and 1.25%, respectively, as on March 31, 2022. Nevertheless, ICRA notes that the overall restructured portfolio has seen repayment behaviour for last 15 months and the same has come down to 6.5% of the assets under management (AUM) as on December 31, 2022 from 11.9% as on March 31, 2022 due to recoveries. Going forward, its ability to contain fresh slippages and recover from restructured overdue accounts would remain a monitorable. The rating also remains constrained by the limited seasoning of the portfolio, considering the major scale-up in the operations in the last few years.

ICRA notes that funding tie-ups have increased over the last two years with the company raising funds from public-sector banks, small finance banks and foreign financial institutions. However, it would need to continuously expand the relationships going forward, given its growth plans. Overall, ManiBhavnam's ability to further scale up its operations, while maintaining a prudent capitalisation profile and good credit underwriting standards, would be a key monitorable.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company will continue to benefit from the experience of its management team and will be able to grow its scale of operations and improve its asset quality metrics.

¹ Managed gearing = (on-book debt + off-book portfolio) / net worth

² 1.71% and 1.40% respectively on AUM basis

Key rating drivers and their description

Credit strengths

Experienced board and management team – The members of the board and its advisory committee have decades of experience in the banking, financial services and insurance (BFSI) space. It has a four-member advisory committee for its four-member board and a mix of experienced senior and middle management professionals, who help to run and manage the operations.

Adequate capitalisation profile – The capitalisation profile remains adequate with a managed gearing of 3.3 times as on December 30, 2022 (2.3 times as on March 31, 2022) and CRAR of 42.8% as on December 30, 2022 (64.9% as on March 31, 2022). Given its modest internal capital generation and high growth plans, the gearing is expected to increase with the incremental business being funded through fresh borrowings. Going forward, ManiBhavnam would need to raise additional equity over the near term and its ability to do so, while continuing to grow as per its business plans, will remain a monitorable.

Credit challenges

Limited track record and small scale of operations with relatively vulnerable borrower profile – ICRA notes the improvement in the company's scale of operations with the AUM increasing to Rs. 150 crore as on December 31, 2022 from Rs. 95 crore as on March 31, 2022 (Rs. 80 crore as on March 31, 2021), though the same remains small. ManiBhavnam started its operations in Uttarakhand in YTD FY2023 and has a network of 16 branches in 5 states as on December 31, 2022. However, since the portfolio has grown considerably over the last few years, the book lacks seasoning compared to the longer-tenure asset class, and hence the long-term performance of its loan book is yet to be established. ManiBhavnam's target borrower profile comprises low-and-middle-income individuals/families with undocumented and informal sources of income. These borrowers could be more susceptible to downturns in the economy as they have limited income buffer to absorb economic shocks. Though ICRA notes that around 33% of its borrowers are formal salaried and around 13% of its borrowers have documented business income.

Weak asset quality indicators – The reported on-book GNPA and NNPA increased to 2.09% and 1.69%, respectively, as on December 31, 2022³ from 1.76% and 1.25%, respectively, as on March 31, 2022. It has an overall restructured portfolio of around 6.5% of the AUM as on December 31, 2022 compared to 11.9% as on March 31, 2022. ICRA notes, that the company carries a provision of around 10% on the restructured book. While the losses on default are expected to be limited considering the secured nature of the portfolio, ManiBhavnam's ability to increase its collections and recover from the restructured portfolio would be important from the credit perspective.

Weak profitability indicators – The company reported an improvement in NIMs in FY2022, supported by gains from direct assignment (DA). It also recorded a reduction in operating expenses ratio, though the same remains relatively high. This helped the company witness an improvement in its operating profitability. However, increase in credit cost negated the impact to some extent. ManiBhavnam reported return on managed assets (RoMA) of 0.99% and a return on equity (RoE) of 3.42% in FY2022. The trend of improvement in NIM continued in 9M FY2023 with the company having raised its lending rates. However, with expansion of operations, its operating costs increased and consequently there was a decline in operating profitability in 9M FY2023 from FY2022. On the other hand, reduction in credit cost supported the profitability and the company reported a slight improvement in profitability (before tax basis) in 9M FY2023 from FY2022.

Borrowing mix concentrated towards NBFCs – ManiBhavnam increased its lending relationships to 19 lenders (including DA) as on December 31, 2022 from 13 lenders a year ago. It has also onboarded foreign financial institutions as its lender and the share of funding from banks has increased over the last one year. However, its dependence on funding from non-banking

³ 1.71% and 1.40% respectively on AUM basis

financial companies (NBFCs) remain high. As on December 31, 2022, 59% of its funding is sourced through NBFCs, 37% from banks and the remaining 4% from the National Housing Bank (NHB). ICRA expects the company to gradually reduce concentration on NBFC funding and the company's ability to continue to draw larger funding lines and increase its lending partners, while diversifying the funding mix, will remain important from the credit perspective.

Liquidity position: Adequate

As on December 31, 2022, the liquidity profile is supported by the adequate on-balance sheet unencumbered liquidity of Rs. 8 crore against scheduled debt obligations of Rs. 19 crore and scheduled collections of Rs. 28 crore till June 30, 2023. Factoring in the expected collections from advances, the liquidity profile is adequate for meeting the debt obligations in a timely manner. The company has lien marked deposits of around Rs. 8.5 crore towards loans availed from banks and NBFCs/ financial institutions.

Rating sensitivities

Positive factors – A significant increase and diversification in the scale of operations, along with the ability to maintain good asset quality and profitability indicators and a prudent capitalisation structure, on a sustained basis, could lead to a rating upgrade.

Negative factors – A deterioration in the asset quality indicators, resulting in pressure on the profitability indicators, could lead to a rating downgrade. Inability to maintain prudent capitalisation with managed gearing exceeding 5 times, on a sustained basis, would also be a credit negative.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Rating Methodology for Non- Banking Finance Companies |
| Parent/Group support | Not applicable |
| Consolidation/Standalone | Standalone |

About the company

ManiBhavnam was incorporated in 2016 and started operations in February 2017 with focus on the affordable housing space for the under-financed segment. It offers home loans and loans against property. The company mainly caters to borrowers in the informal segment (i.e. who have earnings in cash and do not have formal income documents) in urban and semi-urban areas.

ManiBhavnam reported a profit of Rs. 1.73 crore in 9M FY2023 (provisional, before tax) on gross AUM of Rs. 149.80 crore as on December 31, 2022 against a profit after tax of Rs. 1.08 crore in FY2022 on gross AUM of Rs. 94.52 crore as on March 31, 2022. ManiBhavnam operates in 5 states through 16 branches. As on December 31, 2022, it had a housing loan to non-housing loan mix of 60:40 and salaried to self-employed mix of 37:63.

Key financial indicators

| ManiBhavnam | FY2020 | FY2021 | FY2022 | 9M FY2023 |
|--|---------|---------|---------|-------------|
| Accounting as per | IGAAP | IGAAP | IGAAP | IGAAP |
| | Audited | Audited | Audited | Provisional |
| Profit after tax (Rs. crore) | (1.33) | 0.56 | 1.08 | 1.71 * |
| Net worth (Rs. crore) | 24.50 | 25.06 | 37.97 | 39.68 |
| Gross advances (on- book; Rs. crore) | 51.79 | 64.72 | 70.47 | 115.14 |
| Managed advances (including off-book; Rs. crore) | 59.91 | 79.55 | 94.52 | 149.80 |
| Total managed assets (Rs. crore) | 73.99 | 92.12 | 128.72 | 176.38 |
| Return on average managed assets (%) | -1.97% | 0.69% | 0.98% | 1.50% * |
| Return on average net worth (%) | -5.28% | 2.30% | 3.42% | 5.88% * |
| Gearing (times) | 1.63 | 2.00 | 1.62 | 2.45 |
| Managed gearing (times) | 1.96 | 2.59 | 2.25 | 3.32 |
| Gross NPA (%) | 1.63% | 2.33% | 1.76% | 2.09% |
| Net NPA (%) | 1.38% | 1.87% | 1.25% | 1.69% |
| Solvency (Net NPA/Net worth) | 2.93% | 4.82% | 2.30% | 4.88% |
| CRAR (%) | 68.82% | 54.27% | 64.91% | 42.78% |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Managed gearing = (on-book debt + off-book portfolio) / net worth

* profit before tax (PBT) basis

Status of non-cooperation with previous CRA: Not applicable

Any other information:

ManiBhavnam faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial, operating and rating-linked covenants. Upon its failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

| Instrument | Current Rating (FY2023) | | | | Chronology of Rating History for the Past 3 Years | | |
|-------------------|-------------------------|--------------------------|--------------------------------|-------------------------|---|---------------------------------|-------------------------|
| | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 |
| | | | | Feb 17, 2023 | Dec 30, 2021 | Jul 29, 2020 | Aug 08, 2019 |
| Term Loans | Long Term | - | - | - | - | [ICRA]BB+ (Negative); withdrawn | [ICRA]BBB-(Negative) |
| Term Loans | Long Term | 50.00 | 27.63 | [ICRA]BBB- (Stable) | [ICRA]BBB- (Stable) | - | - |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|-------------------|----------------------|
| Term Loans | 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 loans | Dec-21 to Dec-22 | 10.9%-11.8% | Nov-26 to Dec-29 | 27.63 | [ICRA]BBB- (Stable) |
| NA | Term loans - unallocated | NA | NA | NA | 22.37 | [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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