February 18, 2025

Mahaveer Finance India Limited: [ICRA]BBB+ (Stable) assigned to Rs. 50-crore NCDs; rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term fund-based TL	100.00	100.00	[ICRA]BBB+ (Stable); reaffirmed
Non-convertible debentures	40.00	40.00	[ICRA]BBB+ (Stable); reaffirmed
	-	50.00	[ICRA]BBB+ (Stable); assigned
Total	**140.00**	**190.00**	

**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 compound annual growth rate (CAGR) of 29% over the last five years (FY2020-FY2024). Further, it grew by 32% (annualised) in H1 FY2025. ICRA expects the AUM to increase at a CAGR of 50% over the next two years. MFIL had a managed gearing of 5.1 times and a capital-to-risk weighted assets ratio (CRAR) of 24.3% as of September 2024. The company would be required to raise capital in a timely manner to keep 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 1.6% in H1 FY2025 (1.9% in FY2024 and 2.3% in FY2023), declining on account of higher credit costs with the moderation in the asset quality. Despite increasing, ICRA notes that credit costs remained moderate at 0.6% in H1 FY2025 (0.1% in FY2024) as the company continued to maintain limited losses on repossessed assets.

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 September 2024. The rating also considers the moderate credit profile of the borrowers, who are usually first-time vehicle owners or small fleet operators, etc. The asset quality indicators had moderated in H1 FY2025, with the gross stage 3 at 3.1%[2] as of September 2024 (2.1% as of March 2024), on account of incremental slippages.

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 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

[1] *Profit after tax/Average managed assets*
[2] *Gross non-performing assets (GNPAs) of 4.7%*

three promoter directors, three investor director and two 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. The profitability was supported by healthy interest margins, given the segment it operates in, while credit costs remained under control on the back of the company's demonstrated ability to achieve recoveries through the repossession of assets. However, the profitability declined to 1.6% in H1 FY2025 from 1.9% in FY2024 as credit costs increased with the moderation in the asset quality while operating expenses improved to 4.2% from 4.5% in FY2024. MFIL's ability to improve its operating efficiency and control its credit costs would be crucial for sustaining its profitability, going forward.

Capitalisation commensurate for near-term growth requirements – MFIL's capitalisation profile was supported by the capital infusions by private equity (PE) investors in the past. It 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. As of September 2024, capitalisation remained adequate with the managed gearing at 5.1 times and CRAR at 24.3% (4.5 times and 28.2%, respectively, as of March 2024). ICRA notes that the company targets to operate with a managed gearing of less than 6 times and would thus 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 it expanded to Andhra Pradesh and Telangana in 2016 and 2017, respectively. Its AUM increased at a CAGR of ~29% during FY2020-FY2024. Further, it grew by 32% (annualised) in H1 FY2025 and stood at Rs. 883 crore as of September 2024. As MFIL's AUM is expected to grow at a CAGR of 50% in the next two years, it would be crucial to expand its branch network, which would support the AUM growth.

As of September 2024, MFIL's operations were spread across Tamil Nadu, Puducherry, Andhra Pradesh and Telangana with 67 branches. Tamil Nadu and Andhra Pradesh accounted for ~84% of the AUM as of September 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 records. 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 September 2024, the gross stage 3 rose to 3.1% from 2.1% as of March 2024 due to incremental slippages. However, MFIL increased it expected credit loss (ECL) provisions to 2.1% of the loan book as of September from 1.6% as of March 2024.

Limited diversification of funding sources – As of December 2024, term loans from banks and NBFCs accounted for 87% of the overall borrowings followed by debentures (9%) and cash credit from banks (4%). MFIL had funding lines from 47 banks/financial institutions (FIs) as of December 2024. Its average cost of funds had improved to 12.3% from 13.1% in FY2024 (13.4% in FY2023). Given the expectation 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.

[3] Rs. 20.0 crore as compulsorily convertible debentures in FY2020; to be converted in FY2025

Liquidity position: Adequate

As of December 2024, MFIL had on-balance sheet liquidity of Rs. 74.4 crore and unutilised bank lines of Rs. 20.0 crore. These, along with the collections from advances, are expected to be adequate for its debt repayment obligations of Rs. 327.4 crore during April-September 2024. The asset-liability management statement, as of December 2024, had positive cumulative mismatches across all buckets.

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. Currently, 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 67 branches as of September 2024. It is managed by the promoters – Mr. Mahaveer Chand Dugar (Executive Vice Chairman) and Mr. Deepak Dugar (Managing Director and Chief Executive Officer) and Mr. Praveen Dugar (Deputy Managing Director and Chief Financial Officer), who are Mr. Mahaveer Chand Dugar's sons. Banyan Tree Growth Capital and First Bridge India Growth Fund (private equity funds) held 25.2% and 22.7%, respectively, of the diluted stake as of December 2024.

MFIL reported a net profit of Rs. 16.6 crore on a managed asset base of Rs. 995.3 crore in FY2024 compared to a net profit of Rs. 14.7 crore on a managed asset base of Rs. 726.9 crore in FY2023. Further, it reported a net profit of Rs. 8.5 crore in H1 FY2025 on a managed asset base of Rs. 1,160.2 crore.

Key financial indicators (Ind-AS)

Mahaveer Finance India Limited	FY2023	FY2024	H1 FY2025
Total income	104.1	131.1	78.9
Profit after tax	14.7	16.6	8.5
Total managed assets	726.9	995.3	1,160.2
Return on managed assets	2.3%	1.9%	1.6%
Manged gearing (times)	5.5	4.5	5.1
Gross stage 3	4.3%	2.1%	3.1%
CRAR	24.6%	28.2%	24.3%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Feb-18-2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long-term fund based – TL	Long term	100.00	[ICRA]BBB+ (Stable)	Jun-11-2024	[ICRA]BBB+ (Stable)	-	-	-	-	-	-
				Jun-20-2024	[ICRA]BBB+ (Stable)	-	-	-	-	-	-
Non-convertible debenture	Long term	90.00	[ICRA]BBB+ (Stable)	Jun-20-2024	[ICRA]BBB+ (Stable)	-	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity indicator
Long-term fund-based TL	Simple
Non-convertible debenture	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**	Mar-24-2022	NA	Sep-30-2025	3.08	[ICRA]BBB+ (Stable)
NA	**Term loan 2**	Jul-20-2023	NA	Jan-27-2026	5.20	[ICRA]BBB+ (Stable)
NA	**Term loan 3**	Nov-27-2023	NA	Dec-18-2026	12.78	[ICRA]BBB+ (Stable)
NA	**Term loan 4**	Feb-28-2024	NA	Mar-12-2027	10.83	[ICRA]BBB+ (Stable)
NA	**Term loan 5**	Feb-29-2024	NA	Mar-30-2029	21.49	[ICRA]BBB+ (Stable)
NA	**Term loan 6**	Jun-26-2024	NA	Jun-01-2027	8.25	[ICRA]BBB+ (Stable)
NA	**Term loan 7**	Jul-26-2024	NA	Aug-01-2027	13.75	[ICRA]BBB+ (Stable)
NA	**Term loan 8**	Aug-27-2024	NA	Nov-30-2026	10.00	[ICRA]BBB+ (Stable)
NA	**Term loan 9**	Dec-09-2024	NA	Dec-09-2027	10.00	[ICRA]BBB+ (Stable)
NA	**Term loan – Unallocated**	NA	NA	NA	4.62	[ICRA]BBB+ (Stable)
INE911L07113	**NCD**	Jul-03-2024	12.00%	Jul-03-2026	20.00	[ICRA]BBB+ (Stable)
NA	**NCD – Proposed**	NA	NA	NA	70.00	[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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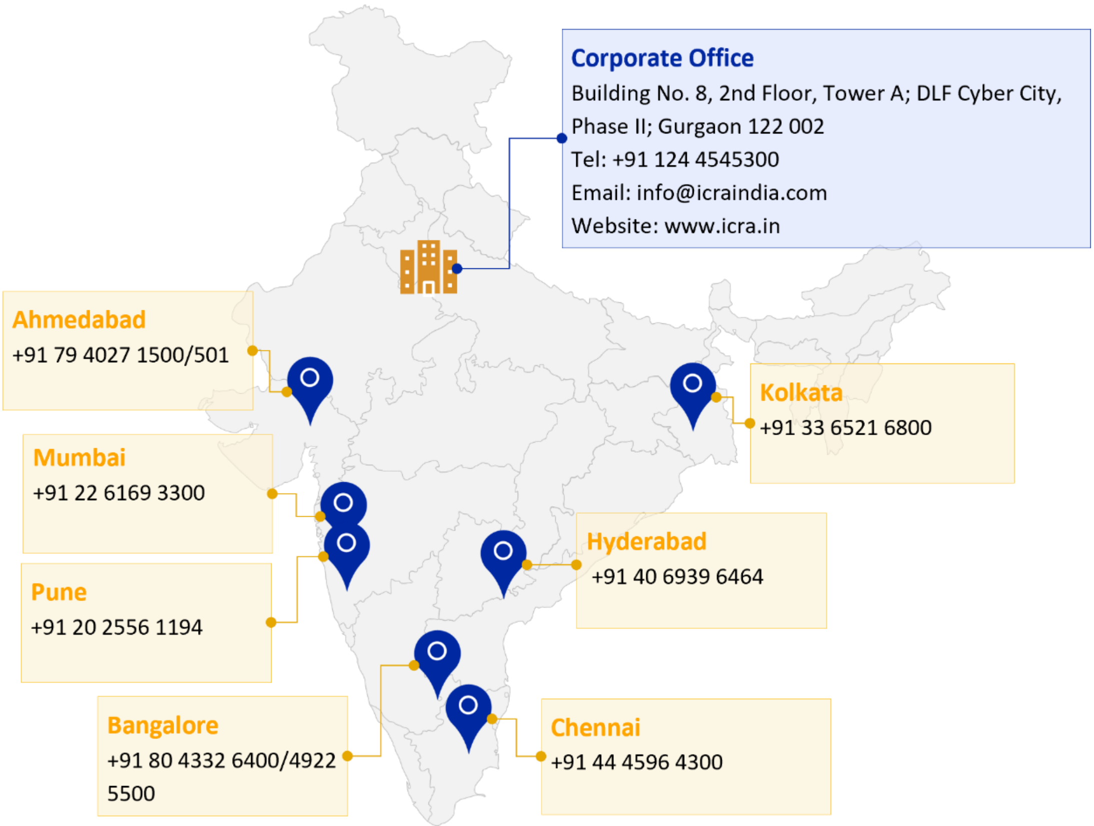

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