

May 15, 2019

Mahaveer Finance India Limited: Ratings confirmed for pass through certificates (PTCs) issued under a vehicle loan receivables securitisation transaction originated by Mahaveer Finance India Limited, as final

Summary of rated instruments

Issue Name	Instrument*	Initial Amount (Rs. Crore)	Rated Amount (Rs. Crore)	Rating action
Northern Arc 2019 CV Ronan	PTC Series A1	6.69	6.69	Provisional rating of [ICRA]A(SO) confirmed as final
	PTC Series A2	3.23	3.23	Provisional rating of [ICRA]BBB+ (SO) confirmed as final

*Instrument details are provided in Annexure-1

Rationale

ICRA has confirmed the provisional ratings assigned to PTCs issued by Northern Arc 2019 CV Ronan trust as final, as tabulated above.

In April 2019, ICRA had assigned Provisional [ICRA]A(SO) and Provisional [ICRA]BBB+(SO) ratings to PTC Series A1 and PTC Series A2 under a securitisation transaction backed by vehicle loan receivables originated by Mahaveer Finance India Limited (MFIL). Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said ratings have now been confirmed as final.

Key rating drivers

Credit strengths

- The first line of support is available for the transaction through subordination of 41.00% and 12.50% of pool principal for PTC Series A1 and A2 respectively
- Further credit support in the transaction is available through subordination of the excess interest spread (EIS) amounting to around 20.30% of the pool principal amount for PTC A1 and 14.49% of the pool principal amount for PTC A2 followed by a Credit Collateral (CC) equivalent to 4.00% of the initial pool principal amount
- Moderate seasoning profile of the pool contracts with average seasoning of ~9 months and absence of overdue contracts as on the pool cut-off date

Credit challenges

- Moderate average LTV of 76.7%; share of contracts with LTV more than 85% is 16.0%
- Moderate geographical concentration with the top state accounting for 48.7% of the overall pool principal amount

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of subordination of 41.00% of the pool principal (includes principal payable to PTC Series A2 and over collateralization). After PTC Series A1 has been fully paid, subordination of 12.50% of the pool principal will be available for PTC Series A2 (in the form of over collateralization). As per the waterfall mechanism applicable for the transaction, monthly pool collections shall be used for meeting the

promised interest payouts and expected principal payouts to PTC Series A1. The expected principal payout to PTC Series A1 on a monthly basis will be equal to the monthly principal billing on the pool in the preceding collection month plus an amount equal to the interest payout due to PTC Series A2 in the payout month. The interest payouts due to PTC Series A2 will accrue till PTC Series A1 has matured.

After PTC Series A1 has completely amortised, the monthly pool collections shall be utilised for meeting promised interest payouts and expected principal payouts to PTC Series A2. All excess collections after meeting the aforementioned payouts shall flow back to the Originator on a monthly basis.

Cash collateral of 4.00% of the initial pool principal provided by Mahaveer acts as further credit enhancement in the transaction. In the event of shortfall in meeting the promised PTC payouts during any month, the Trustee will utilize the cash collateral to meet the shortfall.

The pool is characterized by moderate seasoning (average seasoning of 8.74 months) and no overdue as on cut-off date. The pool has an average original LTV of around 76.66%. The selected pool consists of receivables from loans given for used vehicles in the Car (Car; around 60% share in the pool), Commercial Vehicle (CV; around 39.6% share in the pool), and Tractor (Tractor; around 0.3% share in the pool) asset classes.

The pool has moderate geographic concentration with top state of Tamil Nadu accounting for ~48.7% of the overall pool principal followed by Andhra Pradesh accounting for ~33.9% of the overall pool principal amount. At a branch level, the top branch accounts for ~7.2% of the overall pool principal while the top 10 branches account for ~47.6% of the overall pool principal amount.

Past rated pool performance

ICRA has rated 2 Multi Originator transactions in which Mahaveer was one of the originators. The performance of the Mahaveer sub-pools is characterised by cumulative collection efficiencies of close to 100% and low levels of delinquencies till date.

Key rating assumptions

ICRA's cash flow modelling for rating of ABS transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for loss and the Coefficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and rated pools, and also the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 5.5% - 6.5%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 6.0% - 9.0% per annum.

Liquidity position

The principal amount on the rated PTCs is promised on the scheduled maturity date. Only the interest amount is promised on a monthly basis. This structural feature imparts significant liquidity in the transaction, as even a small amount of collections in the underlying pool contracts would be sufficient to meet the scheduled PTC payouts.

Additionally, there is credit collateral available in the transaction amounting to 4.00% of the pool principal amount. The credit collateral is adequate to meet payment of seven months of interest payouts due to the senior PTC investors even in an unlikely scenario of no collections in the pool.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation / Standalone	Not Applicable

About the company

Mahaveer Finance India Limited (MFIL) is a Non-Banking Finance Company engaged in financing of used commercial / passenger Vehicles in Tamil Nadu, Andhra Pradesh, Telangana & Pondicherry. The company was incorporated in January 1981 and was acquired by the present promoters in 1987. The company was initially "A" category Deposit taking NBFC and in the year 2015 the company had surrendered its deposit taking license. The company also in 2015 had taken the SEBI offer of de-listing as the Madras Stock Exchange went under dissemination board. The Company over the years has built a strong network of over 35,000 small road transport operators, dealers, agents, and individuals. MFIL is managed by Mr. Mahaveerchand Dugar as the managing director and his 2 son's Mr. Deepak Dugar, Joint Managing director and Mr. Praveen Dugar, Executive Director. Together they have a consolidated industry experience of 90 years. The company in the last 5 years has been aggressively building a completely professional team and has been growing at a YoY of 80% P.A., As on December 2018 the company has an AUM of Rs.196.02 Cr through its 53 branches in Tamil Nadu, Andhra Pradesh, Telangana and Pondicherry.

Key financial indicators (audited)

	FY2018	9M FY2019 ¹
Total Income (Rs. Crore)	22.4	29.0
Profit after tax (Rs. Crore)	4.8	6.1
Net worth (Rs. Crore)	19.4	48.6
Total Managed Assets (Rs. Crore)	139.0	202.6
Return on managed Assets %	3.4%	4.7%
Return on Net worth %	24.6%	23.7%
Gearing	6.0	3.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

¹ Provisional

Rating history for last three years

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating in FY2020	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
				May 2019	April 2019	-	-	
1	Northern Arc 2019	PTC Series A1	6.69	6.69	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-
	CV Ronan	PTC Series A2	3.23	3.23	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-

**Initial Ratings assigned*

Complexity level of the rated instrument: Highly Complex

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate [#]	Scheduled Maturity Date	Amount Rated (Rs. crore ²)	Current Rating
Northern Arc 2019 CV Ronan	PTC Series A1	March 2019	10.75%	August 2021	6.69	Provisional [ICRA]A(SO)
	PTC Series A2	March 2019	14.50%	August 2021	3.23	Provisional [ICRA]BBB+(SO)

[#] Calculated on XIRR basis

² 100 lakh = 1 crore = 10 million

ANALYST CONTACTS

Vibhor Mittal

+91 22 6114 3440

vibhorm@icraindia.com

Abhijeet Ajinkya

+91 22 6114 3434

abhijeet.ajinkya@icraindia.com

Rahul Panigrahi

+91 22 6114 3436

rahul.panigrahi@icraindia.com

Apurva Sharma

+91 22 6114 3452

apurva.sharma@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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