Manba Finance Limited

February 28, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	280.08 (Enhanced from 230.08)	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures	170.00	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures	50.00	CARE BBB+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the various debt instruments and bank facilities of Manba Finance Limited (MFL) continue to factor in the experience of the management in two-wheeler (2W) financing, the comfortable capitalisation levels, and the improving profitability parameters.

That said, the ratings remain constrained by the moderate asset quality, the continued geographical and product concentration, and the moderate resource profile of the company.

The company's ability to further scale up the business along with improve its profitability while maintaining healthy asset quality will remain a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained scaling-up of the business with significant growth in the loan book of the company while also maintaining healthy asset quality and profitability.
- Material improvement in the liquidity profile of the company with less dependence on the cash credit lines and diversification in the resource profile.

Negative factors

- Continued deterioration in the gross non-performing assets (GNPA) beyond 4.5% on a sustained basis.
- Lack of significant scale-up in the loan book over the medium term.
- Weakness in the profitability and/or capitalisation profile, with assets under management (AUM) to tangible net worth (TNW) rising above 5x.

Analytical approach: Standalone

CARE Ratings Limited (CARE Ratings) has analysed standalone credit profile of the company

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation of the continued operational and financial position along with comfortable capitalisation levels.

Detailed description of the key rating drivers:

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key strengths

Strong experience in 2W financing

MFL has been in operating in the 2W financing segment since 1996, having a vintage of 27 years and having gained considerable experience in this segment. Currently, it has tie-ups with more than 600 dealers, of which approximately 250 are authorised dealers and the remaining are multi-brand outlets (MBOs). The company has expanded its presence in Maharashtra, Gujarat, Rajasthan, Chhattisgarh and Madhya Pradesh. It now has presence in Five states across 63 locations as on December 31, 2023. MFL has now also started financing used 2W on a steady state basis, given its experience and knowledge in this industry. In addition to this, the company also offers top-up loans to its existing customers against the 2W financed.

Improvement in profitability parameters in the current fiscal

The profitability of MFL improved stable in 9MFY24 with a profit-after-tax (PAT) of ₹21.29 crore on a total income of ₹136 crore as against a PAT of ₹12.76 crore on a total income of ₹97 crore in 9MFY23. In 9MFY24, on account of the high disbursements of ₹448 crore (9MFY23: ₹348 crore), the operational expenditure (opex) came down to 7.92% from 6.91% in 9MFY24. This has helped in improving the profitability.

The average cost of funds increased by 82 bps and stood at 12.23% in 9MFY24, because of the rising interest rate scenario across industry. During 9MFY24, funds worth ₹107.42 crore were raised through securitisation as against ₹101.77 crore during 9MFY23. The sustainability of the improved profitability will remain a key monitorable.

Comfortable capitalisation and gearing levels

The company continues to maintain healthy capitalisation levels. As on December 31, 2023, the total capital-to-risk weighted assets ratio (CRAR) stood at 27.83% (entirely comprising of Tier-I capital) as against 30.65% as on December 31, 2022. The current CRAR level is comfortable, as against the regulatory requirement of 15%, indicating sufficient capital cushion for business growth as well as to absorb losses if any.

The total debt (TD) of MFL stood at ₹744 crore as on December 31, 2023, as against ₹519 crore as on December 31, 2022. Consequently, the gearing stood increased at, at 3.98x as on December 31, 2023 (3.20x as on December 31, 2022). Post the capital infusion in FY20, there has been no further capital infusion up to date. However, the company planning IPO to raise equity to the tune of Rs.200-250 crore in H1FY2025, for the same Draft Red Herring Prospectus will be filed in Q4FY24.

Key weaknesses

Average asset quality

The asset quality of MFL's loan book saw an impact during FY22 as a result of the economic disruption in the country due to various lockdowns amid the increasing COVID-19 infections, which impacted the earnings and cash flows of customers. The asset quality started to deteriorate from June 2021 with GNPAs at 6.88% and 5.21% as on September 30, 2021. During Q4FY23, the company sold off loans worth ₹21 crore (net of provisions) to asset reconstruction companies (ARCs) and collections on the security receipts (SRs) are in line with management expectations. This has helped the company in improving the asset quality in FY23. The GNPAs of the company improved from 4.94% in FY22 to 3.74 in FY23. However, as on December 31, 2023, the GNPA increased to 3.89%, in line with the historical trend. There has been no restructuring of loans done by the company during the last three fiscals as well as in the current fiscal.

The company had written-off Rs. 2.46 crore in FY23 and there was a Rs.1.86 crore write-offs during 9MFY24. The company's efforts on recovery of overdue and on improving the asset quality will remain a key monitorable at least for the next two to three quarters.

Modest Scale of operations

The lending activity of MFL began to witness an impact since the beginning of COVID-19, i.e., March 2020, which gained traction during the festive season from October 2020. However, the second wave of COVID-19 again impacted the disbursements for the first six months of FY22. Given the loss of business opportunities, the assets under management (AUM) grew moderately and, as on March 31, 2022, stood at ₹489 crore as against ₹484 crore as on March 31, 2021. By FY23, the business started growing again and in FY23 it reached its highest level at ₹455. Further disbursement increased from Rs. 348 crore in 9MFY23 to Rs. 448 crore in 9MFY24.. As a result, the loan book stood at ₹791 crore as on December 31, 2023, as against ₹631 crore as on December 31, 2022.

Given the vintage of the company in the 2W financing industry, the scale of operation continues to remain moderate. The ability of MFL to further grow and expand along with the asset quality being maintained at a level that will not lead to an impact on the credit cost of the company will remain a key monitorable.

Geographical and product segment concentration

MFL has high reliance on the monoline product segment. As on December 31, 2023, 97% of the AUM was concentrated towards 2W financing and the balance was the small and medium enterprise (SME) loan book. The company has discontinued the disbursements in the SME segment, and by FY24-end, this segment is expected to run down.

MFL has its presence across five states – Maharashtra, Rajasthan, Gujarat, Madhya Pradesh and Chhattisgarh. The number of locations also increased from 28 in FY22 to 63 in 9MFY24. However, the portfolio continues to remain concentrated in the state of Maharashtra, with 67.97% portfolio concentration in the state as on December 31, 2023. The concentration level has come down from 99% in FY19; it still remains concentrated in the state of Maharashtra, followed by Gujarat at 21.94%. These two states together form 89.91% of the total portfolio, followed by 5.78% in Rajasthan, 3.98% in Chhattisgarh and 0.34% in Madhya Pradesh. The branches in Madhya Pradesh were set up in Q2FY24.

The company's ability to diversify its geographic presence, thereby reducing the concentration in the regions of Maharashtra, will continue to remain a key monitorable.

Moderate resource profile

As on December31, 2023, the total debt of the company stood at ₹744 crore, of which ₹141.34 crore is in the form of pass-through certificates (PTCs). As on December 31, 2023, the debt excluding PTCs was at ₹605.86 crore, of which 38.17% is through banks in the form of term loans and working capital loans, 40.51% through NBFCs in the form of term loans, and the balance 21.32% in the form of NCDs. A higher share of funding from NBFCs may affect the cost of borrowings for the company in an increasing interest rate scenario. MFL's ability to raise funds at relatively lower cost will remain key monitorable.

Liquidity: Adequate

As on December 31, 2023, the asset-liability management statement of the company had no negative cumulative mismatches in any of the short-term buckets. As on January 31, 2024, the company had a free cash and bank balance of ₹26.66 crore along with lien-marked fixed deposits (FDs) (for borrowings) of ₹36.97 and Liquid investments of Rs. 15.00 crore as against the debt repayments of ₹87.17 crore for the next three months. In addition to the above liquidity, the company has unutilised overdraft (OD) facilities of ₹5.65 crore and undrawn sanctions of ₹20 crore.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Non Banking Financial Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

MFL is a Mumbai-based Reserve Bank of India (RBI)-registered NBFC, engaged in 2W financing in Mumbai. MFL commenced operations in 1996 and its business is concentrated in Mumbai and its surrounding regions. It has tie ups with over 600 dealers. At present, the operations of the company are spread across Five states – Maharashtra, Gujarat, Rajasthan, Chhattisgarh and Madhya Pradesh with a total of 63 locations. It has acquired the preferred financer tag for Suzuki, Yamaha, TVS, and Hero in its operating regions. The company's day-to-day operations are headed by Manish Shah, Promoter and Managing Director. MFL is wholly owned by Manish Shah, in his individual capacity, as well as through group companies and relatives.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total income	107	134	136
PAT	9.43	15.22	21.29
Total Assets (net of deferred tax assets and intangible assets)	562	787	955
Gross NPA (%)	4.94	3.74	3.89
ROTA (%)	1.73	2.26	3.41

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bank Facilities-Term Loan Long Term	-	-	-	-	220.08	CARE BBB+; Stable
Bank Facilities-Fund-based - LT-Cash Credit	-	-	-	-	60.00	CARE BBB+; Stable
Non-Convertible Debentures	INE939X07077	27-07-2023	12.60%	03-08-2025	25.00	CARE BBB+; Stable

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-Convertible Debentures	INE939X07085	26-09-2023	12.60%	26-03-2026	25.00	CARE BBB+; Stable
Non-Convertible Debentures	INE939X07093	10-10-2023	12.60%	10-10-2025	50.00	CARE BBB+; Stable
Non-Convertible Debentures	INE939X07085	26/09/2023	12.60%	26/03/2026	25.00	CARE BBB+; Stable
Non-Convertible Debentures	INE939X07119	23/02/2024	13.25 %	28/02/2026	20.00	CARE BBB+; Stable
Non-Convertible Debentures (Proposed)	-	-	-	-	25.00	CARE BBB+; Stable
Non-Convertible Debentures (Proposed)	-	-	-	-	50.00	CARE BBB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type*	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Term Loan-Long Term	LT	220.08	CARE BBB+; Stable	1)CARE BBB+; Stable (31-Oct-23) 2)CARE BBB+; Stable (25-Sep-23) 3)CARE BBB+; Stable (28-Jul-23)	1)CARE BBB+; Stable (10-Mar-23)	1)CARE BBB+; Negative (25-Mar-22)	1)CARE BBB+; Negative (26-Mar-21) 2)CARE BBB+; Negative (03-Sep-20)
2	Fund-based - LT-Cash Credit	LT	60.00	CARE BBB+; Stable	1)CARE BBB+; Stable (31-Oct-23)	1)CARE BBB+; Stable (10-Mar-23)	1)CARE BBB+; Negative (25-Mar-22)	1)CARE BBB+; Negative (26-Mar-21)

					2)CARE BBB+; Stable (25-Sep-23) 3)CARE BBB+; Stable (28-Jul-23)			2)CARE BBB+; Negative (03-Sep-20)
3	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	1)Withdrawn (25-Mar-22)	1)CARE A2 (26-Mar-21) 2)CARE A2 (03-Sep-20)
4	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (28-Jul-23)	1)CARE BBB+; Stable (10-Mar-23)	1)CARE BBB+; Negative (25-Mar-22)	1)CARE BBB+; Negative (26-Mar-21) 2)CARE BBB+; Negative (03-Sep-20) 3)CARE BBB+; Stable (22-Jun-20)
5	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (31-Oct-23) 2)CARE BBB+; Stable (25-Sep-23) 3)CARE BBB+; Stable (28-Jul-23)	1)CARE BBB+; Stable (10-Mar-23)	1)CARE BBB+; Negative (25-Mar-22)	1)CARE BBB+; Negative (26-Mar-21)
6	Debentures-Non Convertible Debentures	LT	40.00	CARE BBB+; Stable	1)CARE BBB+; Stable (31-Oct-23) 2)CARE BBB+; Stable (25-Sep-23)	-	-	-

					3)CARE BBB+; Stable (28-Jul-23)			
7	Debentures-Non Convertible Debentures	LT	40.00	CARE BBB+; Stable	1)CARE BBB+; Stable (31-Oct-23) 2)CARE BBB+; Stable (25-Sep-23)	-	-	-
8	Debentures-Non Convertible Debentures	LT	40.00	CARE BBB+; Stable	1)CARE BBB+; Stable (31-Oct-23) 2)CARE BBB+; Stable (25-Sep-23)	-	-	-
9	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB+; Stable	1)CARE BBB+; Stable (31-Oct-23)	-	-	-
10	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB+; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 91 44 2850 1001 E-mail: pradeep.kumar@careedge.in	Gaurav Dixit Director **CARE Ratings Limited** Phone: 91-120-4452002 E-mail: gaurav.dixit@careedge.in Sudam Shrikrushna Shingade Associate Director **CARE Ratings Limited** Phone: 912267543453 E-mail: sudam.shingade@careedge.in Harsh Sheth Analyst **CARE Ratings Limited** E-mail: harsh.sheth@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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