Manba Finance Limited (Revised)

October 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	230.08	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures	120.00	CARE BBB+; Stable	Reaffirmed
Non-convertible debentures	-	-	Withdrawn
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 muted business growth with some traction in the current fiscal year, 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: Factors that could, individually or collectively, lead to positive rating action or upgrade

- 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: Factors that could, individually or collectively, lead to negative rating action or downgrade

- 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

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

Key strengths

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

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 500 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, and Chhattisgarh. It now has presence in four states across 55 locations as on June 30, 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 stood stable in FY23 with a profit-after-tax (PAT) of ₹15.22 crore on a total income of ₹134 crore as against a PAT of ₹9.43 crore on a total income of ₹107 crore in FY22. In FY23, on account of the highest-ever disbursements of ₹455 crore (FY22: ₹313 crore), the operational expenditure (opex) came down to 7.62% from 8.39% in FY22. This, along with a higher net interest margin (NIM) of 10.33% (8.86 for FY22), has helped in improving the profitability.

The average cost of funds improved by 68 bps and stood at 11.41% in FY23, as the company's borrowings through securitisation has increased over time, which has benefitted it, considering the rates are relatively lower. During FY23, funds worth ₹158 crore were raised through securitisation as against ₹50.81 crore during FY22. During Q1FY24, the PAT stood at ₹2.68 crore as against a PAT of ₹3.59 crore in Q1FY23 due to the higher opex of ₹14.37 crore in Q1FY24 as against ₹11.94 crore in Q1FY23. 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 March 31, 2023, the total capital-to-risk weighted assets ratio (CRAR) stood at 33.03% (entirely comprising of Tier-I capital) as against 34.24% as on March 31, 2022. As on June 30, 2023, the CRAR stood at 34.33% (entirely comprising of Tier-I capital). 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 ₹598 crore as on March 31, 2023, as against ₹394 crore as on March 31, 2022. As on June 30, 2023, the TD stood at ₹580 crore. Consequently, the gearing stood at a similar level, at 3.63x as on March 31, 2023 (2.63x as on March 31, 2022). As on June 30, 2023, the gearing stood at 3.46x. Post the capital infusion in FY20, there has been no further capital infusion up to date. However, for FY24, the company plans to raise equity of around ₹75-100 crore in the last quarter of FY24.

Key weaknesses

Average albeit improving 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 June 30, 2023, the GNPA increased to 3.93%, in line with the historical trend, but is expected to decline in the following quarters. There has been no restructuring of loans done by the company during the last three fiscals as well as in the current fiscal.

During FY23, the company wrote off ₹2.46 crore as against ₹2.97 crore in FY22. The company's efforts on recovery of overdue and on improving the asset quality on an absolute basis will remain a key monitorable at least for the next two to three quarters.

Muted growth in FY22; however, some traction seen in FY23 and Q1FY24

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. The disbursements in FY23 reached its highest level at ₹455 crore as against ₹313 crore in FY22. As a result, the loan book stood at ₹630 crore as on March 31, 2023, as against ₹489 crore as on March 31, 2022. The disbursement for Q1FY24 stood at ₹115 crore as against ₹92 crore in Q1FY23. 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 June 30, 2023, 96% 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 four states – Maharashtra, Rajasthan, Gujarat, and Chhattisgarh. The number of locations also increased from 28 in FY22 to 55 in Q1FY24. However, the portfolio continues to remain concentrated in the state of Maharashtra, with 68.11% portfolio concentration in the state as on June 30, 2023. The concentration level has come down from 99% in FY19; it still remains concentrated in the state of Maharashtra, followed by Gujarat at 26.69%. These two states together form 94.80% of the total portfolio, followed by 3.21% in Rajasthan, and 1.99% in Chhattisgarh. The branches in Chhattisgarh were set up in Q2FY23.

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 March 31, 2023, the total debt of the company stood at ₹598 crore, of which 48% comprised term loans from banks, 47% from non-banking financial companies (NBFCs), and the balance in the form of non-convertible debentures (NCDs). Although the borrowing is well diversified between 28 lenders, it is skewed towards funding from NBFCs. The incremental borrowings were mainly raised through NBFCs, as it increased from ₹171 crore as on March 31, 2022, to ₹281 crore as on March 31, 2023.

As on June 30, 2023, the total debt of the company stood at ₹580 crore, of which ₹153.87 crore is in the form of pass-through certificates (PTCs). As on June 30, 2023, the debt excluding PTCs was at ₹428 crore, of which 46% is through banks in the form of term loans and working capital loans, 50% through NBFCs in the form of term loans, and the balance 4% 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. The company has started raising funds through PTCs, where the rates are comparatively lower, around 11.40%. MFL's ability to raise funds at relatively lower cost will remain key monitorable.

Liquidity: Adequate

As on June 30, 2023, the asset-liability management statement of the company had no negative cumulative mismatches in any of the short-term buckets. As on September 30, 2023, the company had a free cash and bank balance of ₹65.30 crore along with lien-marked fixed deposits (FDs) (for borrowings) of ₹34.77 crore as against the debt repayments of ₹81.82 crore for the next three months. In addition to the above liquidity, the company has unutilised overdraft (OD) facilities of ₹7.02 crore and undrawn sanctions of ₹50 crore.

Applicable criteria

[Policy on default recognition](#)
[Financial Ratios - Financial Sector](#)
[Rating Outlook and Credit Watch](#)
[Non Banking Financial Companies](#)
[Withdrawn](#)

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 four states – Maharashtra, Gujarat, Rajasthan, and Chhattisgarh, with a total of 55 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)	Q1 FY24 (UA)
Total income	107	134	36
PAT	9.43	15.22	2.68
Total Assets (net of deferred tax assets and intangible assets)	562	787	778
Gross NPA (%)	4.94	3.74	3.93
ROTA (%)	1.73	2.26	1.54

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of the 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	-	-	-	07-12-2025	170.08	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
Bank Facilities-Fund-based - LT-Cash Credit	-	-	-	-	60.00	CARE BBB+; Stable
Non-Convertible Debentures	INE939X07028	07-08-2020	10.60%	07-08-2023	0.00	Withdrawn
Non-Convertible Debentures	INE939X07077	27-07-2023	12.60%	03-08-2025	25.00	CARE BBB+; Stable
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 (Proposed)	-	-	-	-	70.00	CARE BBB+; Stable

ISIN INE939X07028 has been matured and redeemed.

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	170.08	CARE BBB+; Stable	1)CARE BBB+; Stable (25-Sep-23) 2)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 (25-Sep-23) 2)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)
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)CARE BBB+; Stable (25-Sep-23) 2)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 (25-Sep-23) 2)CARE BBB+; Stable (28-Jul-23)	-	-	-
7	Debentures-Non Convertible Debentures	LT	40.00	CARE BBB+; Stable	1)CARE BBB+; Stable (25-Sep-23)	-	-	-
8	Debentures-Non Convertible Debentures	LT	40.00	CARE BBB+; Stable	1)CARE BBB+; Stable (25-Sep-23)	-	-	-

9	Debentures-Non Convertible Debentures (Proposed)	LT	50.00	CARE BBB+; Stable	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the 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.

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About us:
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