

Manappuram Asset Finance Limited

January 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long-term Bank facilities	145.00	CARE BBB-; (Under Credit watch with Positive Implications) (Triple B Minus) (Under Credit watch with Positive Implications)	Continues to be on Credit watch with Positive Implications
Total Bank Facilities	145.00 (Rs. One hundred forty five crore only)		
Long-term NCD	50.00	CARE BBB-; (Under Credit watch with Positive Implications) (Triple B Minus) (Under Credit watch with Positive Implications)	Continues to be on Credit watch with Positive Implications
Total Long-term Instruments	50 (Rs. Fifty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and debt instrument of Manappuram Asset Finance Limited (MAAFIN) continue to derive strength from experience of the promoter in lending business and demonstrated financial support extended by the promoter to the company, benefits derived from being part of the Manappuram group, experienced management team, adequate internal control system and adequate capitalization. The ratings are however constrained by limited track record, moderate scale of operations with limited geographical presence, weak asset quality with further moderation in H1FY21 (refers to the period April 01 to September 30), moderate profitability, moderately diversified resource profile and exposure to gold price movement risk.

The ratings continue to be on credit watch with positive implications following the approval by Board of Directors of MAAFIN for the proposal of Manappuram Finance Limited (MAFIL; rated CARE AA; Stable/ CARE A1+) to acquire the entire shares of MAAFIN. The proposal is subjected to regulatory approvals. CARE will closely follow the developments in this regard and will consider taking appropriate rating action in due course.

Rating sensitivities:

Positive factors:

- Improvement in the scale of operations along with improvement in profitability parameters.

Negative factors:

- Weakening of asset quality parameters.
- Weakening of capital adequacy levels.

Detailed description of the key rating drivers

Key Rating Strengths

Demonstrated financial support extended by promoter and benefits derived from being part of the Manappuram group

MAAFIN is promoted by Mr. V P Nandakumar along with his wife together holding 99.77% stake as on March 31, 2020. He is also the promoter, MD & CEO of Manappuram Finance Limited (MAFIL; rated CARE AA; Stable/CARE A1+), Manappuram Home Finance Limited, Manappuram jewellers, etc. He has experience of more than two decades in the NBFC space. The promoter has been infusing equity capital into the company on need basis. In addition to periodical equity infusion, the promoters have also extended personal guarantee to the bank borrowings of MAAFIN.

The flagship company of the group, MAFIL is one of the leading gold loan financiers in India, which has an established track record of operations for more than two decades. MAAFIN shares the common brand name and promoters with MAFIL which enables exchange of knowledge and best industry practices, thereby benefiting MAAFIN. MAAFIN also gets managerial support from the group since the company's board consists of six members, of whom three were earlier associated with the Manappuram group.

Experienced Management Team

MAAFIN has an experienced management team having experience of more than a decade in lending. Mr. V.S. Prasannan, Managing Director, has an experience of more than three decades. Formerly, he was the Managing Director of MABEN Nidhi

Ltd, part of the Manappuram group involving in lending against gold and LAP. The operations are looked after by a team of professionals who are managing well-defined functional team which is overseen by the board.

Adequate Internal Control System

MAAFIN has put in place adequate risk management systems. The company has implemented strong systems in place for ensuring the gold security thereby reducing the custodial risks, including highly secured vaults with dual control and insurance of gold. A team of internal auditors is spread across the region, for auditing the branches. The presence of adequate Information Technology and MIS ensures smooth functioning of operations and helps the senior management in exercising effective control of its operations. With respect to LAP (Loan against property) and BL (unsecured), MAAFIN is having a defined structure to monitor the operations at various levels. MAAFIN has customer centres in different locations where the sourcing of business is carried out by the dedicated sales team. The selection of customers runs through several levels of checks including initial screening by the sourcing team. After the initial screening, the dedicated credit team from HO performs the second level of screening and forwards the same for approval by MD. The loan is sanctioned based on the risk scorecard of the customer which takes the input from business-related documents, customer's personal details and credit bureau records. Both disbursements and collections are done by transfer of money through banks; however, in some cases, the collections are done by cash.

Adequate Capitalisation

MAAFIN's capitalisation level is adequate with Tier I CAR and Total CAR at 14.71% and 22.06%, respectively, as on March 31, 2020 as compared with 14.15% and 21.23%, respectively, as on March 31, 2019. However, the company would require additional capital for their projected growth to maintain the capital adequacy norms over the medium term. The promoter infused capital of Rs.5 crore in FY20 (refers to the period April 1 to March 31). Tier I CAR and Total CAR stood at 15.47% and 22.68% as on September 30, 2020. Furthermore, support is expected from the promoter to infuse capital on need basis to support business growth.

Key Rating Weaknesses

Limited track record with product concentration

MAFIL was incorporated in the year 1987, and the same was taken over by the promoter of Manappuram group, Mr V P Nandakumar during the year 2006-07. However, with change in the management of the company, the company operated independently from the year 2012 and is now offering various products like Gold loan, Vehicle loan, Loan against property (LAP) and Business loans (BL). However, the majority of the loan portfolio is concentrated with gold loan (about 76% of the overall portfolio as on September 30, 2020). Gold loan is likely to remain to be major contributor to the loan portfolio.

Moderate scale of operations with limited geographical presence

MAAFIN's loan portfolio size is moderate at around Rs.197 crore as on March 31, 2020 and Rs.213 crore as on September 30, 2020. MAAFIN has presence in TN, Kerala, Karnataka, Bihar and Odisha. Even though the overall portfolio is diversified across five states, majority of the portfolio is from Odisha and TN which accounts for 37% and 28%, respectively, as on March 31, 2020 and 40% and 25%, respectively, as on September 30, 2020. The LAP and vehicle loan portfolio is concentrated only in TN and Kerala. TN accounts for 52% of LAP portfolio (PY: 33%) and 69% of Vehicle Loan portfolio (PY: 61%) and Kerala accounts for 47% of LAP portfolio (PY: 64%) & 31% of vehicle loan portfolio (PY: 39%) as on March 31, 2020.

Weak asset quality due to higher delinquencies in LAP segment

MAAFIN's Asset quality deteriorated post demonetisation especially in LAP and BL. The asset quality improved during FY20 and GNPA (%) stood at 7.30% as on March 31, 2020 as against GNPA of 8.78% as on March 31, 2019. Out of the total GNPA of Rs.14.42 crore as on March 31, 2020, 70.31% of the NPAs are from LAP and BL. Around 55% (PY: 57%) of the LAP portfolio and 16% (PY: 13%) of BL portfolio is in NPA as on March 31, 2020. Asset quality further moderated in H1FY21 with increase GNPA (%) and NNPA (%) of 11.40% and 8.70% as on September 30, 2020, majorly due to impact of Covid-19 as the company had provided moratorium on Opt-in basis. The ability of the company to improve asset quality parameters remains critical from the rating perspective.

Moderate profitability profile

NIM improved from 10.20% during FY19 to 11.27% during FY20 with increase in yields during the year. Opex/average total assets improved from 9.90% in FY19 to 9.31% in FY20 with increase in the scale of operations. With credit costs remaining at 0.80% during FY20 (PY: 0.69%), the company reported ROTa of 1.37% in FY20 as against 0.69% in FY19. The company reported a PAT of Rs.2.84 crore on a total income of Rs.22.66 crore during H1FY21. During H1FY21, with decrease in Opex to average assets to 6.82%, the company reported ROTa of 2.52% despite increase in the credit cost to 1.40%.

The ability of the company to improve profitability by recovering the bad assets, improving business volume in both gold & non-gold products and improving asset quality remains critical for the credit perspective.

Moderately diversified Resource profile

The company's borrowings are moderately diversified with access towards bank borrowings, NCDs and Sub debts. Due to shorter tenure nature of loan advances, the company availed majority of the borrowings in the form of short-term facilities like CC, WCDL, etc. The short-term bank facilities constituted around 44% of the total borrowings as on March 31, 2020 (PY: 53%). NCDs and subordinated debt constituted around 38% and 16%, respectively, out of the total borrowings as on March 31, 2020 as against 30% and 17% as on March 31, 2019, respectively.

Inherent risks associated with gold business, however, mitigated through offering short-term products

Unlike other asset classes, gold loans are backed by highly liquid collateral (gold) resulting in relatively higher recovery and low losses. Furthermore, as per regulatory requirement, LTV is also capped at 75%. One of the factors which impact the ultimate recovery and influence the quantum of losses is market price of gold which has exhibited volatility in the past thereby affected the recovery. In order to mitigate this risk, MAAFIN focused on extending shorter term loans of less than 3 months, so that the gap between scrap values of gold kept as collateral and obligation of the borrower is minimized and the company does not face any losses at the time of recovery through auction.

Impact of Covid-19

The company has not availed moratorium from any of its lenders. With respect to the loan portfolio, the company provided moratorium on Opt-in basis at the request of customers. As on August 31, 2020, 20.75% of non-gold portfolio was under moratorium. There is a moderation in asset quality in non-gold portfolio during H1FY21 with slight improvement seen in the months of October 2020 and November 2020. However, the overall impact on the asset quality and profitability remains to be seen.

Liquidity: Adequate

The company's liquidity profile is adequate due to higher proportion of shorter tenure products (Gold loans majorly) which was funded through longer tenure liabilities and ALM profile as on September 30, 2020, is comfortable as there are no cumulative mismatches in any of the buckets upto 1 year. Cash and cash equivalents stood at Rs.4.64 crore and committed undrawn bank lines at Rs.28.17 crore as on September 30, 2020.

Analytical approach: Standalone. Factoring the support extended by the promoter group.

Applicable Criteria

[Criteria on assigning Outlook and Credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios-Financial Sector](#)

[Rating Methodology for Non-Banking Financial Companies](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

About the Company

M/s Manappuram Asset Finance Limited (MAAFIN), (Formerly known as M/s. LFC Hire purchase Company Private Limited) was incorporated on June 24, 1987, and was taken over by Mr V.P. Nandakumar (promoter of MAFIL) during the year 2006-07. As on March 31, 2020, 94.10% shares held by Mr Nandakumar VP & 5.66% by his wife and remaining shares are held predominantly by relatives and the employees in senior management and directors of MAAFIN. MAAFIN is presently engaged in extending gold loans, business loans, vehicle loans and loan against property.

As on March 31, 2020, the total loan portfolio outstanding was Rs.198 crore, of which loan against gold accounted for 71% of the total loan portfolio followed by LAP loan with 9%, vehicle loan with 10% and BL with 10%. MAAFIN has presence in five states (Odisha, Tamil Nadu, Karnataka, Kerala and Bihar) with 40 branches as on September 30, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	29.00	40.40
PAT	0.78	2.63
Interest coverage (times)	1.07	1.18
Total Assets	163.8	217.44
Net NPA (%)	6.41	4.96
ROTA (%)	0.51	1.37

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	145.00	CARE BBB- (Under Credit watch with Positive Implications)
Debentures-Non Convertible Debentures (Proposed)	-	-	-	50.00	CARE BBB- (Under Credit watch with Positive Implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Long Term	LT	145.00	CARE BBB- (Under Credit watch with Positive Implications)	-	1)CARE BBB- (Under Credit watch with Positive Implications) (27-Dec-19)	1)CARE BBB-; Stable (05-Sep-18)	-
2.	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB- (Under Credit watch with Positive Implications)	1)CARE BBB- (Under Credit watch with Positive Implications) (16-Jun-20)	-	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr No	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based-Long Term	Simple

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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