Manappuram Home Finance Limited

September 09, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	225.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**225.00 (Rs. Two Hundred Twenty-Five Crore Only)**		
Non-Convertible Debentures	200.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures	100.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Total Long Term Instruments	**300.00 (Rs. Three Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to derive comfort from the strong parentage by virtue of being a wholly-owned subsidiary of Manappuram Finance Ltd (MAFIL; rated 'CARE AA; Stable/ CARE A1+') and ensuing synergy benefits in the form of a shared brand name and managerial, financial and operational support. The ratings further factor in Manappuram Home Finance Limited ("MHFL" or "the company")'s comfortable capitalization and gearing levels and moderate profitability. However, the ratings remain constrained by the relatively weaker credit profile of MHFL's borrower segment, its limited track record, an unseasoned loan portfolio and poor asset quality as a result of its legacy book and further aggravated by the pandemic impact on smaller businesses.

Rating Sensitivities

Positive Factor- Factors that could lead to positive rating action/upgrade:

- Sustained improvement in the scale of business operations
- Further diversification in the resource profile going forward
- Further improvement in the profitability with ROTA>3% going forward
- Rating upgrade of the parent, MAFIL

Negative Factor - Factors that could lead to negative rating action/downgrade:

- Moderation in the credit profile of the parent company, MAFIL
- Increase in the gearing levels above 5 times with deterioration in the asset quality
- Any disinclination at the parent's level to provide support

Detailed description of the key rating drivers

Key Rating Strengths

Benefits from Being a Wholly Owned Subsidiary of MAFIL: MHFL derives support from MAFIL in the form of a shared brand name, management and operations oversight, extension of credit line from parent and capital support. Mr. V P Nandakumar, MD and CEO of MAFIL is also a board member of MHFL. MHFL benefits from its parent large branch network of 4,600 branches and with almost 80% of its branches being co-located with that of MAFIL. Since its acquisition in March 2014, MAFIL has infused equity capital Rs.200 crore in MHFL (Initial capital infusion of Rs. 100 crore done in tranches and additional infusion of Rs. 100 crore in FY19). CARE Ratings' expectations of support are underlined by MAFIL's ability to provide and propensity to extend support considering the reputational risks for MAFIL under adverse circumstances of failure of MFHL. This is further highlighted by the working capital demand line of support from the parent company in the amount of Rs. 150 crore.

Adequate Capitalization and Gearing: Capital adequacy ratio and Tier I CAR stood at 52.9% and 51.9% respectively as on March 31, 2021 compared to 53.4% and 52.4% respectively as on March 31, 2020 thus providing adequate headroom in comparison with regulatory requirements. As at June 30, 2021, the gearing stood at 2.1x as against 2.2x at March 31, 2021 and 2.2x as on March 31, 2020. CARE Ratings understands that the comfortable capital levels provide MFHL with the required flexibility to navigate volatility and grow its business operations especially in the aftermath of the pandemic.

Average Profitability: MHFL benefits from its low leverage levels which results in lower interest expenses/ Average Assets even as operating costs remain high in its early stages of business operations. This has helped the company to generate moderate earnings in the last couple of years. FY21 saw a slight decline in ROTA at 1.6% (FY20: 1.8%) primarily on account of a rise in credit costs by 67 basis points (bps). This was led by an increase in Gross Stage 3 assets and Provision Coverage Ratio (PCR). PPOP/ Average Assets however improved by 110 bps to 3.7% in FY21 mainly due to lower operating expenses which was a consequence of higher attrition. However, the company has increased hirings since March 2021 as a part of its expansion in the form of 21 new branches leading to an increase in operating costs and a subsequent decline in annualised ROTA to 1.3% in Q1 FY22. Going forward, CARE Ratings expects ROTA to remain relatively stable at current levels.

Key Rating Weaknesses

Asset Quality Challenges Continue: MHFL primarily caters to the housing finance needs of the self-employed customers in the informal low and middle income segment who are not serviced by the banking sector. Since this segment is highly susceptible to the impact of economic downturn and the macroeconomic environment, asset quality remains to be the key monitorable.
As on March 31, 2021, Gross Stage 3 assets ratio increased to 6.4% compared to 4.9% as on March 31, 2020 which reflects the inherent risk associated with the targeted borrower segment considering a major portion of its borrowers are self-employed who have been highly impacted by the Covid disruptions. PCR increased from 21.9% as on March 31, 2020 to 25.5% on March 31, 2021. Restructured loans constituted around 8% of the total portfolio as on June 30, 2021. The GNPA as on June 30, 2021 stood at 6.7%.

Going forward, the focus of the management would largely remain on the low-ticket size self-construction loans with an increase in exposure towards the salaried segment. The ability of the company to maintain its asset quality while increasing the scale of operations will be a key rating monitorable.

Minimal Operating History: The company had commenced lending operations in January 2015. Over FY19-FY21, the AUM grew at a CAGR of 21% to Rs. 666 crore as on March 31, 2021 with an annual average disbursement of Rs. 170 crore. Consequently, MFHL's operational scale remains small, although growing steadily and the company is yet to establish its franchise value. Additionally, MHFL has an average loan book tenure of around 14 years resulting in a largely unseasoned loan portfolio, the resilience of which is yet to be established through different economic cycles.

Geographically Concentrated Portfolio: MHFL has 68 branches across 12 states with a total employee strength of 668 as on June 30, 2021. Maharashtra accounted for 41% of the total portfolio outstanding followed by Tamil Nadu (20%), Karnataka (13%), Kerala (11%), Gujarat (9%) and other states. In addition to the existing 9 states, the company has been expanding its business to 3 new states – West Bengal, Jharkhand and Telangana with 21 new branches in the current fiscal year. CARE Ratings understands that diversification is dependent on growth of its loan book and will occur only over a period of time.

Funding Mix Needs Further Diversification: MFHL's resources profile is concentrated as a result of its limited track record of operations. However, the company has exhibited gradual diversification in its resource profile. As on March 31, 2018, 100% of the borrowing was through bank loans which has reduced to 71% as on March 31, 2021, while the remaining 27% was through listed Non-Convertible debentures. MHFL also benefits from being a subsidiary of the MAFIL group which enables the company to form liability relationships with an increased number of banks while also providing access to the capital markets.

Liquidity Profile - Adequate

MHFL's liquidity profile is largely supported by the line of credit in the form of working capital demand loan of Rs. 150 crore from the parent company, MAFIL. Cash and bank balances stood at Rs. 3.8 crore as on March 31, 2021. Debt obligations for the next 1 year as on June 30, 2021 amounted to Rs. 129 crore, while inflows from advances for the next 1 year stood at Rs. 114 crore. The resultant gap is plugged by the Rs. 150 crore of unutilized line of credit from its parent company. As at June 30, 2021, the undrawn amount under this line of credit stood at Rs. 135 crore.

Analytical approach: CARE has analyzed standalone credit profile of MHFL and also factored MHFL's linkages with its parent, MAFIL, in the form of operational, financial and managerial support and shared brand name.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition

Rating Methodology: Notching by factor linkages in Ratings
Financial ratios – Financial sector
Rating Methodology - Housing Finance Companies (HFCs)

About Manappuram Home Finance Ltd
Manappuram Home Finance Ltd (MHFL) is a housing finance company engaged in affordable housing segment. As a part of business diversification process, Manappuram Finance Ltd (MAFIL) acquired Milestone Home Finance Company Pvt. Ltd. in March, 2014. MHFL is a wholly owned subsidiary of Manappuram Finance Ltd. The name of the company was subsequently changed to Manappuram Home Finance Pvt. Ltd. and a revised Certificate of Registration from National Housing Bank was obtained in September 2014. MHFL started its lending operations from January 2015. MHFL is active in the affordable housing finance segment in Tier II and III cities. As on June 30, 2021, MHFL was operating out of 68 branches in 12 different states (Maharashtra, Gujarat, Tamil Nadu, Kerala, Karnataka, Andhra Pradesh, Rajasthan, Madhya Pradesh, Orissa, West Bengal, Jharkhand, Telangana) with total AUM of Rs. 668 crore. As on June 30, 2021, self-employed category borrower accounted for 78% of the AUM and salaried segment accounted for 22% of the AUM. Housing accounted for 76% of portfolio and LAP accounted for 24% of portfolio as on June 30, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total income	85.67	97.13
PAT	10.56	10.29
Total Assets (tangible)	638.39	662.46
Gearing (times)	2.23	2.18
Gross Stage 3 assets (%) *	4.91	6.38
ROTA (%) ^	1.79	1.58

A: Audited
**On AUM basis*
^Ratio has been computed based on average of annual opening and closing balances

Manappuram Finance Limited
Manappuram Finance Limited (MAFIL) is an NBFC registered with RBI as non-deposit accepting loan company, headquartered in Valapad, Kerala. MAFIL is promoted by Mr. V.P. Nandakumar in 1992 and as on March 31, 2021, the promoters' stake in MAFIL stood at 34.62%. The other major stake holders of MAFIL are Quinag Acquisition (FPI) Ltd (9.90%), Fidelity Investment Trust Fidelity Series Emerging Markets Opportunities Fund (3.69%), Barclays Merchant Bank (5.67%) and the rest is held by FIIs and public. The company offers loan against used jewellery/ gold ornaments and it constitutes around 92% of AUM as on June 30, 2021. During FY15, the company has ventured into vehicle financing and it constitutes 6% of AUM as on June 30, 2021. Rest of the AUM consist mainly of corporate NBFC loans and it stood at 2% as on March 31, 2021 and 3% as on June 30, 2021 respectively. The company has AUM of Rs.20,573 crore as on March 31, 2021 and has AUM of Rs.18,035 crore as on June 30, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total income	4,352	5,194
PAT	1,230	1,698
Interest coverage (times)	2.19	2.32
Total Assets	23,851	25,745
Net NPA (%)	0.47	1.54
ROTA (%)	5.94	6.85

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	225	CARE AA-; Stable
Debenture-Non-Convertible Debenture	INE360T07025	04-Nov-19	9.75%	03-Nov-22	17.16	CARE AA-; Stable
Debenture-Non-Convertible Debenture	INE360T07033	04-Nov-19	10.00%	03-Nov-22	8.52	CARE AA-; Stable
Debenture-Non-Convertible Debenture	INE360T07041	04-Nov-19	10.00%	03-Nov-22	13.30	CARE AA-; Stable
Debenture-Non-Convertible Debenture	INE360T07058	04-Nov-19	10.25%	03-Nov-24	23.61	CARE AA-; Stable
Debenture-Non-Convertible Debenture	INE360T07066	04-Nov-19	10.65%	03-Nov-24	6.40	CARE AA-; Stable
Debenture-Non-Convertible Debenture	INE360T07074	04-Nov-19	10.65%	03-Nov-24	3.29	CARE AA-; Stable
Debenture-Non-Convertible Debenture	INE360T07082	04-Nov-19	10.65%	07-Sep-26	22.03	CARE AA-; Stable
Debenture-Non-Convertible Debenture	INE360T07090	20-Jul-20	9.40%	19-Jul-23	25.00	CARE AA-; Stable
Debenture-Non-Convertible Debenture (Proposed)	-	-	-	-	180.69	CARE AA-; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	225.00	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Oct-20) 2)CARE AA-; Stable (01-Jun-20)	1)CARE AA-; Stable (28-Aug-19)	1)CARE AA-; Stable (03-Jan-19)
2.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Oct-20) 2)CARE AA-; Stable (01-Jun-20)	1)CARE AA-; Stable (28-Aug-19)	-
3.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Oct-20) 2)CARE AA-; Stable (14-Jul-20)	-	-

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

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

Annexure-4: Bank Lender Details

Click here to view Bank Lender Details

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

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