

Manappuram Asset Finance Limited

January 13, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	175.00 (Enhanced from 145.00)	CARE BBB-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Manappuram Asset Finance Limited (MAAFIN) continues to derive strength from experience of the promoter in lending business and demonstrated financial support extended by the promoter, benefits derived from being part of the Manappuram group, experienced management team, adequate internal control system and adequate capitalisation with regular infusion of capital from the promoters. The rating is, however, constrained by limited track record in non-gold segments, moderate scale of operations with limited geographical presence, weak asset quality, moderate profitability, moderately diversified resource profile, exposure to gold price movement risk and intense competition in the gold loan business.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the scale of operations with significant increase in AUM along with improvement in profitability and asset quality

Negative factors – Factors that could lead to negative rating action/downgrade:

- Weakening of asset quality parameters with GNPA of above 10% impacting the capitalization levels on sustained basis.
- Absence of support from the promoter

Detailed description of the key rating drivers

Key rating strengths

Demonstrated financial support extended by promoter and benefits derived from being related of Manappuram Group:

MAAFIN is promoted by Mr. V P Nandakumar along with his wife together holding 99.80% stake as on March 31, 2022. He is also the promoter, MD & CEO of Manappuram Finance Limited (MAFIL; rated CARE AA; Stable/CARE A1+), Manappuram Home Finance Limited (rated CARE AA-; Stable), Manappuram Jewellers Limited (rated CARE BBB; Stable/ CARE A3), etc. The promoter has been infusing equity capital into the company on need basis. In addition to periodical equity infusion, 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 comprises of members who were earlier associated with the Manappuram Group. CARE expects continuation of the support from the Manappuram group.

Experienced Management Team: MAAFIN has an experienced management team having experience of more than a decade in the lending business. Mr. V.S. Prasannan, Managing Director is having experience of more than 3 decades. Formerly, he was the Managing Director of MABEN Nidhi Ltd, part of Manappuram group involving in lending against gold and LAP. The operations are looked after by 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 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 non-gold loans, MAAFIN is having a defined

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

structure to monitor the operations at various levels. MAAFIN has customer centres in different location 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 will carry out the second level of screening and forward 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 remains adequate with Total CAR and Tier I CAR at 18.90% and 15.18% respectively as on March 31, 2022 in comparison with 21.07% and 14.85% respectively as on March 31, 2021. Total CAR and Tier I CAR stood at 18.59% and 14.36% as on September 30, 2022. The promoters infused Rs.5 crore in FY22 and another Rs.5 crore during the period from April 2022 to November, 2022. CARE expects continuation of equity support from the promoters on need basis.

Gearing stood at 5.18x as on March 31, 2022 as against 5.53x as on March 31, 2021.

Key rating weaknesses

Limited track record in non-gold segments: MAFIN was incorporated in the year 1987 and the same was taken over by the promoter of the 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 offering various products like Gold loan, Vehicle loan, Loan against property (LAP), Business loans (BL), Micro- Finance loans and Two-Wheeler Loan. The credit policies in the non-gold loans has been evolving over the years by understanding the portfolio behaviour in these products. Also, microfinance loans and two-wheeler loans were started in FY22. Hence, there is a limited track record in non-gold segments. However, the majority of the loan portfolio is concentrated with gold loan (about 59% of the overall portfolio as on September 30, 2022). LAP, BL and Vehicle loan portfolio accounts for 21%, 2% and 17% respectively, of total portfolio as on September 30, 2022. Micro- Finance Loan and Two- wheeler loan account for the remaining 1% of the portfolio. Gold loan is likely to remain to be major contributor to the loan portfolio, however, non-gold segments is expected to increase in proportion going forward.

Moderate scale of operations with limited geographical presence: MAAFIN's loan portfolio size is moderate at Rs.223 crore as on March 31, 2022 and Rs.248 crore as on September 30, 2022. MAAFIN has presence in Tamil Nadu (TN), Kerala, Karnataka, Odisha and Bihar. Even though the overall portfolio is diversified across five states, majority of the portfolio is from Odisha and TN which accounts for 39% and 32%, respectively, as on March 31, 2022, and 40% and 29%, respectively, as on September 30, 2022. LAP and vehicle loan portfolio is majorly concentrated in TN.

Weak Asset Quality: GNPA(%) and NNPA(%) stood at 7.49% and 6.31% as on March 31, 2022 as against 6.22% and 5.48% as on March 31, 2021. GNPA and NNPA stood at 6.59% and 4.82% as on September 30, 2022. Of the total GNPA of Rs.16.11 crore as on September 30, 2022, 86% of the NPAs are from Vehicle loans and LAP. Around 41% of BL, 18% of LAP and 11% of Vehicle loans is in NPA as on September 30, 2022. It is to be noted that the company has not done restructuring of the portfolio. The ability of the company to improve asset quality parameters remains critical from rating perspective.

Moderate Profitability: NIM improved from 11.80% in FY21 to 12.27% in FY22 majorly due to increase in yield on advances during the year. Opex increased from 7.56% in FY21 to 10.79% in FY22 with addition of employees for new products. With credit costs remaining high at 3.58% during FY22 due to write-offs of Rs.6 crore (PY: 3.82%), the company reported net loss of Rs.1 crore in FY22 as against ROTA of 0.41% in FY21.

During H1FY23, with increase in Opex to average assets to 12.95% on account of high employee expenses, the company reported net loss of Rs.1 crore. CARE expects the profitability to remain moderate in the near term due to increased operational expenses and profitability is expected to improve once there is increase in loan portfolio in relation to the increase in opex and improvement in asset quality.

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 38% out of total borrowings as on March 31, 2022 (PY: 38%). NCDs and Subordinated debt constituted around 50% and 12%, respectively, out of the total borrowings as on March 31, 2022, as against 48% and 14% as on March 31, 2021, respectively.

Intense competition and Inherent risks associated with gold loan business: Geographically, the gold loan financing industry is predominantly placed in Southern India, with an active interest of both, the banks and the large NBFCs operating out of this region. MAAFIN faces heavy competition from larger players who are offering gold loans in the regions where the company operates.

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. In order to mitigate this risk, MAAFIN focused on extending shorter-term loans of less than three months, so that the gap between scrap values of gold kept as collateral and obligation of the borrower is minimised.

Liquidity: Adequate

The company's liquidity profile is adequate due to higher proportion of shorter-tenure products (Gold loans majorly) which are funded through longer-tenure liabilities. ALM profile as on September 30, 2022 is comfortable as there are no cumulative mismatches in any of the buckets upto five years. Cash and cash equivalents stood at Rs.5 crore and unavailed lines stood at Rs.29 crore as on September 30, 2022.

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

Applicable criteria

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

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

[Rating Methodology- Non Banking Finance Companies](#)

[Financial ratios - Financial Sector](#)

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

About the company

Manappuram Asset Finance Limited (MAAFIN) 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 September 30, 2022, 95.21% shares held by Mr Nandakumar VP & 4.60% 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, two wheeler loans, Micro Finance loan and loan against property.

As on September 30, 2022, the total loan portfolio outstanding was Rs. 248 crores of which loan against gold accounted for 59% of the total loan portfolio. MAAFIN has presence in five states

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23(P)
Total operating income	47.21	53.72	27.76
PAT	0.91	-1.26	-1.38
Interest coverage (times)	1.08	0.95	0.87
Total Assets	230.05	247.88	274.39
Net NPA (%)	5.48	6.31	4.82
ROTA (%)	0.39	NM	NM

A: Audited; NM – Not meaningful; P – Provisional

Status of non-cooperation with previous CRA: Brickworks has conducted the review on the basis of best available information and has classified Manappuram Asset Finance Limited as "Not cooperating" vide its press release dated October 20, 2022.

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 covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Bank lender details for this company: Annexure-5**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	175.00	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	175.00	CARE BBB-; Stable	1)CARE BBB-; Stable (28-Dec-22)	1)CARE BBB-(CW with Positive Implications) (02-Dec-21)	1)CARE BBB-(CW with Positive Implications) (07-Jan-21)	1)CARE BBB-(CW with Positive Implications) (27-Dec-19)
2	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (02-Dec-21)	1)CARE BBB-(CW with Positive Implications) (07-Jan-21) 2)CARE BBB-(CW with Positive Implications) (16-Jun-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based-Long Term	Simple

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)

Note on 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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