

## Manappuram Finance Limited

March 30, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	4,927.00 (Reduced from 6,044.39)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	4,073.00 (Enhanced from 2,955.61)	CARE A1+ (A One Plus)	Reaffirmed
<b>Total Bank Facilities</b>	<b>9,000.00</b> <b>(Rs. Nine thousand crore only)</b>		
Non-Convertible Debentures-IV	100.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures-V	830.58 (Reduced from 948.54)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures-VI	325.00 (Reduced from 1,050.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures-VII	500.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures-VIII	100.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures-X	125.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures-IX	-	-	Withdrawn
<b>Total Long-term Instruments</b>	<b>1,980.58</b> <b>(Rs. One thousand nine hundred eighty crore and fifty-eight lakh only)</b>		
Commercial Paper	4,000.00	CARE A1+ (A One Plus)	Reaffirmed
<b>Total Short-Term Instruments</b>	<b>4,000.00</b> <b>(Rs. Four thousand crore only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Manappuram Finance Limited (MAFIL) factor-in the long track record of operations and the established market position of MAFIL as one of the leading players in the gold loan industry in India, the experienced promoters and management team, healthy profitability indicators, good asset quality, comfortable capitalisation levels, diversified resource profile, and adequate risk management and management information systems in place.

The ratings are, however, constrained by the product concentration on a single asset class, exposure to the price of gold, and the geographical concentration of the loan portfolio. The ratings also take note of the limited track record in the vehicle and corporate loan portfolio and the increasing competition from banks in the gold loan business.

CARE Ratings has withdrawn the rating assigned to the non-convertible debenture (NCD) issue-IX of Manappuram Finance Limited with immediate effect, as the company has repaid the aforementioned bond in full and there is no amount outstanding under the said issue.

### Rating Sensitivities

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

- Increase in the scale of operations, with improvement in geographical and product diversification along with stable asset quality.

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

- Weakening of asset quality parameters, with gross non-performing asset (GNPA) of above 3% on a sustained basis.
- Weakening of capital adequacy levels, with capital adequacy ratio (CAR) falling below 20% on a sustained basis.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### *Long track record and established market position*

MAFIL has an established track record of operations for more than 25 years in the gold loan financing segment and has consequently established a strong brand image in the market. MAFIL is the second-largest gold loan non-banking finance company (NBFC) in India. The company's consistent efforts in advertising and branding strategy have increased its brand recall significantly among customers. As on March 31, 2021, MAFIL had 3,524 branches spread across India, with assets under management (AUM) of Rs.20,573 crore.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### ***Experienced promoters and management team***

The promoters have been in the gold loan business for more than six decades. The business was founded by Mr V. C. Padmanabhan in 1949, and in 1986, Mr V. P. Nandakumar took over the business. Later in 1992, MAFIL was incorporated to expand the group's presence in the gold loan business by opening branches pan-India, with 3,524 branches as on March 31, 2021. The day-to-day operations are looked after by a team of professionals overseen by the board, which comprises a majority of independent directors with extensive experience in the NBFC sector.

### ***Healthy profitability***

The overall portfolio grew by 10% during FY21 (refers to the period April 01 to March 31), aided by the relatively moderate growth majorly in the gold loan segment. The gold loan portfolio grew by 12% during FY21; on a tonnage basis, gold holding (pledged) de-grew by 10% from 72.4 tonne as on March 31, 2020, to 65.3 tonne as on March 31, 2021. As on December 31, 2021, the tonnage improved to 69.4 tonne, with an increase in the marketing campaign.

NIM has seen slight moderation, from 13.99% in FY20 to 13.78% in FY21, mainly on account of the increase in the cost of borrowings from 9.01% in FY20 to 9.42% in FY21.

The operating expenses to average total assets decreased from 5.78% in FY20 to 4.33% in FY21, mainly with decrease in security expenses and the reduction in the overall opex due to the COVID-19 pandemic. PPOP increased from Rs.1,765 crore in FY20 to Rs.2,399 crore during FY21. With a reduction in the opex, the return on total assets (ROTA) increased from 5.94% in FY20 to 6.85% in FY21.

During 9MFY22, MAFIL has reported a PAT of Rs.1,039 crore on a total income of Rs.3,524 crore, as against a profit of Rs.1,240 crore on a total income of Rs.3,875 crore during 9MFY21. The decline in profitability was due to higher ticket loans provided at lower yields and the increased operating expenses on account of higher marketing expenses.

### ***Good asset quality, though witnessed moderation in FY21 on account of COVID-19***

Due to the shorter tenure, the secured nature of the gold loans and timely auction, MAFIL was able to maintain an asset quality of gold loan book at comfortable levels. MAFIL reported GNPA and NNPA of 1.92% and 1.54%, respectively, as on March 31, 2021, as against GNPA and NNPA of 0.88% and 0.47%, respectively, as on March 31, 2020. The company has auctioned off around 4.2 tonne of gold during Q1FY22. However, the company suffered an interest loss of around Rs.160 crore in auction. The GNPA and NNPA, as on December 31, 2021, stood at 1.40% and 1.00%, respectively.

Gold loan 90+ dpd stood at 1.60% as on March 31, 2021, against 0.30% as on March 31, 2020. The company has restructured loans amounting to Rs.87.78 crore during FY21 and Rs.65.73 crore in Q1FY22. The company has a limited track record and low seasoning in the vehicle finance segment and performance through different economic cycles is yet to be established in this segment.

### ***Comfortable capitalisation level***

The capitalisation level continues to be comfortable, aided by healthy internal accruals over the past few years. CAR and Tier-1 CAR stood at 29.02% and 28.74%, respectively, as on March 31, 2021, as against 21.74% and 21.41%, respectively, as on March 31, 2020. CAR stood at around 30.2%, as on December 31, 2021. The overall gearing, as on March 31, 2021, stood at 2.71x as against 3.26x, as on March 31, 2020. CAR is likely to remain comfortable over the medium-term.

### ***Adequate risk management and management information systems in place***

MAFIL has put in place adequate risk management systems. The branch employees have been trained to appraise gold jewellery provided as security against loans by prospective borrowers. The company has implemented systems for ensuring gold security and reducing custodial risks, including highly secured vaults with dual control and insurance of gold. All the branches are monitored by surveillance cameras. The core gold loan application software, which was developed in-house by the MAFIL team, is used by the branches and is linked to the financial software. Furthermore, all the branches are inter-connected, which helps the company extract various reports for monitoring all the branches on a day-to-day basis. Notably, MAFIL has developed an app-based (web and mobile) application for re-pledge and closure of gold loans. 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.

### ***Diversified resource profile; share of market borrowings increased in last two fiscals***

MAFIL has a fairly diversified funding profile, with access to funding from banks and market instruments like NCDs and commercial papers. As on March 31, 2021, the company's funding profile consisted of bank borrowings at 42% of the total borrowings (PY: 56%) of the overall funding mix, followed by NCDs at 37% (PY: 17%), external commercial borrowings (ECBs) at 14% (PY: 15%), and commercial paper at 6% (PY: 11%). During FY20 and FY21, there has been an increase in the long-term borrowings in the form of NCDs and term loans from banks and a reduction in short-term borrowings. The share of NCDs has increased from 12.41% as on March 31, 2019, to 17.38% as on March 31, 2020, and further to 37.36% as on March 31, 2021. Due to the availability of excess liquidity, during FY21, the company has pre-closed a few high-cost loans. However, due to the relatively high cost of ECB borrowings, which was mobilised in January 2020, interest expenses to average assets increased from 9.01% in FY20 to 9.42% in FY21.

### ***Key Rating Weaknesses***

#### ***Product concentration of gold loans notwithstanding the increase in the share of non-gold loan segments in the past four years***

As on March 31, 2021, gold loans constituted around 94% of the portfolio, as against 90% as on March 31, 2020. As a part of the diversification strategy, during FY15, MAFIL ventured into the vehicle finance and other segments. The vehicle finance portfolio

stood at Rs.1,053 crore as on March 31, 2021, and at Rs.1,510 crore as on December 31, 2021, as against Rs.1,344 crore as on March 31, 2020.

The company also built a corporate loan portfolio, wherein, it lends only to NBFCs, which stood at Rs.184 crore as on March 31, 2021, against Rs.584 crore as on March 31, 2020. MAFIL performs due diligence on these companies on a regular basis. In addition to the in-house team, it also uses the services of well-established third-parties for due diligence.

MAFIL has a presence in the microfinance and housing finance segments through its subsidiaries, namely, Asirvad Microfinance Limited (AMFL; rated 'CARE A+; Stable') and Manappuram Home Finance Private Limited (MHFL; rated 'CARE AA-; Stable'). MHFL is a wholly-owned subsidiary of MAFIL, whereas MAFIL holds 94.79% in AMFL, as on March 31, 2021. MAFIL has been infusing equity into the subsidiaries on a need basis. As on March 31, 2021, AMFL and MHFL has AUM of Rs.5,663 crore and Rs.674 crore, respectively. On a consolidated basis, non-gold loan business accounted for 30% of the portfolio, as on March 31, 2021 (PY: 33%).

### **Geographical concentration**

MAFIL has a pan-India presence, with its 3,524 branches as on March 31, 2021 and December 31, 2021. Over the past few years, the gold loans portfolio as a percentage of AUM in South India has been decreasing. As on December 31, 2021, Southern states constituted around 63% of the total portfolio.

### **Impact of Covid-19**

There were state-wise restrictions on the operations of branches due to the second wave of the COVID-19 pandemic during Q1FY21. The state-wise lockdowns did impact the business of the company in some of the regions, and the disbursement and collections were lower in Q1FY22 as compared with pre-COVID levels. Post Q1FY22, the disbursements improved and AUM started to grow.

### **Increasing competition from banks in the gold loan business**

During FY21, as a one-time measure to help the public/borrowers at large, the RBI relaxed LTV norms for banks, wherein, banks were allowed to extend loans at a LTV of 90% (until March 31, 2021), as against the regular LTV norm of 75%. Furthermore, due to the unfavourable economic environment with limited credit growth opportunities, many of the banks have increased the focus on gold jewellery loans. As per the sectoral deployment of credit (source: RBI), gold jewellery loan extended by banks has increased from Rs.33,503 crore as on March 27, 2020, to Rs.60,849 crore as on March 26, 2021, and further to Rs.70,871 crore as on December 31, 2021. The same can be attributed to the increase in gold prices from Rs.4,330 per gram as on March 31, 2020, to Rs.5,141 per gram as on August 07, 2020, and the higher LTV offered by banks. With regard to MAFIL, the tonnage of gold holdings (underlying security) declined from 72.4 tonne as on March 31, 2020, to 65.3 tonne as on March 31, 2021, but improved to 69.4 tonne in December 31, 2021. The quantum of loans with ticket size above Rs.2 lakh increased from Rs.1,191 crore as on March 31, 2018, to Rs.3,742 crore as on March 31, 2021. However, the same has increased to Rs.5,836 crore, as on December 31, 2021. In view of the limited credit growth opportunities faced by the bank and the ability to offer loans at much lesser interest rate, the ability of MAFIL to attract such customers is critical to its AUM growth and remains a key monitorable.

### **Liquidity: Adequate**

The liquidity profile of MAFIL remained adequate, with no cumulative mismatch in any of the time brackets in ALM as on December 31, 2021, due to the shorter tenure of loans and relatively longer tenure of the borrowings. As on December 31, 2021, MAFIL had cash, bank balance, and liquid investments of around Rs.1,316 crore and un-availed lines of credit of Rs.2,425 crore, mainly in the form of CC and WCDL.

**Analytical approach:** Standalone. Rating also considers the likely support to subsidiaries

### **Applicable Criteria:**

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

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

[Financial Ratios-Financial Sector](#)

[CARE's Rating Methodology for Non-Banking Finance Companies \(NBFCs\)](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Policy on withdrawal of ratings](#)

### **About the Company**

Manappuram Finance Limited (MAFIL) is an NBFC registered with the RBI as non-deposit accepting loan company, headquartered in Valapad, Kerala. MAFIL was promoted by Mr V.P. Nandakumar in 1992, and as on March 31, 2021, the promoters' stake in MAFIL stood at 34.99%. The company is listed in the BSE and the NSE. Other major stakeholders of MAFIL are Quinag Acquisition (Fpi) Limited (9.90%), DSP Investment Managers Private Limited (5.83%), Fidelity Investment Trust Fidelity Series Emerging Markets Opportunities Fund (3.69%), and the rest is held by FIIs and the public.

The company offers loan against used jewellery/gold ornaments and it constitutes around 90% of the AUM, as on December 31, 2021. During FY15, the company ventured into vehicle financing and it constitutes 7% of the AUM, as on December 31, 2021. The rest of the AUM includes corporate NBFC loans and it stood at 3%, as on December 31, 2021. The company has AUM of Rs.20,573 crore as on March 31, 2021, and Rs.22,731 crore as on December 31, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22(Provisional)
Total income	4,352	5,194	3,524
PAT	1,230	1,698	1,039
Interest Coverage (times)	2.21	2.32	2.29
Total Assets	23,851	25,745	27,208
Net NPA (%)	0.47	1.54	1.00
ROTA (%)	5.94	6.85	5.23

A: Audited

NA: Not Applicable

**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 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	June 2023	1626.59	CARE AA; Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	-	4073.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	3300.41	CARE AA; Stable
Debentures-Non-Convertible Debentures-V	INE522D07AI9	Nov 29, 2018	10.00%	Nov 29, 2023	57.42	CARE AA; Stable
Debentures-Non-Convertible Debentures-V	INE522D07AL3	Nov 29, 2018	10.40%	Nov 29, 2023	30.00	CARE AA; Stable
Debentures-Non-Convertible Debentures-V	INE522D07AO7	Nov 29, 2018	Zero Coupon	Nov 29, 2023	14.80	CARE AA; Stable
Debentures-Non-Convertible Debentures-V	INE522D07AP4	Nov 29, 2018	Zero Coupon	Nov 29, 2025	39.77	CARE AA; Stable
Debentures-Non-Convertible Debentures-V	INE522D07AV2	Mar 06, 2019	9.75%	Mar 06, 2024	28.50	CARE AA; Stable
Debentures-Non-Convertible Debentures-V	INE522D07AX8	Mar 06, 2019	10.15%	Mar 06, 2024	20.54	CARE AA; Stable
Debentures-Non-Convertible Debentures-V	INE522D07AZ3	Mar 06, 2019	Zero Coupon	Mar 06, 2024	8.99	CARE AA; Stable
Debentures-Non-Convertible Debentures-V	INE522D07BA4	Mar 06, 2019	Zero Coupon	May 05, 2026	20.48	CARE AA; Stable

Debentures-Non-Convertible Debentures-V	INE522D07BY4	Dec 30, 2021	6.95%	Dec 30, 2024	250.00	CARE AA; Stable
Debentures-Non-Convertible Debentures-V (Proposed)	-	-	-	-	360.08	CARE AA; Stable
Debentures-Non-Convertible Debentures-IV and VI	INE522D07BF3	Feb 14, 2020	9.25%	Feb 14, 2023	425.00	CARE AA; Stable
Debentures-Non-Convertible Debentures-VII	INE522D07BI7	May 08, 2020	9.00%	May 08, 2023	100.00	CARE AA; Stable
Debentures-Non-Convertible Debentures-VII and VIII	INE522D07BJ5	June 01, 2020	9.10%	June 01, 2023	500.00	CARE AA; Stable
Debentures-Non-Convertible Debentures-X	INE522D07BN7	July 09, 2020	9.50%	July 09, 2030	125.00	CARE AA; Stable
Debentures-Non-Convertible Debentures-IX	INE522D07BK3	-	-	-	-	Withdrawn
Commercial Paper-Commercial Paper (Standalone)	-	-	-	-	4000.00	CARE A1+

**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	Debentures-Non-Convertible Debentures	LT	-	-	-	-	1)Withdrawn (05-Jul-19)	1)CARE AA; Stable (06-Jul-18)
2	Fund-based - LT-Term Loan	LT	1626.59	CARE AA; Stable	1)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (28-Apr-20)	1)CARE AA; Stable (10-Sep-19) 2)CARE AA; Stable (05-Jul-19) 3)CARE AA; Stable (19-Jun-19)	1)CARE AA; Stable (06-Jul-18)
3	Fund-based - ST-Working Capital Demand loan	ST	4073.00	CARE A1+	1)CARE A1+ (08-Sep-21)	1)CARE A1+ (09-Sep-20) 2)CARE A1+ (28-Apr-20)	1)CARE A1+ (10-Sep-19) 2)CARE A1+ (05-Jul-19) 3)CARE A1+ (19-Jun-19)	1)CARE A1+ (06-Jul-18)
4	Fund-based - LT-Cash Credit	LT	3300.41	CARE AA; Stable	1)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (28-Apr-20)	1)CARE AA; Stable (10-Sep-19) 2)CARE AA; Stable (05-Jul-19) 3)CARE AA; Stable	1)CARE AA; Stable (06-Jul-18)

							(19-Jun-19)	
5	Debentures-Non-Convertible Debentures	LT	-	-	-	-	1)Withdrawn (05-Jul-19)	1)CARE AA; Stable (06-Jul-18)
6	Debentures-Non-Convertible Debentures	LT	-	-	-	-	1)Withdrawn (05-Jul-19)	1)CARE AA; Stable (06-Jul-18)
7	Commercial Paper-Commercial Paper (Standalone)	ST	4000.00	CARE A1+	1)CARE A1+ (08-Sep-21)	1)CARE A1+ (09-Sep-20)	1)CARE A1+ (10-Sep-19) 2)CARE A1+ (05-Jul-19)	1)CARE A1+ (06-Jul-18)
8	Debentures-Non-Convertible Debentures	LT	100.00	CARE AA; Stable	1)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (13-Aug-20)	1)CARE AA; Stable (05-Jul-19)	1)CARE AA; Stable (06-Jul-18)
9	Debentures-Non-Convertible Debentures	LT	830.58	CARE AA; Stable	1)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (13-Aug-20)	1)CARE AA; Stable (05-Jul-19)	1)CARE AA; Stable (21-Aug-18)
10	Debentures-Non-Convertible Debentures	LT	325.00	CARE AA; Stable	1)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20)	1)CARE AA; Stable (11-Feb-20)	-
11	Debentures-Non-Convertible Debentures	LT	500.00	CARE AA; Stable	1)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (30-Apr-20)	-	-
12	Debentures-Non-Convertible Debentures	LT	100.00	CARE AA; Stable	1)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (28-May-20)	-	-
13	Debentures-Non-Convertible Debentures	LT	-	-	1)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (10-Jun-20)	-	-
14	Debentures-Non-Convertible Debentures	LT	125.00	CARE AA; Stable	1)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (08-Jul-20)	-	-

\* Long-term/Short-term



**Annexure-3: Detailed explanation of covenants of the rated instrument/facilities**

Name of the Instrument	Detailed explanation
Bank Facility	CAR >= 19% NNPA not to exceed 3.50%

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

Sr. No	Name of instrument	Complexity level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Fund-based - LT-Cash Credit	Simple
4	Fund-based - LT-Term Loan	Simple
5	Fund-based - ST-Working Capital Demand loan	Simple

**Annexure-5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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](mailto:care@careedge.in) for any clarifications.

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### About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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