Manappuram Asset Finance Limited

June 16, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Non-Convertible Debenture (Proposed)	50 (Rs. Fifty crore only)	CARE BBB-; (Triple B Minus) (Credit Watch with Positive Implications)	**Assigned; placed on Credit Watch with Positive Implications**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed non-convertible debenture issue of Manappuram Asset Finance Limited (MAAFIN) derives 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 rating is, however, constrained by limited track record, moderate scale of operations with limited geographical presence, weak asset quality, moderate profitability, moderately diversified resource profile and exposure to gold price movement risk.

The rating assigned to the proposed Non-convertible Debenture issue of Manappuram Asset Finance Limited (MAAFIN) is placed 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 asset quality and profitability

Negative factors:

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

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 99.72% stake as on March 31, 2019. He is also the promoter, MD & CEO of Manappuram Finance Limited (MAFIL; rated 'CARE AA; Stable/CARE A1+'), MHFC, Manappuram jewellers, etc. Mr V P Nandakumar is a Managing Committee member of leading trade and industry associations such as ASSOCHAM and FICCI. He is also the Chairman of the Kerala state council of the Confederation of Indian Industry (CII), Equipment Leasing Association (India) and the Kerala Non-Banking Finance Companies Welfare Association. 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 2 decades. MAAFIN shares the common brand name and the 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 of them 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, is having experience of more than 3 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 team of professionals who are managing well-defined functional team which is overseen by the board.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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 and BL (unsecured), MAAFIN is having a defined structure to monitor the operations at various levels. MAAFIN has customer centers 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 will do 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 is adequate with Tier I CAR and Total CAR at 14.40% and 21.61% respectively as on March 31, 2020 (Prov.) as compared with 14.15% and 23.53%, 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.2 crore in September 2019 and Rs.3 crore in October 2019. Furthermore, support is expected from the promoter to infuse capital on need basis to support business growth.

Key Rating Weaknesses

Limited track record

MAFIL 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) and Business loans (BL). However, the majority of the loan portfolio is concentrated with gold loan (about 71.41% of the overall portfolio as on March 31, 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.148 crore as on March 31, 2019 and Rs.198 crore as on March 31, 2020 (Prov.). MAAFIN has presence in TN, Kerala, Karnataka, Odisha and Bihar. Even though the overall portfolio is diversified across five states, majority of the portfolio is from Odisha and Tamil Nadu which accounts for 37% and 28%, respectively, as on March 31, 2020 (Prov.). The LAP and vehicle loan portfolio is concentrated only in TN and Kerala.

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 and GNPA stood at 8.78% as on March 31, 2019, as against GNPA of 13.11% as on March 31, 2018. Out of the total GNPA of Rs.13.03 crore as on March 31, 2019, 88% of the NPAs are from LAP loan and BL. Around 57% (PY: 55%) of the LAP portfolio and 13% (PY: 100%) of BL portfolio is in NPA as on March 31, 2019. GNPA stood at 8.20% as on March 31, 2020.

However, with change in credit policies and improved bandwidth in the credit team, the company restarted the LAP and BL business from June 2017 with reduced ticket size and reduced loan tenure. The ability of the company to improve asset quality parameters remains critical from rating perspective.

Moderate profitability profile

NIM improved from 9.36% during FY18 to 10.00% during FY19 (refers to the period April 1 to March 31) with increase in yields during the year. Opex to average total assets remained high at 9.90% during FY19 as against 9.64% during FY18. However, with improvement in asset quality indicators and subsequent improvement in credit costs during FY19, the company reported a PAT of Rs.0.74 crore during FY19 as against a net loss of Rs.0.44 crore during FY18. ROTA stood at 0.51% during FY19. The company reported a PAT of Rs.2.32 crore on a total income of Rs.39.62 crore during FY20 (Prov.). 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 45% out of total borrowings as on March 31, 2020 (PY: 53%). NCDs and Subordinated debt constituted around 39% and 16%, respectively, out of the total borrowings as on March 31, 2020, as against 30% and 17% as on March 31, 2019, respectively. Loans through securitisation constituted to 3% of the total borrowings as on March 31, 2020.

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.

Outlook and Prospects
The NBFC sector has witnessed superior growth rates in the last three years ended FY18, mainly driven by slowdown in credit flow from the banks as they grapple with asset quality challenges and capital constraints. The NBFC sector has demonstrated asset-class-specific expertise with sophisticated credit underwriting methods, increased use of data analytics, multi-channel origination, and faster turnaround times helping them gain market share in both retail and wholesale asset classes. Comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs. The same is, however, being put to test under the prevailing liquidity tightness and changed sentiment towards NFBCs since September 2018.
The sector witnessed a liability-side disruption post September 2018, leading to sharp increase in spreads and drying up of the short-term commercial paper (CP) market. Mutual funds, who were major investors in CPs of NBFCs, faced redemptions and as a result CP rollovers reduced drastically. NBFCs running a negative asset-liability gap in the shorter-time buckets had to react to the situation by dipping into their liquidity reserves and/or resorting to portfolio sales to banks to generate liquidity. The changed scenario on the liability front is likely to impact the portfolio growth as well as profitability of the NBFCs in the medium term. NBFCs having presence in the wholesale and real-estate lending space are likely to be impacted more vis-à-vis their retail counterparts. NBFCs will have to adjust their business models in light of the current scenario and re-visit their growth plans. The recent outbreak of Covid-19 is likely to impact asset quality and credit costs. Asset quality, liquidity and profitability will be the key monitorables for the sector going forward.

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 March 31, 2020, is adequate as there are no cumulative mismatches in any of the buckets. The company has not availed moratorium from any of the lenders.

Analytical Approach: Standalone. Factoring the support extended by the promoter group.
CARE has taken a limited review based on key financials for the year ended March 2020 (Prov.)

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: Consolidation and Factoring Linkages in Ratings

About the Company
M/s 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 March 31, 2019, 93.11% shares held by Mr VP Nandakumar & 6.61% by his wife, and the 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 LAP.

As on March 31, 2020, the total loan portfolio outstanding was Rs.198 crore, of which loan against gold accounted for 71.41% of the total loan portfolio followed by LAP loan with 8.59%, Vehicle loan with 9.76% and BL with 10.23%. MAAFIN has presence in five states (Kerala, Tamil Nadu, Karnataka, Odisha and Bihar).

As on / Year ended March 31	FY18 (A)	FY19 (A)	FY20 (P)
Total Income	23.3	28.9	39.6
PAT	(0.4)	0.7	2.3
Interest Coverage (times)	0.93	1.07	1.16
Total Assets	130.3	163.8	218
Net NPA	10.03	6.41	5.76
ROTA	NM	0.51	1.22

Note: Ratios have been computed based on average of annual opening and closing balances
NIM has been calculated as net interest income/ average annual total assets
A-Audited; P-Provisional; NM: Not meaningful

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
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)	-	-	-	-

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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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.