

Manappuram Finance Limited

April 30, 2020

Rating

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debenture (Proposed)	500 (Rs. Five hundred crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed non-convertible debenture issue of Manappuram Finance Limited (MAFIL) factors in long track record and the established market position of MAFIL as one of the leading players in the gold loan industry in India, experienced promoters & management team, good profitability indicators, comfortable capitalisation level & liquidity position and adequate risk management & management information systems in place.

The ratings are, however, constrained by product concentration on a single asset class notwithstanding the increase in share of non-gold portfolio in the past three years ended March 2019, exposure to the price of gold and geographical concentration of the loan portfolio. The ratings also take note of the limited track record in the vehicle & corporate loan portfolio which has grown significantly in the last 2-year period ended March 2019.

Going forward, the ability of MAFIL to maintain comfortable capital adequacy levels, maintain its asset quality, sustain its profitability while adhering to shorter tenure gold loans to mitigate price risk, diversify its product profile and any change in the regulatory scenario would be the key rating sensitivities.

Rating Sensitivities

Positive Factors

- Increase in the scale of operations with improvement in geographical & product diversification

Negative Factors

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

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 almost two and half decades in the gold loan financing segment and has consequently established a strong brand image in the market. MAFIL is the second-largest gold loan NBFC in India. The company's consistent efforts in advertising and branding strategy have increased its brand recall significantly amongst customers. As on December 31, 2019, MAFIL had 3,531 branches spread across India.

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 gold loan business by opening branches pan India with 3,531 branches on December 31, 2019. The day-to-day operations are looked after by a team of professionals overseen by the Board which comprises majority of independent directors with extensive experience in the NBFC sector. Mr Jagdish Capoor (former Deputy Governor, RBI and former Chairman of HDFC Bank) who had joined the Board in July 2010, has been the Chairman since May 2012.

Good profitability

Overall portfolio grew by 17% during FY19 (refers to the period April 1 to March 31) aided by relatively high growth majorly in non-gold segments. Gold loan portfolio grew by 10% during FY19, on tonnage basis gold holding (pledged) grew by 5.5% from 64.0 tonnes as on March 31, 2018, to 67.5 tonnes as on March 31, 2019. Vehicle finance portfolio and NBFCs loan book grew by 80% and 70%, respectively, FY19 on y-o-y basis.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

NIM has seen slight moderation from 15.10% in FY18 to 14.54% in FY19, mainly on the account of increase in the cost of borrowings from 8.32% in FY18 to 9.03% in FY19. To pass the cost of increased borrowings to the customers, MAAFIL increase the interest rates during FY19 and as a result yield has increased from 23.73% in FY18 to 24.10% in FY19.

Operating expenses to average total assets decreased from 7.56% in FY18 to 7.14% in FY19 mainly with decrease in the security expenses. The company has rolled out cellular security vaults in about 1,500 branches, resulting in decrease in security expenses, security costs declined to Rs.104 crore in FY19 from Rs.165 crore in FY18. Effected by decline in NIM, ROTA slightly moderated to 4.93% in FY19 from 5.00% in FY18. However, profitability continues to be healthy as reflected in ROTA.

Good Asset Quality

Due to shorter tenure, secured nature of the gold loans and timely auction, MAFIL was able to maintain asset quality at comfortable levels. MAFIL reported GNPA and NNPA of 0.55% and 0.32% as on March 31, 2019, as against GNPA and NNPA of 0.54% and 0.32% as on March 31, 2018. Net NPA to Networth stood at 1.11% as on March 31, 2019, as against 1.13% as on March 31, 2018. GNPA in vehicle finance book and NBFC loan book stood at 1.9% and NIL, respectively. As on December 31, 2019, GNPA and NNPA stood at 0.50% and 0.20%.

The company has been able to maintain asset quality at satisfactory levels in new segments, however, these portfolios has limited track record & seasoning and performance through different economic cycles is yet to be established in respective segments. It is to be noted that vehicle loan portfolio outstanding has increased from Rs.306 crore as on March 2017 to Rs.1,115 crore as on March 2019. During the same period, corporate loan book has increased from Rs.79 crore to Rs.989 crore.

Comfortable capitalization level

The capitalization level continues to be comfortable aided by healthy internal accruals over the last few years. CAR and Tier 1 CAR as on March 31, 2019, stood at 23.91% and 23.53% as against 26.96% and 26.57% as on March 31, 2018. Overall gearing as on March 31, 2019, stood at 2.99 times as against 2.80 times as on March 31, 2018. CAR is likely to remain comfortable over the medium term. CAR as on December 31, 2019, stood at 23.40%.

Adequate risk management & management information systems in place

MAFIL has put in place adequate risk management systems. Branch employees have been trained to appraise gold jewellery provided as security against loan by prospective borrowers. The company has implemented systems for ensuring the gold security and reducing the 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 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 to extract various reports for monitoring all the branches on a day-to-day basis. It is worthwhile to note that MAFIL has developed app-based (web & 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.

Key Rating Weaknesses

Product concentration of gold loans notwithstanding increase in share of non-gold loan segments in past three years

Gold loans constituted around 85% of the portfolio as on March 31, 2019 (On standalone basis) as against 91% of the portfolio as on March 31, 2019. As a part of diversification strategy, during FY15, MAFIL has ventured into vehicle finance and other segments. The vehicle finance portfolio stood at Rs.1,115 crore as on March 31, 2019, as against Rs.625 crore as on March 31, 2018. The company also built corporate loan portfolio wherein it lends only to NBFCs. In addition to in-house team it also uses the service of well-established third party for due diligence. MAFIL also performs due diligence on these companies on regular basis and has a team of 4 people for the same.

MAFIL has presence in 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 93.33% in AMFL as on March 31, 2019. As on March 31, 2019, AMFL and MHFL has AUM of Rs.3,840 crore and Rs.519 crore, respectively. During FY19, MAFIL has infused Rs.463 crore in its subsidiaries.

Geographical concentration

MAFIL has pan India presence with its 3,531 branches as on December 31, 2019. Over the past few years the gold loans portfolio as a percentage of AUM in South India has been decreasing continuously. As on December 31, 2019, southern states constituted around 58% of the total portfolio.

Liquidity: Adequate

The liquidity profile of MAFIL remained adequate with no cumulative mismatch in any of the time brackets in ALM as on February 29, 2020, due to shorter tenure of loan and relatively longer tenure of the borrowings. As on March 31, 2020, the company had cash and liquid investments of about Rs.2,055 crore. The company also had unavailed lines of about Rs.1,200 crore. As on April 20, 2020, the company has not availed moratorium from any of the lenders.

Analytical approach:

Standalone considering the support to subsidiaries

Applicable Criteria

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

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

[Financial Ratios-Financial Sector](#)

[Criteria for Short Term Instruments](#)

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

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

About the Company

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, 2019, the promoters' stake in MAFIL stood at 35.14%. The other major stake holders of MAFIL are Quinag Acquisition (Fpi) Ltd (9.94%), Baring India Private Equity (8.79%), Barclays Merchant Bank (3.77%) and the rest is held by FIIs. The company offers loan against used jewellery/ gold ornaments and it constitutes around 86% of AUM as on March 31, 2019. During FY15, the company has ventured into vehicle financing and it constitutes 8% of AUM as on March 31, 2019. The company has AUM of Rs.18,477 crore as on December 31, 2019.

During FY19, the company's total income was Rs.3,427 crore as against the total income of Rs.2,953 crore in FY18. The company registered a PAT of Rs.790 crore in FY18 as against Rs.690 crore in FY18. During 9MFY20, MAFIL reported a profit of Rs.891 crore on a total income of Rs.3,161 crore.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total income	2,953	3,427
PAT	690	790
Interest coverage (times)	2.31	2.17
Total Assets	14,524	17,563
Net NPA (%)	0.33	0.32
ROTA (%)	5.00	4.93

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
Debentures-Non Convertible Debentures	-	-	-	-	500.00	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 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.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (05-Jul-19)	1)CARE AA; Stable (06-Jul-18)	1)CARE AA; Stable (14-Aug-17)
2.	Fund-based - LT-Term Loan	LT	1764.39	CARE AA; Stable	-	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)	1)CARE AA; Stable (14-Aug-17)
3.	Fund-based - ST-Working Capital Demand loan	ST	2955.61	CARE A1+	-	1)CARE A1+ (10-Sep-19) 2)CARE A1+ (05-Jul-19) 3)CARE A1+ (19-Jun-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (14-Aug-17)
4.	Fund-based - LT-Cash Credit	LT	4280.00	CARE AA; Stable	-	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)	1)CARE AA; Stable (14-Aug-17)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (05-Jul-19)	1)CARE AA; Stable (06-Jul-18)	1)CARE AA; Stable (14-Aug-17)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (05-Jul-19)	1)CARE AA; Stable (06-Jul-18)	1)CARE AA; Stable (14-Aug-17)
7.	Commercial Paper	ST	4000.00	CARE A1+	-	1)CARE A1+ (10-Sep-19) 2)CARE A1+ (05-Jul-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (11-Sep-17)
8.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Jul-19)	1)CARE AA; Stable (06-Jul-18)	-

9.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Jul-19)	1)CARE AA; Stable (21-Aug-18)	-
10.	Debentures-Non Convertible Debentures	LT	1050.00	CARE AA; Stable	-	1)CARE AA; Stable (11-Feb-20)	-	-
11.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Stable	-	-	-	-

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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