

## Manappuram Finance Limited

June 10, 2020

### Rating

| Facilities                              | Amount<br>(Rs. crore)                        | Rating <sup>1</sup>                            | Rating Action |
|-----------------------------------------|----------------------------------------------|------------------------------------------------|---------------|
| Non-Convertible<br>Debenture (Proposed) | 250<br>(Rs. Two hundred fifty crore<br>only) | CARE AA; Stable<br>(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 rating is, however, constrained by product concentration on a single asset class, exposure to price of gold and geographical concentration of the loan portfolio. The rating also takes note of limited track record in the vehicle & corporate loan portfolio.

### 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 March 31, 2020, MAFIL had 3,529 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 3,529 branches as on March 31, 2020. 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. During FY20, Gold loan portfolio grew by 31% and the overall portfolio grew by 26%.

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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

Operating expenses to average total assets decreased from 7.56% in FY18 to 7.14% in FY19 mainly with decrease in security expenses. The company has rolled out cellular security vaults in about 1500 branches, resulting in decrease in security expenses, security costs declined to Rs.104 crore in FY19 from Rs.165 crore in FY18. Affected 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. During FY20, the company reported PAT of Rs.1230 crore on a total income of Rs.4,352 crore. NIM and ROTA stood at 13.64% and 5.96%, respectively, during FY20.

#### ***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 Net worth 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 March 31, 2020, GNPA and NNPA stood at 0.88% and 0.47%.

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.

#### ***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 March 31, 2020, 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, 2018. As on March 31, 2020 (On standalone basis), Gold loans constituted around 89% of the portfolio. 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 and as on March 31, 2020, vehicle finance portfolio stood at Rs.1,344 crore. 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. During FY19, MAFIL has infused Rs.463 crore in its subsidiaries. As on March 31, 2020, AMFL and MHFL has AUM of Rs.5,503 crore and Rs.630 crore, respectively.

**Geographical concentration**

MAFIL has pan India presence with its 3,529 branches as on March 31, 2020. Over the past few years the gold loans portfolio as a percentage of AUM in South India has been decreasing continuously. As on March 31, 2020, 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 March 31, 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.2,250 crore. As on April 30, 2020 the company also had un-availed lines of about Rs.2,012 crore and the company has not availed moratorium from any of the lenders.

**Analytical approach:**

Standalone considering the support to subsidiaries

CARE has taken a limited review based on key financials for the quarter ended March 2020 (Prov.)

**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 a 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. In 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.19,093 crore as on March 31, 2020. 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 FY19 as against Rs.690 crore in FY18. During FY20 (Prov.), MAFIL reported a profit of Rs.1,230 crore on a total income of Rs.4,352 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 (Proposed) | -    | -                | -           | -             | 250.00                        | 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 (28-Apr-20)             | 1)CARE AA; Stable (10-Sep-19)<br>2)CARE AA; Stable (05-Jul-19)<br>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+ (28-Apr-20)                    | 1)CARE A1+ (10-Sep-19)<br>2)CARE A1+ (05-Jul-19)<br>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 (28-Apr-20)             | 1)CARE AA; Stable (10-Sep-19)<br>2)CARE AA; Stable (05-Jul-19)<br>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)<br>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                              | LT              | 500.00                         | CARE            | 1)CARE AA;                                | -                                                                                               | -                                         | -                                         |

|     |                                          |    |        |                       |                                     |   |   |   |
|-----|------------------------------------------|----|--------|-----------------------|-------------------------------------|---|---|---|
|     | Convertible Debentures                   |    |        | AA;<br>Stable         | Stable<br>(30-Apr-20)               |   |   |   |
| 12. | Debentures-Non<br>Convertible Debentures | LT | 100.00 | CARE<br>AA;<br>Stable | 1)CARE AA;<br>Stable<br>(28-May-20) | - | - | - |
| 13. | Debentures-Non<br>Convertible Debentures | LT | 250.00 | CARE<br>AA;<br>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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

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