Manappuram Finance Limited

June 19, 2019

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	5,680	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	3,320	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Bank Facilities	**9,000 (Rupees Nine Thousand Crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Manappuram Finance Limited (MAFIL) continues to factor 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 and liquidity position and adequate risk management & management information systems in place.

The ratings are, however, constrained by product concentration on a single asset class, exposure to price of gold and geographical concentration of the loan portfolio.

Going forward, ability of MAFIL to maintain comfortable capital adequacy levels, improve 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.

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 decades in the gold loan financing segment and has consequently established a strong brand image in the market. MAFIL is one of the leading gold loan financiers in India. The company's consistent efforts in advertising and branding strategy have increased its brand recall significantly amongst customers.

Experienced promoters and management team

The promoters have been in the gold loan business for more than six decades. The business was founded by V.C. Padmanabhan in 1949 and in 1986, Shri. 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 spanning 23 states and 4 union territories with 3,372 branches on March 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.

Good profitability supported by stable growth in AUM

During FY18, AUM grew by 12% to Rs. 12,953 crore as on March 31, 2018 from Rs. 11,551 crore as on March 31, 2017. Gold loan portfolio grew by 5% from Rs. 11,135 crore as on March 31, 2017 to Rs. 11,735 crore as on March 31, 2018, whereas the gold disbursements grew by 18% during FY18. Post demonetization, Gold loans AUM witnessed declined from the peak level of Rs. 12,396 crore as on September 30, 2016 to Rs. 10,738 crore as on June 30, 2017. Disbursements slowly started to gain traction from Q3FY18 and subsequently Gold loan AUM increased to Rs. 11,735 crore as on March 31, 2018.

Yield on advances stood at 23.69% during FY18 against 27.28% during FY17. Yield during FY17 is high as the closing advances during FY17 was lower than average loan portfolio during the year. The decline in yield on advances is also due to increase in the share of lower yielding non-gold products from 3.69% as on March 31, 2017 to 9.40% as on March 31, 2018. Aided by decline in cost of borrowings from 11.16% in FY17 to 8.15% in FY18, NIM stood at 15.22% in FY18 against 15.85% in FY17.

Operating expenses to average total assets increased to 7.54% in FY18 from 6.69% in FY17 mainly due to increase in employee expenses on the account of additional recruitment of employees in vehicle finance segment and increase in security expenses. Post demonetisation, the management has increased the security at branches. With increase in Opex, ROTA slightly decreased to 5.06% in FY18 from 5.82% in FY17.

Good asset quality

With company focusing on shorter tenure loans, periodic collections of interest and follow-up of auction immediately, Asset quality has seen improved in FY18. GNPA and NNPA have improved to 0.54% and 0.33% as on March 31, 2018 as against

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

2.02% and 1.71% as on March 31, 2017. Net NPA to Networth stood at 2.07% as on March 31, 2018. As on March 31, 2018, 1+ DPD decreased from 22.29% as on March 31, 2017 to 12.10% as on March 31, 2018.
As on March 31, 2019, GNPA and NNPA remained at 0.55% and 0.32%.

Comfortable capitalisation and liquidity position
As on March 31, 2018, CAR remained comfortable at 26.96% as compared to 26.12% as on March 31, 2017 mainly due to accretion of profits to reserves. Tier I CAR stood at 26.57% as on March 31, 2018. Overall gearing stood at 2.73 times as on March 31, 2018. CAR stood at 23.9% March 31, 2019. CAR is likely to remain comfortable over the medium term.
Asset liability maturity profile is comfortable as there are no cumulative mismatches in any of the buckets. This is due to longer tenure of the borrowings as compared to that of loans disbursed which is of short term in nature.

Adequate risk management & management information systems in place
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 jewelry 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. 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.

Prospects
The gold loan industry has undergone various regulatory changes during FY13-14. These changes & guidelines in addition to downtrend in market prices of gold have impacted the growth, asset quality and profitability of the gold loan NBFCs in the two fiscal years ended March 2014. After this period, gold loan NBFCs have witnessed some stability in terms of AUM and profitability in FY15 and FY16. Post demonetization, there was a slowdown in disbursement. However, the disbursement again started picking up in H2FY18.
With track record of more than two decades, established brand name with wider branch network and healthy capitalization levels, MAFIL is better placed to benefit from upside growth in gold loan business. It has also ventured into micro finance and housing finance segment through its subsidiaries. This has resulted in improvement in portfolio diversification.
Going forward, ability of MAFIL to maintain comfortable capital adequacy levels, improve its asset quality, sustain its profitability while adhering to shorter tenure gold loans to mitigate price risk and any change in the regulatory scenario would be the key rating sensitivities.

Key Rating Weaknesses
Product concentration; However, efforts being taken for portfolio diversification
As on March 31, 2018, gold loans constitute around 91% of the total AUM as against 96% as on March 31, 2018. As a part of diversification strategy, during FY15, MAFIL has ventured into vehicle finance and LAP. The commercial vehicle finance and loan against property loan portfolio stood at Rs.625 crore and Rs.35 crore respectively as on March 31, 2018. MAFIL also started two wheeler loans in FY18 and the portfolio stands at around Rs.30 crore as on March 31, 2018. In addition to above segments, MAFIL has also started lending to corporate segment (primarily NBFCs) wherein due diligence done by another entity which co-lends along with MAFIL.
MAFIL has it presence in Microfinance and housing finance through its subsidiaries Asirvad Microfinance Limited (AMFL; rated CARE A+; Stable) and Manappuram Home Finance Private Limited (MHFL; CARE AA-; Stable).

Geographical concentration
MAFIL has presence in 23 states and 4 union territories across India with its 3,331 branches. Over the past few years the gold loans portfolio as a % of AUM in South India has been decreasing continuously. As on March 31, 2019, South India contributes to 59% of gold loan AUM. However, the portfolio is well distributed within South with Kerala, Tamil Nadu, Karnataka, Andhra Pradesh and Telangana.

Analytical approach:
Standalone.
CARE has taken a limited review based on key financials for the quarter ended March 2019 (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)](#)

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, 2018, the promoters' stake in MAFIL stood at 34.64%.The other major stake holders of MAFIL are Baring India Private Equity (8.79%), Quinag Acquisition (Fpi) Ltd (6.86%), WF Asian Reconnaissance Fund Limited (3.99%), Barclays Merchant Bank (4.14%) and the rest is held by FIIs. The company offers loan against used jewellery/ gold ornaments and it constitutes around 91% of AUM as on March 31, 2018. During FY15, the company has ventured into commercial vehicle financing and it constitutes 5% of AUM as on March 31, 2018. The company has AUM of Rs. 13,788 crore and operates through 3,331 branches spread across 23 states and 4 Union territories as on June 30, 2018.

During FY18, the company's total income was Rs. 2,950 crore as against the total income of Rs. 3.009 crore in FY17. The company registered a PAT of Rs.700 crore in FY18 as against Rs.726 crore in FY17.

During FY19, the company reported a PAT of Rs.791 crore on a total income of Rs.3,427 crore.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total income	3,009	2,950
PAT	726	700
Interest coverage (times)	2.11	2.35
Total Assets	13,088	14,607
Net NPA (%)	1.71	0.33
ROTA (%)	5.82	5.06

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	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 2022	1032.29	CARE AA; Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	3320.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	4647.71	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	390.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Jul-18)	1)CARE AA; Stable (14-Aug-17)	1)CARE AA-; Stable (31-Dec-16) 2)CARE AA- (05-Aug-16) 3)CARE AA- (21-Jul-16)
2.	Fund-based - LT-Term Loan	LT	1032.29	CARE AA; Stable	-	1)CARE AA; Stable (06-Jul-18)	1)CARE AA; Stable (14-Aug-17)	1)CARE AA-; Stable (31-Dec-16) 2)CARE AA- (21-Jul-16)
3.	Fund-based - ST-Working Capital Demand loan	ST	3320.00	CARE A1+	-	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (14-Aug-17)	1)CARE A1+ (31-Dec-16) 2)CARE A1+ (21-Jul-16)
4.	Fund-based - LT-Cash Credit	LT	4647.71	CARE AA; Stable	-	1)CARE AA; Stable (06-Jul-18)	1)CARE AA; Stable (14-Aug-17)	1)CARE AA-; Stable (31-Dec-16) 2)CARE AA- (21-Jul-16)
5.	Debentures-Non Convertible Debentures	LT	150.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Jul-18)	1)CARE AA; Stable (14-Aug-17)	1)CARE AA-; Stable (31-Dec-16) 2)CARE AA- (21-Jul-16) 3)CARE AA- (25-May-16)
6.	Debentures-Non Convertible Debentures	LT	40.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Jul-18)	1)CARE AA; Stable (14-Aug-17)	1)CARE AA-; Stable (31-Dec-16) 2)CARE AA- (21-Jul-16) 3)CARE AA- (29-Jun-16)
7.	Commercial Paper	ST	3500.00	CARE A1+	-	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 (06-Jul-18)	-	-
9.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA; Stable	-	1)CARE AA; Stable (21-Aug-18)	-	-

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: P Sudhakar
Tel: 044-2850 1000
Email: p.sudhakar@careratings.com

Business Development Contact
Name: Mr Pradeep Kumar
Contact no. :044-2849 7812/0811
Email ID : pradeep.kumar@careratings.com

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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**