

Manappuram Finance Limited
 September 09, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	6,044.39	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	2,955.61	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	9,000.00 (Rs. Nine thousand crore only)		
Non-Convertible Debentures – IV	100.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures – V	972.20	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures – VI	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 – IX	250.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures - X	125.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Commercial Paper	4,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Instrument	7,097.20 (Rs. Seven thousand ninety seven crore and twenty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and debt instruments of Manappuram Finance Limited (MAFIL) factor in 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, experienced promoters & management team, healthy profitability indicators, good asset quality, comfortable capitalisation levels, diversified resource profile 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. The ratings also take note of limited track record in the vehicle & corporate loan portfolio.

Rating Sensitivities**Positive Factors: Factors that could, individually or collectively, lead to positive rating action/upgrade**

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

Negative Factors: Factors that could, individually or collectively, lead to negative rating action/downgrade

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

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

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 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 with AUM of Rs.19,093 crore.

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.

Healthy profitability

Overall portfolio grew by 26% during FY20 (refers to the period April 01 to March 31) aided by relatively high growth majorly in Gold Loan Segment. Gold loan portfolio grew by 31% during FY20; on tonnage basis, gold holding (pledged) grew by 7.2% from 67.5 tonnes as on March 31, 2019 to 72.4 tonnes as on March 31, 2020. Vehicle finance portfolio witnessed a growth of 19% and NBFCs loan book de-grew by 37% in FY20 as the company decided to reduce this loan book.

NIM has seen slight moderation from 14.48% in FY19 to 13.54% in FY20, mainly on the account of increase in the cost of borrowings from 9.03% in FY19 to 9.35% in FY20. Yield on advances has also increased from 24.10% in FY19 to 24.78% in FY20.

Operating expenses to average total assets decreased from 7.14% in FY19 to 5.68% in FY20 mainly with decrease in security expenses. The company has rolled out cellular security vaults in about 3,524 branches, resulting in decrease in security expenses; security costs declined to Rs.47 crore in FY20 from Rs.104 crore in FY19. PPOP increased from Rs.1,244 crore in FY19 to Rs.1,765 crore during FY20. With credit costs remaining lower at 0.41% in FY20 (PY: 0.16%) and reduction in corporate taxes, ROTA has increased to 5.96% in FY20 from 4.93% in FY19.

Good Asset Quality in gold loan business continues; Vehicle Finance asset quality witnessed moderation in FY20

Due to shorter tenure, secured nature of the gold loans and timely auction, MAFIL was able to maintain asset quality of gold loan book at comfortable levels. MAFIL reported GNPA and NNPA of 0.88% and 0.47% as on March 31, 2020 as against GNPA and NNPA of 0.55% and 0.32% as on March 31, 2019. Net NPA to Net worth stood at 2.65% as on March 31, 2020, as against 1.12% as on March 31, 2019. GNPA in vehicle finance book stood at 6.7% on account of industry-wide impact and absence of collection in last few days of March due to outbreak of Covid-19. As on June 30, 2020, GNPA and NNPA stood at 1.25% and 0.70%. The company has also made increased provisions for the Vehicle finance portfolio during FY20 and Q1FY21.

The company has limited track record & low seasoning in new segments and performance through different economic cycles is yet to be established in these 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, 2020, stood at 21.74% and 21.41% as against 23.91% and 23.53% as on March 31, 2019. Overall gearing as on March 31, 2020 stood at 3.32 times as against 2.96 times as on March 31, 2019. CAR is likely to remain comfortable over the medium term. CAR as on June 30, 2020, stood at 22.90%.

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.

Diversified resource profile

MAFIL has fairly diversified funding profile with access towards funding from banks and market instruments like NCDs and Commercial paper. As on March 31, 2020, the company's funding profile consisted of CC/WCDL from banks at 39% of total borrowings (PY: 50%) of overall funding mix, followed by NCDs at 17% (PY: 12%), term loans from banks at 17% (PY: 12%), ECBs at 15% (PY: Nil) and commercial paper at 11% (PY: 25%). During FY20, there has been increase in the long-term borrowings in the form of NCDs, ECBs and term loans from banks and reduction in short-term borrowings.

Key Rating Weaknesses

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

As on March 31, 2020, gold loans constituted around 89% of the portfolio as against 86% 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.1,347 crore as on March 31, 2020, as against Rs.1,129 crore as on March 31, 2019, and vehicle finance portfolio stood at Rs.1,259 crore as on June 30, 2020. The company also built corporate loan portfolio wherein it lends only to NBFCs. MAFIL performs due diligence on these companies on regular basis. In addition to in-house team, it also uses the service of well-established third party for due diligence.

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, 2020. MAFIL has been infusing equity into the subsidiaries on need basis. As on March 31, 2020, AMFL and MHFL has AUM of Rs.5,503 crore and Rs.630 crore, respectively. On consolidated basis, non-gold loan business accounted for 33% of the portfolio as on March 31, 2020 (PY: 34%).

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 (PY: 58%).

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 June 30, 2020, the company had cash and liquid investments of about Rs.3,287 crore. As on August 20, 2020, the company also had un-availed lines of around Rs.2,215 crore (including unutilised CC/WCDL of Rs.2,152 crore), and the company has not availed moratorium from any of the lenders.

Analytical approach:

Standalone considering 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](#)

[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, 2020, the promoters' stake in MAFIL stood at 35.04%. The other major stake holders of MAFIL are Quinag Acquisition (Fpi) Ltd (9.91%), DSP Small cap Fund (5.23%), Baring India Private Equity (3.59%), Barclays Merchant Bank (2.92%) and the rest is held by FIIs.

The company offers loan against used jewellery/ gold ornaments and it constitutes around 90% of AUM as on June 30, 2020. During FY15, the company has ventured into vehicle financing and it constitutes 6% of AUM as on June 30, 2020. Rest of the AUM consists majorly of corporate NBFC loans and it stood at 3% as on June 30, 2020, respectively. The company has AUM of Rs.19,093 crore as on March 31, 2020 and has AUM of Rs.19,680 crore as on June 30, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total income	3427	4352
PAT	790	1230
Interest coverage (times)	2.17	2.19
Total Assets	17563	23722
Net NPA (%)	0.32	0.88
ROTA (%)	4.93	5.96

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
Fund-based - LT-Term Loan	-	-	-	June 2023	1769.39	CARE AA; Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	-	2955.61	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	4275.00	CARE AA; Stable
Debentures-Non Convertible Debentures-V	INE522D07AH1	Nov 29, 2018	9.60%	Nov 29, 2021	27.44	CARE AA; Stable
Debentures-Non Convertible Debentures-V	NE522D07AI9	Nov 29, 2018	10.00%	Nov 29, 2023	57.42	CARE AA; Stable
Debentures-Non Convertible Debentures-V	INE522D07AJ7	Nov 29, 2018	9.85%	Nov 28, 2020	11.37	CARE AA; Stable
Debentures-Non Convertible Debentures-V	INE522D07AK5	Nov 29, 2018	10.00%	Nov 29, 2021	21.75	CARE AA; Stable
Debentures-Non Convertible Debentures-V	INE522D07AL3	Nov 29, 2018	10.40%	Nov 29, 2023	30.00	CARE AA; Stable

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-V	INE522D07AM1	Nov 29, 2018	Zero Coupon	Nov 28, 2020	12.28	CARE AA; Stable
Debentures-Non Convertible Debentures-V	INE522D07AN9	Nov 29, 2018	Zero Coupon	Nov 29, 2021	19.39	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	INE522D07AU4	Mar 06, 2019	9.35%	Mar 06, 2022	15.31	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	INE522D07AW0	Mar 06, 2019	9.75%	Mar 06, 2022	16.60	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	NE522D07AY6	Mar 06, 2019	Zero Coupon	Mar 06, 2022	17.47	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 (Proposed)	-	-	-	-	610.08	CARE AA; Stable
Debentures-Non Convertible Debentures IV & VI	INE522D07BF3	Feb 14, 2020	9.25%	Feb 14, 2023	425.00	CARE AA; Stable
Debentures-Non Convertible Debentures - VI	INE522D07BG1	Feb 14, 2020	9.25%	Feb 14, 2022	725.00	CARE AA; Stable
Debentures-Non Convertible Debentures-VII	INE522D07B17	May 08, 2020	9.00%	May 08, 2023	100.00	CARE AA; Stable
Debentures-Non Convertible Debentures VII & VIII	INE522D07BJ5	Jun 01, 2020	9.10%	Jun 01, 2023	500.00	CARE AA; Stable

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 - IX	INE522D07BK3	Jun 12, 2020	8.75%	Dec 12, 2021	250.00	CARE AA; Stable
Debentures-Non Convertible Debentures - X	INE522D07BN7	Jul 09, 2020	9.50%	Jul 09, 2030	125.00	CARE AA; Stable
Commercial Paper		-	-	7 days to 1 year	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 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	1769.39	CARE AA; Stable	1)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)	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) 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	4275.00	CARE AA; Stable	1)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)	1)CARE AA; Stable (14-Aug-17)
5.	Debentures-Non Convertible	LT	-	-	-	1)Withdrawn (05-Jul-19)	1)CARE AA;	1)CARE AA;

	Debentures						Stable (06-Jul-18)	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; 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	972.20	CARE AA; Stable	1)CARE AA; 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	1050.00	CARE AA; Stable	-	1)CARE AA; Stable (11-Feb-20)	-	-
11.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Stable	1)CARE AA; AA; Stable (30-Apr-20)	-	-	-
12.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA; Stable	1)CARE AA; AA; Stable (28-May-20)	-	-	-
13.	Debentures-Non Convertible Debentures	LT	250.00	CARE AA; Stable	1)CARE AA; AA; Stable (10-Jun-20)	-	-	-
14.	Debentures-Non Convertible Debentures	LT	125.00	CARE AA; Stable	1)CARE AA; AA; Stable (08-Jul-20)	-	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper	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

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

Mr Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID: mradul.mishra@careratings.com

Analyst Contact

Mr P Sudhakar

Contact no. - 044-2850 1000

Email ID: p.sudhakar@careratings.com

Relationship Contact

Mr V Pradeep Kumar

Contact no. : 044-2850 1000

Email ID: pradeep.kumar@careratings.com

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CARE's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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