

## Manappuram Finance Limited

September 10, 2019

### Ratings

| Instruments                | Amount<br>(Rs. crore)                     | Ratings <sup>1</sup>                                         | Rating Action     |
|----------------------------|-------------------------------------------|--------------------------------------------------------------|-------------------|
| Long term Bank Facilities  | 6087.38<br>(enhanced from Rs.5,680 crore) | <b>CARE AA; Stable</b><br><b>(Double A; Outlook: Stable)</b> | <b>Reaffirmed</b> |
| Short term Bank Facilities | 2912.62<br>(reduced from Rs. 3,320 crore) | <b>CARE A1+</b><br><b>(A One Plus)</b>                       | <b>Reaffirmed</b> |
| Commercial Paper           | 4,000<br>(Enhanced from Rs. 3,500 crore)  | <b>CARE A1+</b><br><b>(A One Plus)</b>                       | <b>Reaffirmed</b> |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the commercial paper issue and bank facilities 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 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 which has grown significantly in the last two year period ended March 2019.

Going forward, 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

### 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 June 30, 2019, MAFIL had 3,380 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 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 24 states and 4 union territories with 3,380 branches on June 30, 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 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.

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.

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. 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.

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

### ***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 June 30, 2019, GNPA and NNPA stood at 0.71% and 0.45%.

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 capitalisation levels 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 June 30, 2019 stood at 23.25%.

### ***Strong liquidity profile***

The liquidity profile of MAFIL remained comfortable with no cumulative mismatch in any of the time brackets in ALM as on June 30, 2019 due to shorter tenure of loan and relatively longer tenure of the borrowings. As on June 30, 2019 the company had unavailed lines of credit of Rs. 846 crore and cash and liquid investments of Rs.631 crore.

### ***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 interconnected 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 presence in 24 states and 4 union territories across India with its 3,380 branches as June 30, 2019. Over the past few years the gold loans portfolio as a % of AUM in South India has been decreasing continuously. As on June 30, 2019, southern states constituted around 58% of the total portfolio.

### ***Analytical approach:***

Standalone considering the 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 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. 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. 15,536 crore as on June 30, 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 Q1FY20, MAFIL reported a profit of Rs.220 crore on a total income of Rs.951 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                      | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---------------------------------------------|------------------|-------------|---------------|-------------------------------|-------------------------------------------|
| Fund-based - LT-Term Loan                   | -                | -           | July 2022     | 1752.38                       | CARE AA; Stable                           |
| Fund-based - ST-Working Capital Demand loan | -                | -           | -             | 2912.62                       | CARE A1+                                  |
| Fund-based - LT-Cash Credit                 | -                | -           | -             | 4335.00                       | CARE AA; Stable                           |
| Commercial Paper                            | -                | -           | -             | 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 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              | -                              | -               | 1)Withdrawn (05-Jul-19)                                        | 1)CARE AA; Stable (06-Jul-18)             | 1)CARE AA; Stable (14-Aug-17)             | 1)CARE AA-; Stable (31-Dec-16)<br>2)CARE AA- (05-Aug-16)<br>3)CARE AA- (21-Jul-16) |
| 2.      | Fund-based - LT-Term Loan                   | LT              | 1752.38                        | CARE AA; Stable | 1)CARE AA; Stable (05-Jul-19)<br>2)CARE AA; Stable (19-Jun-19) | 1)CARE AA; Stable (06-Jul-18)             | 1)CARE AA; Stable (14-Aug-17)             | 1)CARE AA-; Stable (31-Dec-16)<br>2)CARE AA- (21-Jul-16)                           |
| 3.      | Fund-based - ST-Working Capital Demand loan | ST              | 2912.62                        | CARE A1+        | 1)CARE A1+ (05-Jul-19)<br>2)CARE A1+ (19-Jun-19)               | 1)CARE A1+ (06-Jul-18)                    | 1)CARE A1+ (14-Aug-17)                    | 1)CARE A1+ (31-Dec-16)<br>2)CARE A1+ (21-Jul-16)                                   |
| 4.      | Fund-based - LT-Cash Credit                 | LT              | 4335.00                        | CARE AA; Stable | 1)CARE AA; Stable (05-Jul-19)<br>2)CARE AA; Stable (19-Jun-19) | 1)CARE AA; Stable (06-Jul-18)             | 1)CARE AA; Stable (14-Aug-17)             | 1)CARE AA-; Stable (31-Dec-16)<br>2)CARE AA- (21-Jul-16)                           |
| 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)             | 1)CARE AA-; Stable (31-Dec-16)<br>2)CARE AA- (21-Jul-16)<br>3)CARE AA- (25-May-16) |
| 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)             | 1)CARE AA-; Stable (31-Dec-16)<br>2)CARE AA- (21-Jul-16)<br>3)CARE AA- (29-Jun-16) |
| 7.      | Commercial Paper                            | ST              | 4000.00                        | CARE A1+        | 1)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)             | -                                         | -                                                                                  |

**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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