

Muthoot Mercantile Limited

March 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Bank Facilities – Fund based LT	-	-	Reaffirmed at CARE BB+; Stable; [Double B Plus ; Outlook: Stable] and Withdrawn

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BB+; Stable/ [Double B Plus; Outlook: Stable] assigned to the bank facilities of Muthoot Mercantile Limited with immediate effect. The above action has been taken at the request of Muthoot Mercantile Limited and 'No Objection Certificate' from received from the bank that has extended the facilities rated by CARE.

The rating assigned to the bank facilities of Muthoot Mercantile Limited (MML) continue to factor in the long track record of operations and benefits derived from 'Muthoot' brand recognition. The rating factors in the comfortable capitalization profile, improving profitability and asset quality indicators. The ratings are however; constrained by concentrated funding profile, modest scale of operations and concentration of loan portfolio in a single asset class which is exposed to market risks related to gold.

Detailed description of the key rating drivers

Key Rating Weaknesses

Product concentration - gold loans: The company's product profile comprises of gold loans and it is also engaged in extending domestic money transfer services. Gold loans are backed by gold jewellery, which is exposed to the risks associated with the gold price fluctuations. This risk is partially mitigated by lending at the average LTV cap of 75%.

Modest scale of operations; however, improvement in scale of operations during FY19: MML's scale of operations is modest, however witnessed improvement in FY19 and 9MFY20. Previously, since FY2013, MML had steadily scaled down its operations; MML's portfolio has reduced from Rs.277.9 crore as on March 31, 2013 to Rs.84.7 crore as on March 31, 2018. During FY19, MML's portfolio grew by 19% to Rs.101.9 crore as on March 31, 2019. Further during 9MFY20, the loan portfolio grew by 32% and stood at Rs. 134.1 crore as on December 31, 2019.

Key Rating Strengths

Long track record operations and 'Muthoot' brand recognition: MML was established in the year 1997 and is a part of the Muthoot Ninan Group. Mr.Mathew, the chairman & director of MML is also one of the founders of the company. Being one of the early entrants in the gold loan business, the company enjoys wide patronage with the established brand image of 'Muthoot'.

Initiatives undertaken to diversify geographical presence of loan portfolio: MML previously had presence only across the states of Kerala and Tamil Nadu but during FY19 and 9MFY20, MML has expanded its presence to the states of Odisha, Maharashtra, New Delhi, Haryana, and Uttar Pradesh. As on December 31, 2019, MML diversified its portfolio, to the states of Maharashtra (5.2% of total loan portfolio), New Delhi (2.6%), Haryana (1.1%), Uttar Pradesh (0.7%) and Odisha (6.6%) and reduced its portfolio concentration in the states of Kerala (48%), and Tamil Nadu (35%) as against portfolio in states of Kerala and Tamil Nadu at 52% and 48% respectively as on March 31, 2018. MML's branch network has increased to 130 branches as on December 31, 2019 from 105 as on December 31, 2018.

Improvement in asset quality: MML provides gold loans that have a single-bullet payment, the principal and the interest is payable at the end of the loan tenure of 9 months. MML's asset quality improved in FY19 and H1FY20, the gross NPA and net NPA reduced to 0.9% and 0.4% as on March 31, 2019(0.8% and 0.4% respectively as on September 30, 2019) as against 8.5 % and 7.2% as on March 31, 2018. MML does not initiate auction processes for the gold loans immediately when the loans become overdue.

Comfortable capitalisation profile: The company bought back its shares from Mr.M Mathew (the promoter and Chairman of MML) (shareholding reduced to 64.26% in March 31, 2019 from 84.55% as on March 31, 2018) and his son Mr.Richie Mathew (MD) acquired 20.29% shareholding as on March 31, 2019. The company's CAR reduced to 57% as on December 31, 2019

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

from 86% as on March 31, 2018 on account of buy back of shares and improvement in loan portfolio. The net worth as on December 31, 2019 stood at Rs. 85.15 crore. The company's gearing levels have increased to 0.48 as on March 31, 2019 (0.82 times as on December 31, 2019) from 0.32 times as on March 31, 2018.

Improving profitability indicators: MML's profitability profile improved in FY19 and 9MFY20. In FY19, MML's reported a PAT of Rs. 7.8 crore on a total income of Rs. 22.81 crore as against Rs.5.4 crore on a total income of Rs. 21.68 crore in FY18 supported by improvement in scale of operations and decline in provisioning expenses to 0.05% in FY19 from 0.60% in FY18. The company's ROTA improved to 6.8% in FY2019 as against 4.3% in FY2018. During, 9MFY20, company's PAT stood at Rs. 6.5 crore on a total income of Rs. 20.47 crore.

Liquidity Profile- Adequate: As per the company's ALM as on December 31, 2019, there are no negative cumulative mismatches in any of the maturity buckets. ALM is comfortable supported by the shorter tenor of loans and relatively longer tenure borrowings. As on December 31, 2019, total cash and bank balance stood at Rs. 5.4 crore.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook and CreditWatch to Credit Rating](#)

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

[Financial Ratios-Financial Sector](#)

[Rating Methodology for Non-Banking Financial Companies](#)

[Policy on Withdrawal of ratings](#)

About the Company

Muthoot Mercantile Limited (MML) is a part of the Muthoot Ninan Group incorporated in March 1997 registered with RBI as non-deposit taking NBFC. The Muthoot Ninan group is into various other entities such as Muthoot Syndicate Nidhi Limited, Muthoot Financial Enterprises, Muthoot Mercantile Nidhi Limited, Muthoot Spices and Flavours Pvt. Limited and Muthoot Computer Software Development & Research Institute Pvt. Ltd. MML primarily provides loans against gold jewelry and is also engaged in money transfer services (domestic). As on December 31, 2019, the company had a loan portfolio of Rs. 134.1 crore and operates across 130 branches in Kerala, Tamil Nadu, New Delhi, Odisha, Maharashtra, Uttar Pradesh, and Haryana.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	21.46	21.53
PAT	5.43	7.79
Interest coverage (times)	2.84	4.57
Total Assets	109.17	120.04
Net NPA (%)	7.21	0.40
ROTA (%)	4.32	6.80

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-Cash Credit		-	-	-	0.00	Withdrawn
Fund-based – LT (Proposed)		-	-	-	0.00	Withdrawn

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.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BB+; Stable (29-Mar-19)	1)CARE BB+; Stable (22-Dec-17)	1)CARE BB+; Stable (24-Jan-17)
2.	Fund-based - LT-Proposed fund based limits	LT	-	-	-	1)CARE BB+; Stable (29-Mar-19)	1)CARE BB+; Stable (22-Dec-17)	1)CARE BB+; Stable (24-Jan-17)

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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