

Muthoot Fincorp Limited

March 18, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	-	-	Reaffirmed at CARE A-; Stable; [Single A Minus ; Outlook: Stable] and Withdrawn

Details of facility in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE A-; Stable/ [Single A Minus; Outlook: Stable] assigned to the bank facilities of Muthoot Fincorp Limited with immediate effect. The above action has been taken at the request of Muthoot Fincorp Limited and submission of 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

The rating assigned to the bank facilities of Muthoot Fincorp Limited (MFL) continue to factor in the strengths from long track record of operations of the company, its established market position as one of the larger players in the gold loan industry, experienced promoters & management team and adequate capitalization levels.

The rating is, however, constrained by exposure to non-core assets and group entities by way of loans & advances, relatively low but improving profitability levels, exposure to price risk of gold and geographical concentration of the loan portfolio.

Credit Risk Assessment

Key Rating Strengths

Experience of the promoters

The promoters of MFL have significant experience in the gold loan business. The group was founded by Mr. Muthoot Pappachan in 1927. Over the years the company has expanded its branches in pan India spanning 19 states to become one of the largest gold loan companies in India. The operations are looked after by a team of professionals and the board of directors of the company comprises seven directors including three independent directors with experience in the financial services sector. With a gold loan AUM of Rs.12,317 crore and total AUM of Rs.13,837 crore as on March 31, 2019, MFL is the third largest Gold loan NBFC in India. Through its consistent efforts in advertising and branding strategy, the company has established its brand image and is well positioned among its customers. As on March 31, 2019, MFL has 3,530 branches in India across 19 states and union territories.

Improved financial performance in FY19 and relatively low but improving profitability

Overall AUM increased from Rs.12,071 crore as on March 31, 2018 to Rs.13,837 crore as on March 31, 2019. NIM (Net Interest Income to average total balance sheet assets) stood at 6.27% in FY19 and Operating expenses /average total assets stood at 6.08% in FY19. ROTA improved from 0.86% in FY18 to 1.00% in FY19. During H1FY20, the company reported a PAT of Rs.104 crore on total income of Rs.1,317 crore as against Rs.63 crore on a total income of Rs.1,171 crore during H1FY19.

Adequate Capital adequacy

As on March 31, 2019, CAR and Tier 1 CAR stood at 21.95% and 14.63% as against CAR and Tier 1 CAR of 22.20% and 14.59% as on March 31, 2018. CAR and Tier 1 CAR stood at 22.00% and 14.45% as on September 30, 2019.

Asset quality

GNPA and NNPA (Stage 3 assets) stood at 2.62% and 1.17% as on March 31, 2019 as against 1.66% and 1.23% as on March 31, 2018. GNPA and NNPA moderated to 3.24% and 1.52% as on September 30, 2019. The moderation in asset quality is majorly in the non-gold segment.

Resource Profile

Term loans (majorly from banks) and working capital loans constituted around 71% of total borrowings as on March 31, 2019 followed by sub debt (22%), Pass Through Certificate (3%), Perpetual Debt Instruments (2%) and NCD (2%). The company has raised NCD through public issue of around Rs.417 crore during Q3FY20.

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

Key Rating Weaknesses

Product concentration towards gold loan

As on March 31, 2019, gold loans constitute over 89% of the total AUM as against 88% as on March 31, 2018. Though the risk is mitigated to an extent as the loans are backed by gold jewellery which is highly liquid in nature, the company is exposed to price risk of gold. MSME/ Business loans and MFI loans constituted the remaining 11% as on March 31, 2019. The company used to lend Microfinance loans initially from its own book, but later discontinued the microfinance operations in MFL and the group started lending microfinance loans through its subsidiary Muthoot Microfin Limited. The group had also diversified into other asset class like housing finance through its subsidiary Muthoot Housing Finance Limited and 2W/3W vehicle financing through group concern Muthoot Capital Services Ltd.

Exposure to group entities/non-core assets

The company has exposure to group concerns/entities by way of loans & advances towards purchase of property and acquired properties (land) from related parties. Total amount of exposure to non-core assets including loans & advances to related party stood at Rs.786 crore (i.e. 5.07% of Total assets) as on March 31, 2019. Timely liquidation of the real estate assets/advances from the books of MFL is a key rating sensitivity.

Geographical concentration

MFL has presence in 19 states and union territories across India spanning 3,530 branches as on March 31, 2019. As on March 31, 2019, five southern states constituted around 67% of the portfolio as against 73% of the portfolio as on March 31, 2018. The company is making consistent efforts to increase its presence in other states by way of expanding the branch network in other regions.

Intense competition among the gold loan NBFCs

The NBFC sector plays an important role in broadening the access to the financial services and represents a heterogeneous group of companies separated by their type of activity, organizational structure, size and portfolio-mix. Geographically, the gold loan financing industry is predominantly placed in the southern India with an active interest of both the South India-based banks and the large NBFCs operating out of this region. While the companies are gradually increasing their operations in the other parts of India, southern India is expected to remain as the primary market for gold loans.

Analytical approach: Standalone.

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE Policy on Default Recognition](#)

[Rating Methodology- Non Banking Finance Companies](#)

[Financial ratios - Financial Sector](#)

[Policy on Withdrawal of ratings](#)

About the company

Muthoot Fincorp Limited (MFL) is an NBFC registered with RBI as non-deposit accepting loan company, headquartered in Trivandrum. MFL is the flagship company of Kerala based Muthoot Pappachan Group which was established in 1927. MFL was originally incorporated as Muthoot Debt Management Services Ltd.in 1997 and the name was changed to the current form in 1997. As on March 31, 2019, promoters held 78.75% stake in the company with rest being held by family members of promoters. The company lends loans against jewellery/ gold ornaments and it constituted around 89% of loan portfolio as on March 31, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2187	2485
PAT	126	155
Interest coverage (times)	1.14	1.18
Total Assets	15,635	15,513
Net NPA (%)	1.23	1.17
ROTA (%)	0.86	1.00

Note: a). A – Audited;

b). Ratios have been computed based on average of annual opening and closing balances

c). NIM has been calculated as net interest income/ average annual total assets

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 Facility

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-Cash Credit	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Working Capital Limits	-	-	-	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 A-; Stable (05-Apr-19)	-	1)CARE A-; Stable (30-Mar-18) 2)CARE A-; Stable (25-Jul-17)	1)CARE A (21-Nov-16)
2.	Fund-based - LT-Term Loan	LT	-	-	1)CARE A-; Stable (05-Apr-19)	-	1)CARE A-; Stable (30-Mar-18) 2)CARE A-; Stable (25-Jul-17)	1)CARE A (21-Nov-16)
3.	Commercial Paper	ST	-	-	1)Withdrawn (10-Jul-19) 2)CARE A1 (05-Apr-19)	1)CARE A1 (25-Jun-18)	1)CARE A1 (03-Oct-17)	-
4.	Fund-based - LT-Working Capital Limits	LT	-	-	1)CARE A-; Stable (05-Apr-19)	-	1)CARE A-; Stable (30-Mar-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.

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