

## Muthoot Fincorp Limited

April 05, 2019

### Ratings

| Facilities                | Amount<br>(Rs. crore)                                                                      | Rating <sup>1</sup>                                     | Rating Action |
|---------------------------|--------------------------------------------------------------------------------------------|---------------------------------------------------------|---------------|
| Long term Bank Facilities | 2,831.66<br>(Rupees Two thousand eight hundred thirty one crore and sixty six lakhs only ) | CARE A-; Stable<br>(Single A Minus;<br>Outlook: Stable) | Reaffirmed    |
| Commercial Paper          | 1,500.00<br>(Rupees One thousand Five hundred crore only)                                  | CARE A1<br>(A One)                                      | Reaffirmed    |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities and commercial paper issue of Muthoot Fincorp Limited (MFL) continues to factor in the strength 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, adequate capitalization levels and comfortable liquidity profile.

The rating is, however, constrained by significant 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.

The ability of the company to reduce exposure to non-core assets/group entities and any change in the regulatory scenario are the key rating sensitivities.

### Detailed description of the key rating drivers

#### 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 portfolio of Rs. 10,015 crore and total loan portfolio of Rs.11,445 crore as on March 31, 2018, MFL is the third largest Gold loan NBFC in India. The company's 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, 2018, MFL has 3,572 branches in India across 19 states and union territories.

#### Improved financial performance in FY18 and relatively low but improving profitability

The gold loan disbursements grew by 15% from Rs. 19,604 crore in FY17 to Rs. 22,498 crore in FY18. During FY18, gold loan portfolio grew by 11% from Rs. 9,052 as on March 31, 2017 to Rs. 10,015 crore as on March 31, 2018 whereas MSME/Business loan portfolio grew by 20% from Rs.1,147 crore as on March 31, 2017 to Rs.1,371 crore as on March 31, 2018.

NIM stood at 6.97% in FY18 as against 6.96% in FY17 with decline in cost of deposits in line with decline in yield on advances. Operating expenses /average total assets decreased from 6.60% in FY17 to 5.99% in FY18. Credit costs stood low at 0.18% during FY18. ROTA improved from 0.93% in FY17 to 1.08% in FY18. However profitability moderated during H1FY19 mainly on the account of provisions towards NPAs in MSME segment. During 9mFY19 the company reported a PAT of Rs.103 crore on total income of Rs.1,803 as against PAT of Rs.98 crore and total income of Rs.1,606 crore in 9mFY18.

#### Adequate Capital adequacy

During FY18, the company has raised Rs.120 crore in the form of perpetual debt instrument (PDI) from the promoters. As on March 31, 2018, CAR and Tier 1 CAR stood at 22.03% and 14.48% as against CAR and Tier 1 CAR of 21.42% and 14.10% as on March 31, 2017. CAR and Tier 1 CAR stood at 22.00% and 14.45% as on September 30, 2018.

#### Asset quality

GNPA and NNPA stood at 1.90% and 1.45% (Based on 90+ dpd) as on March 31, 2018 as against 1.59% and 1.15% (Based on 120+ dpd) as on March 31, 2017. 90+dpd of gold loan portfolio improved to 0.78% as on March 31, 2018 as against 1.42% as on March 31, 2017. GNPA and NNPA moderated to 2.68% and 1.96% as on December 31, 2018. The moderation

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

in asset quality is mainly due to the slippages in higher ticket loans in MSME segment and SARFAESI process have been initiated to recover these loans.

#### **Resource Profile**

Bank borrowings constituted around 73% of total borrowings as on March 31, 2018 as against 63% as on March 31, 2017. Retail NCDs constituted around 5% of total debt as on March 31, 2018 as against 12% as on March 31, 2017. Sub debt and PDIs constituted around 20% and 2% of total borrowings as on March 31, 2018.

#### **Comfortable Liquidity profile**

ALM profile is comfortable as there are no cumulative mismatches in any of the time buckets as on December 31, 2018. This is due to longer tenure of the borrowings as compared to short tenor of loans. The average working capital utilization for the past twelve months ended December 2018 stood at 92%. As on December 31, 2018 the MFL unutilised limits stood at Rs.184 crore

#### **Key Rating Weaknesses**

##### **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 reduced from Rs.833 crore as on March 31, 2017 to Rs.807 crore as on September 30, 2018. During FY18, the company has extended loans of Rs.199 crore to promoters. Timely liquidation of the real estate assets/advances from the books of MFL is a key rating sensitivity.

##### **Product concentration towards gold loan**

As on March 31, 2018, gold loans constitute over 87% of the total AUM as against 87% as on March 31, 2017. 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 constituted around 11.98% and 0.51% respectively as on March 31, 2018.

The company used to lend Microfinance loans initially from its own book, but later discontinued the microfinance operations in MFL and started lending microfinance loans through its subsidiary MMF. 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.

##### **Geographical concentration**

MFL has presence in 19 states across India spread across 3,572 branches as on March 31, 2018 as against 3,483 branches as on March 31, 2017. As on March 31, 2018, five southern states constituted around 72.56% of the portfolio as against 72.99% of the portfolio as on March 31, 2017. The company is making consistent efforts to increase its presence in other states by way of expanding the branch network in other regions. The five southern states constituted around 69% of the outstanding gold loan portfolio as on September 30, 2018.

##### **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 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**

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, 2018, 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 88% of loan portfolio as on March 31, 2018. Besides, the company has also engaged in lending SME/business loans and it constituted around 12% of the loan portfolio as on March 31, 2018.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|
|------------------------------|----------|----------|

|                           |        |        |
|---------------------------|--------|--------|
| Total income              | 2,105  | 2,187  |
| PAT                       | 116    | 152    |
| Interest coverage (times) | 1.16   | 1.17   |
| Total Assets              | 13,478 | 14,492 |
| Net NPA (%)               | 1.15   | 1.45   |
| ROTA (%)                  | 0.93   | 1.08   |

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

**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.

**Analyst Contact:**

Name: P Sudhakar

Tel: 044-2850 1000

Email: [p.sudhakar@careratings.com](mailto:p.sudhakar@careratings.com)

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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-Cash Credit            | -                | -           | -                 | 1765.00                       | CARE A-; Stable                           |
| Fund-based - LT-Term Loan              | -                | -           | Dec 2020          | 416.66                        | CARE A-; Stable                           |
| Fund-based - LT-Working Capital Limits | -                | -           | -                 | 650.00                        | CARE A-; Stable                           |
| Commercial Paper                       | -                | -           | 07 days to 1 year | 1500.00                       | 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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018                      | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1.      | Fund-based - LT-Cash Credit            | LT              | 1765.00                        | CARE A-; Stable | -                                         | 1)CARE A-; Stable (30-Mar-18)<br>2)CARE A-; Stable (25-Jul-17) | 1)CARE A (21-Nov-16)                      | -                                         |
| 2.      | Fund-based - LT-Term Loan              | LT              | 416.66                         | CARE A-; Stable | -                                         | 1)CARE A-; Stable (30-Mar-18)<br>2)CARE A-; Stable (25-Jul-17) | 1)CARE A (21-Nov-16)                      | -                                         |
| 3.      | Commercial Paper                       | ST              | 1500.00                        | CARE A1         | 1)CARE A1 (25-Jun-18)                     | 1)CARE A1 (03-Oct-17)                                          | -                                         | -                                         |
| 4.      | Fund-based - LT-Working Capital Limits | LT              | 650.00                         | CARE A-; Stable | -                                         | 1)CARE A-; Stable (30-Mar-18)                                  | -                                         | -                                         |

**CONTACT****Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062

Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.

Cell: +91 - 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

CIN - L67190MH1993PLC071691