Muthoot Fincorp Limited

June 25, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper Issue	1,500 (Enhanced from Rs. 900 crore only)	**CARE A1 (A One)**	Reaffirmed
Total	**1,500 (Rupees One thousand and five hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The rating assigned to the commercial paper issue of Muthoot Fincorp Limited (MFL) continues to derive 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 and comfortable liquidity profile. The rating is, however, constrained by relatively low profitability, exposure to price risk of gold, geographical concentration of the loan portfolio and exposure to non-core assets and group entities by way of loans & advances.

The ability of the company to improve profitability and asset quality further while increasing the scale of operations, any increase in exposure to real estate/group 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 17 states to become one of largest gold loan companies in India. The operations are looked after by a team of professionals. The board of directors of the company comprises seven directors including three independent directors with experience in the financial services sector. With gross loans of Rs.11,445 crore as on March 31, 2018, the company is the third-largest NBFC in terms of Gold loan portfolio outstanding. With the company's consistent efforts in advertising and branding strategy, the company has established its brand image and is well positioned among its customers.

Improved financial performance; however, profitability continues to be relatively low

MFL's loan portfolio witnessed positive growth for the past three years ended March 2017 after witnessing de-growth in FY14. With focus on disbursements, the loan portfolio continued to grow from Rs.8,907 crore as on March 31, 2016, to Rs.10,347 crore as on March 31, 2017. The gold loan stood at Rs.9,052 crore as on March 31, 2017, as against Rs.6,848 crore as on March 31, 2016. The increase in portfolio is supported by significant growth of 32% in gold loans. SME loans grew by 16% from Rs.993 crore as on March 31, 2016, to Rs.1,149 crore as on March 31, 2017. MFI loans declined from Rs.1,067 crore as on March 31, 2017, to Rs.146 crore as on March 31, 2017, due to discontinuation of MFI loans in MFL. MFL had outstanding loan book of Rs.11,445 crore as on March 31, 2018.

Net Interest Margin (NIM) moderated from 8.00% in FY16 to 6.96% in FY17, due to decline in yield on advances. ROTA improved from 0.79% in FY16 to 0.93% in FY17 due to decrease in provisions from Rs.51 crore in FY16 to Rs.17 crore in FY17. Operating expenses /average total assets decreased from 6.92% in FY16 to 6.60% in FY16. During FY18, MFL reported PAT of Rs.152 crore (Prov.) as against Rs.116 crore earned in FY17. Supported by growth in portfolio and improvement in spreads, MFL reported ROTA of 1.08% in FY18 (Prov.) as against 0.93% in FY17.

Capital adequacy

During FY18, MFL raised Rs.120 crore through issue of perpetual debt instruments. This coupled with retention of profits, MFL reported Total Capital Adequacy Ratio (CAR) of 22.03% with Tier I CAR of 14.48% as compared with 21.42% (Tier I CAR: 14.10%) as on March 31, 2017

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

Resource Profile

The borrowing profile of MFL constitutes 70% of bank borrowings as on March 31, 2018 as against March 31, 2017. Retail NCDs constituted around 5% of total debt as on March 31, 2018, as against 12% as on March 31, 2017. In addition to this, sub debt accounts for 20% of the total borrowings. It is to be noted during FY18, the company also used short term borrowings such as Commercial Paper.

Liquidity profile

Asset liability position continues to be comfortable as there are no cumulative mismatches in any of the time buckets up to five years. This is due to longer tenure of the borrowings as compared with shorter tenor of loans (tenure of less than 12 months).

Moderate Asset Quality

GNPA and NNPA increased to 1.90% and 1.46% respectively as on March 31, 2018 from 1.58% and 1.14% as on March 31, 2017 respectively due to the transition in the NPA recognition norms from 120 DPD as on March 31, 2017 to 90 DPD as on March 31, 2018. As on March 31, 2018 in absolute terms GNPA stood at Rs.217.65 crore, of which, SME segment accounted for Rs.122.87 crore of GNPA.

In order to mitigate risk associated with volatility in gold prices, MFL has focused on extending shorter term loans. The share of shorter tenure (6 months and 9 months) loans have increased from 81% as on March 31, 2017 to 89% as on March 31, 2018. Rest of the gold loan portfolio consists of loans having tenure of 9-12 months. To improve the asset quality, the company has taken various measures including timely collection of interest & principal from its customers and extending loans with relatively lower tenure.

Key rating weakness

Exposure to group entities/non-core assets

As on March 31, 2018, the company's investments in subsidiaries (Muthoot Housing Finance Co Ltd and Muthoot Microfin Ltd) amounts to Rs.215 cr as against Rs.152 cr as on March 31, 2017. Amount of exposure to non-core assets including loans & advances to related party declined to Rs.807.45 Cr as on March 31, 2018 (prov.)

Product concentration towards gold loan

Gold loans remain to constitute over 87.5% of the total loans as on March 31, 2018, as against 87.3% 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. In order to diversify the loan portfolio and to cater to the marginal section of the society, the company ventured into Microfinance loans in April 2010. With discontinuation of microfinance loans in MFL, microfinance loan declined from Rs.1,067 crore as on March 31, 2016 to Rs.58 crore as on March 31, 2018.

Geographical concentration

MFL has presence in 17 states spread across 3,483 branches as on March 31, 2017, as against 3,645 branches as on March 31, 2016. The decline is due to periodic addition/deletion of branches based on credit growth and profitability. The branches are spread across the country and predominantly present in southern India.

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

CARE has taken a limited review based on the key financial parameters for the year ended March 2018 (provisional).

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Financial Ratios-Financial Sector

Rating Methodology for Non-Banking Financial Companies

About the Company

Muthoot Fincorp Limited (MFL) is a 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. The group has started a chit fund company in 1927 and currently operates in various sectors including financial services, wind power, automobiles, hospitality and infrastructure development. MFL was incorporated in the year 2002. As on March 31, 2018, the promoters held 79% stake in the company with rest being held by family members of the promoters.

The company extends loan against used jewellery/ gold ornaments which constituted around 88% of loan portfolio as on March 31, 2018. Besides, the company has also engaged in lending SME loans (11%) and microfinance loans (which was discontinued in FY17). The company has gross loans of Rs. 11,445 crore as on March 31, 2018.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2,020	1,975
PAT	87	116
Interest coverage (times)	1.12	1.16
Total Assets	11,480	13,478
Net NPA (%)	0.96^	1.14$
ROTA (%)	0.79	0.93

A: Audited; ^ - based on 150+dpd; $- based on 120+dpd

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.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
Commercial Paper	-	-	07-364 days	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	1850.00	CARE A-; Stable	-	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	750.00	CARE A-; Stable	-	1)CARE A-; Stable (30-Mar-18) 2)CARE A-; Stable (25-Jul-17)	1)CARE A (21-Nov-16)	-
3.	Commercial Paper	ST	1500.00	CARE A1	-	1)CARE A1 (03-Oct-17)	-	-
4.	Fund-based - LT-Working Capital Limits	LT	400.00	CARE A-; Stable	-	1)CARE A-; Stable (30-Mar-18)	-	-

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