Muthoot Fincorp Limited

October 3, 2017

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper Issue	900 (Rupees Nine hundred crore only)	**CARE A1 (A One)**	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the commercial paper issue of Muthoot Fincorp Limited (MFL) factors 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 and comfortable liquidity profile. The rating also takes note of fresh equity infusion of Rs.150 crore and improved financial performance of MFL during FY17 (refers to the period April 1 to March 31). The rating is, however, constrained by significant increase in exposure to real estate and group entities by way of loans & advances during FY17, relatively low profitability, exposure to price risk of gold and geographical concentration of the loan portfolio.

The ability of the company to improve profitability and asset quality while increasing the scale of operations, improve Tier I CAR, any further 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.10,347 crore as on March 31, 2017, 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.

Capital adequacy

Regular capital infusion by the promoters has helped MFL maintain capital adequacy levels. During March 2017, the promoters infused equity of Rs.150 crore in MFL. As on March 31, 2017, MFL reported Total Capital Adequacy Ratio (CAR) of 21.42% with Tier I CAR of 14.10% as compared with 21.00% (Tier I CAR: 13.79%) as on March 31, 2016. Furthermore, MFL planned to raise PDI amounting Rs.125 crore in the near term to improve the capital adequacy levels.

Improved financial performance in FY17; 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.

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 FY17, MFL reported PAT of Rs.116 crore as against Rs.87 crore earned in FY16. Going forward, on account of relatively lower yields generated from exposure to real estate/group entities, the ability of the company to improve AUM, derive benefits of scale & change in its pricing strategy and reduce under recovery are critical to improve profitability.

Resource Profile and liquidity position

The resource profile of MFL constitutes bank borrowings around 63% as on March 31, 2017, as against 54% as on March 31, 2016. On account of short-term nature of the asset profile, the short-term debt constitute for a major portion of 63% as on March 31, 2017, as against 54% as on March 31, 2016. Retail NCDs constituted around 12% of total debt as on March 31, 2017, as against 20% as on March 31, 2016. Furthermore, the company has mobilized fund through sub debt of Rs.363 crore in FY17 as against Rs.520 crore in FY16. MFL's ALM position stood comfortable with no cumulative

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

mismatches in any of the time buckets. This is due to longer tenure of the borrowings as compared with shorter tenor of loans (tenure of less than 12 months).

Improvement in asset quality during FY17

GNPA and NNPA have improved to 1.58% and 1.14% (Based on 120+ days) as on March 31, 2017 as against 1.85% and 0.96% (Based on 150+ days) as on March 31, 2016. Due to fall in gold prices and the amount recoverable (principal and interest) exceeding the underlying security, the company could not recover the entire amount and hence suffered interest loss on the delinquent loans in the past. 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 69% as on March 31, 2016 to 81% as on March 31, 2017. Rest of the gold loan portfolio consists of loans having tenure of 9-12 months. The under recovery during auction in FY17 was around Rs.15 crore as against Rs.89 crore in FY16. 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 Weaknesses

Significant increase in exposure to group entities/real estate

Over the last few years, MFL has made investments by way of equity infusion and loans & advances to its group entities. As on March 31, 2017, the company's investments in subsidiaries (Muthoot Housing Finance Co Ltd and Muthoot Microfin Ltd) amounts to Rs.152 crore as against Rs.132 crore as on March 31, 2016.

In addition to above, the company had exposure to group concerns/entities by way of loans & advances towards purchase of property and acquired properties (land) from related party amounting Rs.289.49 crore as on March 31, 2016.

One of the group firm, Muthoot Estate and Investments (MEI), a partnership firm of MFL's promoters was accepting public deposits and investing in real estate earlier. MEI has been repaying/prepaying the deposit over the past few years as directed by RBI. During FY 17 to comply with the RBI direction, MFL has purchased properties and paid advance to purchase the property from the group entities. Total amount of exposure to real estate, loans & advances to related party stood at Rs.832.77 crore as on March 31, 2017. MFL expects to liquidate these real estate assets and bring down the above exposure in the near term.

Product concentration towards gold loan

Gold loans constitute over 87% of the total loans as on March 31, 2017, as against 77% as on March 31, 2016. 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.146 crore as on March 31, 2017. However, SME loans grew by 16% from Rs.993 crore as on March 31, 2016 to Rs.1,149 crore as on March 31, 2017. The group had also diversified into other asset class like housing finance through its subsidiary Muthoot Housing Finance Ltd and 2W/3W vehicle financing through group concern Muthoot Capital Services Ltd. At the group level, share of gold loans accounted for 63% of loan portfolio as on March 31, 2017.

Analytical approach: Standalone

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, 2017, the promoters held 75% stake in the company with rest being held by family members of the promoters.

The company extends loan against used jewellery/ gold ornaments and it constituted around 87% of gross loans as on March 31, 2017. Besides, the company also engaged in lending SME and microfinance loans and it constitutes 11% and 1% of gross loans respectively as on March 31, 2017. The company has gross loans of Rs.10,347 crore and operates across 17 states/Union territories as on March 31, 2017.

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

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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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	-	-	-	1850.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	December 2019	1150.00	CARE A-; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	1850.00	CARE A-; Stable	-	1)CARE A (21-Nov-16)	-	-
2.	Fund-based - LT-Term Loan	LT	1150.00	CARE A-; Stable	-	1)CARE A (21-Nov-16)	-	-

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