

## Muthoot Vehicle & Asset Finance Limited

July 06, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term (LT) – Fund based	100.00	100.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Short Term (ST) – Interchangeable#	22.50	22.50	[ICRA]A2; upgraded from [ICRA]A3+
Fixed deposit programme	-	-	MA (Stable); reaffirmed
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	

\*Instrument details are provided in Annexure-1

# Short-term facilities are interchangeable with long term facilities

### Rating action

ICRA has upgraded the rating for the Rs. 100.00-crore long-term fund-based facilities of Muthoot Vehicle & Asset Finance Limited (MVFL) to [ICRA]BBB+ (pronounced ICRA triple B plus) from [ICRA]BBB (pronounced ICRA triple B)<sup>1</sup>. The outlook on the long-term rating is Stable. ICRA has also upgraded the rating for the Rs. 22.50-crore short-term-interchangeable facilities to [ICRA]A2 (pronounced ICRA A two) from [ICRA]A3+ (pronounced ICRA A three plus). ICRA has also reaffirmed the MA (pronounced M A) rating for the company's fixed deposit programme. The outlook on the rating is Stable.

### Rationale

The rating upgrades consider the company's ability to scale up operations while maintaining a comfortable asset quality (gross NPA of 0.9% in March 2018) and capitalisation (gearing of 3.7x in March 2018). The ratings continue to consider the benefits derived by virtue of being a part of Muthoot Finance Group. The Group's flagship company, Muthoot Finance Limited, is rated [ICRA]AA(Stable)/[ICRA]A1+. The ratings take into account the management support received from the promoter group, the company's ability to mobilise retail deposits by leveraging the shared brand name, and improvement in financial flexibility with access to eight lenders at present (compared to three lenders in March 2017). During FY2018, MVFL's disbursements and portfolio grew by 56% and 87%, respectively (three-year CAGR of 21% and 30%, respectively), driven by the new passenger car finance segment, which constituted 85% of the portfolio in March 2018. The company has also strengthened its internal systems and tightened its collection setup, which along with the recoveries from legacy loans led to an improvement in the asset quality with gross NPA declining to 0.9% in March 2018 (90+ dpd) from 2.1% in March 2017 (120+dpd norm).

These credit strengths are, however, partly offset by the company's moderate scale of operations (Rs. 384 crore as of March 2018), its regionally concentrated portfolio and the limited portfolio seasoning owing to the robust portfolio growth. ICRA notes that the company's core profitability<sup>2</sup> was largely stable at 3.5% in FY2018 (3.6% in FY2017) supported by improvement in operating efficiency even as lending margins contracted. The company intends to grow at a CAGR of 35-40% over the next three years, largely focussing on the used passenger car segment instead of the new car segment. Given the stiff competition in the passenger car financing segment, the company's ability to further optimise its cost structure and maintain tight control over asset quality in the used car segment would be critical for sustaining the

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications

<sup>2</sup> Operating profit/average total assets

earnings profile. While the company may not need significant capital to achieve the envisaged growth, ICRA derives comfort from the expected timely support from the promoter group, if required.

## Outlook: Stable

ICRA believes that MVFL will continue to benefit from the managerial, operational and financial support from the promoter group. The outlook may be revised to Positive if the company grows and diversifies its portfolio while maintaining a good earnings and asset quality profile. The outlook may be revised to Negative if there is a significant deterioration in the company's asset quality, capitalisation or profitability indicators.

## Key rating drivers

### Credit strengths

**Part of Muthoot Finance Group; managerial, operational and financial support from the Group** – By virtue of being a part of Muthoot Finance Group, MVFL derives management support from the Group and also leverages the Group's established brand in Kerala to mobilise retail deposits. The Group has an established presence across businesses including gold loans, vehicle finance, foreign exchange, insurance, hospitals, educational institutions and real estate.

**Comfortable asset quality indicators though portfolio seasoning is low** – MVFL's asset quality improved with gross NPA declining to 0.9% in March 2018 from 2.1% in March 2017 owing to better collections. The company also witnessed sizeable recoveries from previously written-off accounts because of recoveries from the same. ICRA, however, notes that the company's passenger car loan book, which accounted for 85% of the portfolio as of March 2018, is relatively less seasoned. Given the modest credit profile of the target borrowers, the relatively low vintage and the significant growth plans, it would be critical for MVFL to maintain asset quality as it increases its scale of operations and the share of used vehicle financing.

**Comfortable capitalisation profile; likely to support envisaged portfolio growth in the near term** – Despite an increase in gearing to 3.7x as of March 2018 from 1.9x as of March 2017, MVFL's capitalisation remained comfortable. The company intends to grow at a CAGR of 35-40% over the next three years. While the company may not need sizeable capital to achieve the envisaged growth, ICRA derives comfort from the timely and adequate capital support expected to be provided by the Group to support the company's business expansion, if required.

**Improving diversity in funding profile** - MVFL's lender base increased to eight in March 2018 from three banks in March 2017. The company's funding profile comprises working capital borrowing from banks (40%), fixed deposits (38%) and unsecured loans from promoter and relatives (22%). The company's deposits stood at Rs. 120.2 crore as of March 2018. MVFL's ALM profile indicated a sizeable gap (44% of the total assets) in the less than one-year bucket, given that the average tenure of its deposits/borrowings stood at about 12 months while that of its loan was in the range of 48-60 months. Given the limited regulatory headroom for raising further deposits with the net worth being Rs. 89.3 crore as of March 2018, the company's ability to further diversify its lender base and secure long-term borrowings at competitive rates would be critical for funding its envisaged growth plans. ICRA, however, expects timely liquidity support from the promoters or Group entities, if required.

## Credit challenges

**Moderate scale of operations** – MVFL's loan book grew by 87% in FY2018 to Rs. 384 crore as of March 2018, driven by a robust disbursement growth (145% YoY) in the passenger car segment (both new and used vehicles). The company's portfolio predominantly comprises passenger cars (85%) with the rest being commercial vehicles (CV), construction equipment (CE) and business loans. Of the total passenger cars, new and used cars constituted 88% and 12%, respectively, as of March 2018 although the company intends to scale up its used car financing, going forward. With continued focus on passenger cars, the share of the company's portfolio in this segment is likely to remain high over the medium term.

**Highly competitive environment could exert pressure on earnings** – MVFL's margins declined during FY2018 due to the increasing share of lower-yielding assets (passenger cars). The company's core profitability, however, remained broadly stable at 3.5% in FY2018 (3.6% in FY2017) due to a reduction in operating expenses. The company's net profitability in FY2018 (3.0%) was supported by recoveries from accounts written off during earlier periods. Going forward, the company's ability to tie-up funds at competitive rates, keeping credit costs under control, and improving operating efficiencies would be critical for maintaining a good earnings profile.

**Geographically concentrated operations with presence largely confined to Kerala** – MVFL operates predominantly in Kerala with 23 of its 26 branches, as of March 2018, being in the state. The company has one branch each in Tamil Nadu, Telangana and Delhi. While the company intends to gradually expand its presence in other southern states, Kerala is likely to remain the key market over the medium term.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

## About the company

Muthoot Vehicle and Asset Finance Limited (MVFL) is a non-banking finance company (NBFC), classified as a deposit accepting-asset finance company, headquartered in Kochi. MVFL is primarily engaged in new and used vehicle financing. The company currently has 23 branches in Kerala. MVFL is a part of Muthoot M. George Group, which has diversified lines of business including gold loans, vehicle finance, foreign exchange, insurance, hospitals, schools, and real estate among others.

During FY2018, the company achieved a net profit of Rs. 10.0 crore on a managed asset base of Rs. 423.7 crore compared to a net profit of Rs. 8.5 crore on a managed asset base of Rs. 241.9 crore during FY2017.

## Key financial indicators

MVFL	FY2017&	FY2018^
Total Income	31.7	49.9
Profit after Tax (PAT)	8.5	10.0
Net Worth	81.1	89.3
Total Managed Portfolio	206.2	389.0
Total Managed Assets	241.9	423.7
PAT/ Average Managed Assets	4.3%	3.0%
Return on Net Worth	11.0%	11.8%
Gearing	1.9	3.7
Gross NPA%	2.1% (120+ dpd)	0.9% (90+ dpd)
Net NPA%	1.8%	0.7%
Net NPA/Net Worth	4.6%	3.2%
CRAR %	37.6%	22.6%

Amount in Rs. crore; &- audited; ^- provisional

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Jul 2018	FY2018	FY2017	FY2016	
					Jul 2017	May 2016	Feb 2015	
1 Long term-Fund based	Long Term	100.00	100.00	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
2 Short term-Interchangeable	Short Term	22.50	22.50	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	
3 Fixed deposit programme	Medium Term	-	-	MA (Stable)	MA(Stable)	MA(Stable)	MA(Stable)	

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based – Cash Credit	NA	NA	NA	100.00	[ICRA]BBB+(Stable)
NA	Short term – Fund based	NA	NA	NA	22.50	[ICRA]A2
NA	Fixed deposit	NA	NA	NA	-	MA (Stable)

Source: MVFL

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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