Muthoot Finance Limited

Instruments	Amount In Rs. Crore[1]	Rating Action (November 2016)
Non-convertible debenture programme	1,300	[ICRA]AA(stable); assigned
Subordinated debt programme	100	[ICRA]AA(stable); assigned
Term Loans	50^	[ICRA]AA (stable); outstanding
Long-term fund based bank limits	8,662^ (enhanced from Rs. 8,286 crore)	[ICRA]AA (stable); assigned / outstanding
Short-term fund based bank limits	10,318^ (enhanced from Rs. 9,392 crore)	[ICRA]A1+; assigned / outstanding

^ *Term loans and long-term fund based bank limits include interchangeable limit of Rs. 35 crore. Also, long-term and short-term fund based bank limits include interchangeable limit of Rs. 6,935 crore. The total rated bank facilities stands at Rs. 12,060 crore*

ICRA has assigned a [ICRA]AA (pronounced ICRA double A)[2] rating with stable outlook for the Rs. 1,300 crore non-convertible debenture programme and Rs. 100 crore subordinated debt programme of Muthoot Finance Limited (MFL). ICRA has a rating outstanding of [ICRA]AA with stable outlook for the company's Rs. 6,800.00 crore non-convertible debenture programmes and Rs. 100.00 crore subordinate debt programme

ICRA has assigned the long-term rating of [ICRA]AA with stable outlook for the Rs. 8,662 crore (enhanced from Rs. 8,286 crore) long-term fund based bank facilities and short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 10,318 crore (enhanced from Rs. 9,392 crore) short-term fund based bank facilities. ICRA also has rating outstanding of [ICRA]AA with stable outlook for the Rs. 50 crore term loans and short-term rating of [ICRA]A1+ for Rs. 200 crore commercial paper programme of the company. The term loans and long-term fund based bank limits include an interchangeable limit of Rs. 35 crore. The long-term and short-term fund based bank limits include an interchangeable limit of Rs. 6,935 crore. The total rated bank facilities of the company stand at Rs. 12,060 crore.

The rating action factors in the company's track record in the gold loan business and its leadership position in the market, its established franchise with a network of 4,294 branches (as on June 30, 2016) across the country, and its efficient internal controls and audit systems. The rating also takes into account the company's ability to raise funds from diverse sources resulting in a good liquidity profile, its comfortable capitalisation (gearing of 3.7 times as on March 31, 2016), and good profitability indicators (RoA of 3.0% in FY2016). The rating is however constrained by the company's portfolio concentration in gold loan business, geographical concentration with South India contributing to 53% of the total portfolio as on June 30, 2016, its marginal borrower profile, and limited earnings diversity.

The ratings take note of the company's initiatives to improve its credit risk profile by tightening interest collections (regular interest collections vis-a-vis bullet collections in the past), which is likely to offset the risks on account of gold volatility to an extent. Regular interest collection is likely to support the company's liquidity profile and also result in better business yields, as the extent of interest reversals would be lower than in the past in case of borrower defaults. MFL's 90+ dpd stood at a moderate 3.6% as on June 30, 2016 (4.8% as on March 31, 2016). In addition to tighter interest collections, MFL has started undertaking timely auction of delinquent contracts going forward, which is likely to support the improvement in delinquency levels.

The ratings also factor in the expected stability in gold loan business pursuant to the various regulatory changes over the past few years, especially the capping of loan to value (LTV) ratio at 75%. While the pace of growth in the sector had moderated pursuant to these regulations in the past, the regulations are expected to lead to more stable and sustainable business volumes going forward. While MFL's portfolio grew at a CAGR of 52.5% during FY2011 to FY2013, it declined by 17.1% during FY2014 and the CAGR moderated to 5.6% during FY2015 and FY2016.

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[1] Rs. 1 crore = Rs. 10 million = Rs. 100 lakh

2 For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.

The company's return on average assets improved to 3.0% in FY2016 (2.6% in FY2015) aided by an improvement in the business yields, which was partly on account of better auction realizations during Q4 FY2016 due to favourable gold price movement and intensified collections. In the medium term, MFL's RoA is expected to be about 2.8-3.2%. MFL has good operating efficiency (operating expenses / average managed assets stood at 4.2-4.4% during the last two fiscals) with portfolio per branch of Rs. 6.0 crore as on June 30, 2016 and has scope to further improve the same to around Rs. 6.5 crore level as seen during FY2012 and FY2013. The company's moderate branch addition plans during the current fiscal would aid its business expansion without exerting much pressure on its operating efficiencies. The ratings also consider the company's comfortable capitalisation profile (gearing at 3.7 times as on March 31, 2016) and adequate liquidity on the back of sizeable un-utilized bank lines (~Rs.3,200 crore as on March 31, 2016).

ICRA also takes note of the growth plans for MFL's subsidiaries over the next two fiscals, which would diversify its product presence to an extent. The subsidiaries include the housing finance business through Muthoot Homefin (India) Limited (rated [ICRA]AA-(stable)) which is an 86% subsidiary, microfinance business through Belstar Investment and Finance Private Limited, which is an 57% subsidiary and insurance products through Muthoot Insurance Brokers Private Limited, which is a wholly owned subsidiary. Given MFL's comfortable capitalisation currently, it should be able to meet the medium term capital requirements of its subsidiaries without adversely impacting its own capital structure. However, the company's ability to grow its non-gold business at an optimal pace, while maintaining good asset quality and profitability profile would be crucial going forward.

Company Profile
Muthoot Finance Ltd (MFL) is the flagship company of the Kerala based business house 'The Muthoot Group', which has diversified operations in financial services, healthcare, real estate, education, hospitality, power generation and entertainment. MFL has a long and established track record of operating in the gold loan business and is India's largest gold loan focused NBFC with a managed advance base of Rs. 25,861 crore as on June 30, 2016. The company operates through an extensive pan-India branch network of 4,294 as on June 30, 2016. The company derives a major proportion of its business from South India (53% of total portfolio as on June 30, 2016) where gold loans have traditionally been accepted as means of availing short term credit, although over the past few years it has increased its presence beyond South India.

Recent Results
During Q1FY2017, MFL achieved a net profit of Rs. 270.3 crore against a net profit of Rs. 183.2 crore during Q1FY2016.

As per standalone audited financials for FY2016, MFL reported a net profit of Rs. 809.6 crore on a managed asset base of Rs. 24,379 crore as compared with a net profit of Rs. 670.5 crore on a managed asset base of Rs. 23,408 crore in FY2015.

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