Muthoot Finance Limited

June 01, 2018

Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Outstanding
Long-term fund-based bank limits	9,837.00^	[ICRA]AA(stable)
Short-term fund-based bank limits	13,213.00^	[ICRA]A1+
Term loans	200.00	[ICRA]AA(stable)
Non-convertible debenture programme (public placement)	4,150.54	[ICRA]AA(stable)
Non-convertible debenture programme (public placement)	3,000.00	[ICRA]AA(stable)
Non-convertible debenture programme (private placement) - unallocated	500.00	[ICRA]AA(stable)
Subordinated debt programme	551.36	[ICRA]AA(stable)
Commercial paper programme	4,000.00	[ICRA]A1+
Total	**26,316.90**	

^Long-term and short-term fund-based bank limits include an interchangeable limit of Rs. 9,135.00 crore; the total rated bank facilities stand at Rs. 14,115.00 crore

Material Event

Muthoot Finance Limited (MFL) announced its Q4 FY2018 results on May 16, 2018.

Business growth: MFL's consolidated assets under management (AUM) stood at Rs. 32,154 crore, registering a 12% growth during FY2018. The share of subsidiaries accounted for 10% of the total AUM, up from about 5% in March 2017. The overall portfolio growth during FY2018 was supported by the strong growth witnessed in the housing and microfinance subsidiaries, while the gold loan portfolio grew a modest 6% during the period. While microfinance AUM almost doubled during FY2018, housing AUM more than tripled during the period. Going forward, the share of subsidiaries is expected to increase to about 15% of the consolidated AUM by March 2019 and, about 20% by March 2020, as subsidiary growth is expected to remain robust while gold loan growth is expected to remain relatively moderate. The company is expected to grow its consolidated AUM at about 10-15% in FY2019.

Asset quality: MFL's standalone NPA levels increased in Q4 FY2018. GNPA (90 day past due basis) was 6.98% vis-à-vis 5.6% in December 2017 (120 day past due basis). The increase was attributed to the inclusion of other standard accounts of a non-performing borrower for NPA computation and the transition to tighter NPA recognition norms. The company, in the past, was not including the standard accounts of non-performing borrowers for its overall NPA computation. This accounted for about 37% of the total NPAs as on March 31, 2018. The weakening in the company' gold loan asset quality was observed from Q1 FY2018 as it witnessed overdues in the six-month loan product (which was introduced during FY2017) and as it undertook relaxed collections of overdues. Consequently, 90+ days past due (dpd)[1] increased from 2.5% in March 2017 to about 7.0% in September 2017 and further to about 7.7% in December 2017. MFL has discontinued the six-month product and consequently, the share of the product stood at 4% of the total gold loan portfolio as on March 31, 2018 (13% in December 2017). While the 90+ overdues have come down from December 2017 levels, MFL continues to have relaxed collections on its overdue book, which has contributed to the NPAs remaining high. The auctioning as a % of opening portfolio reduced to 3.7% in FY2017 from 14.2% in FY2016, it increased to 7.2% for FY2018. Gross NPAs in housing and microfinance subsidiaries however were under control at 0.42% and 0.76% respectively as on March 31,2018.

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[1] *Excluding the standard accounts of these overdue borrowers*

The company's net NPA stood at 6.2% in March 2018 as compared to 1.7% in March 2017. Consequently, net NPA/net worth weakened to 23.1% as on March 31, 2018 from 7.1% as on March 31, 2017. ICRA takes note of the additional standard asset provision and a gold price fluctuation provision totaling to about Rs. 463 crore (1.6% of the gold loan portfolio), which along with the liquid nature of the collateral provides additional comfort. However, any steep decline in the gold price could impact recoveries as LTV[2] (including interest receivable) for core-gold loan NPAs (excluding the related standard accounts) stood at 94% and for overall gold loan NPAs at 87%. Going forward, timely collection, auctioning and a stable gold price would be critical for keeping delinquencies and credit costs under control.

Profitability: The company's consolidated net profitability remained healthy with a PAT/AMA(annualized) at 5.4% (4.1% in FY2017) and return on average net-worth at about 25.0% for FY2018 supported by a favorable overall funding cost, healthy operating efficiencies and reasonable recoveries in the auction process. The company fully recovered its principal and, recovered over 73% of the total interest receivable during the auctions in FY2018.

Capitalisation: MFL has a comfortable capitalisation profile with a standalone gearing of about 2.7 times as on March 31, 2018 (consolidated gearing at about 3.2 times) aided by good internal capital generation, while portfolio growth was relatively moderate. MFL is expected to be comfortably placed to meet the medium-term capital requirements of its subsidiaries without adversely impacting its own capital structure.

Impact of the Material Event

ICRA takes note of the high NPAs in MFL' gold loan portfolio; timely recovery actions are crucial to mitigate the risk of adverse gold price fluctuations. The loan loss provisions created so far, liquid nature of the collateral and, MFL' healthy financial risk profile, characterized by good internal generation and comfortable capital structure however provides comfort. The ratings therefore remain unchanged at [ICRA]AA(Stable)/[ICRA]A1+.

The previous detailed rating rationale is available on the following link: [Click here]

[2] LTV-Loan to value

Key Financial Indicators

	FY2017	FY2018	Q4FY2017	Q4FY2018
Total Income	5,747	6,243	1,713	1,608
Profit after Tax	1,180	1,720	322	451
Net worth	6,516	7,760	6,516	7,760
Total Managed Portfolio	27,279	29,138	27,279	29,138
Total Managed Assets	30,713	31,382	30,713	31,382
%Tier 1	21.78%	24.75%	21.78%	24.75%
% CRAR	24.88%	26.59%	24.88%	26.59%
Gearing	3.2	2.7	3.2	2.7
% Net profit/Average managed assets	4.1%	5.5%	4.2%	5.8%
% Return on net worth	19.4%	24.1%	19.8%	23.2%
% Gross NPAs	2.1% (based on 120+ dpd)	7.0%(based on 90+ dpd)	2.1% (based on 120+ dpd)	7.0%(based on 90+ dpd)
% Net NPAs	1.7%	6.2%	1.7%	6.2%
% Net NPA/ Net worth	7.1%	23.1%	7.1%	23.1%

Amounts in Rs. crore

Source: MFL's standalone financial statements, ICRA research

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