

May 18, 2023

Muthoot Homefin (India) Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	500.00	500.00	[ICRA]A1+; reaffirmed
Total	500.00	500.00	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation for Muthoot Homefin (India) Limited (MHIL) factors in ICRA's expectation of continued commitment from Muthoot Finance Limited (MFL; rated [ICRA]AA+ (Stable)/[ICRA]A1+; 100% stake in MHIL as on March 31, 2023) in the form of board-level supervision, liquidity and capital/debt funding support. In addition, MHIL's comfortable capitalisation profile with the expectation of maintaining the same prudently, going forward, supports the rating.

MHIL's focus on affordable housing provides ample growth opportunities, though ICRA takes note of the decline in the assets under management (AUM) over the last three years. The AUM declined during the Covid-19 pandemic as the company wanted to wait for the situation to normalise before increasing its disbursements. Thereafter, it took time to ramp up its operations and disbursements remained muted in FY2023. Consequently, its AUM declined to Rs. 1,438 crore (provisional) as on March 31, 2023 from Rs. 1,470 crore as on March 31, 2022. ICRA expects the management to increase disbursements going forward, as seen in Q4 FY2023, which is expected to help the company grow its AUM. The rating also factors in MHIL's ability to leverage the parent's vast branch network to expand its geographical footprint, the shared brand name and the combined marketing activities, which help it tap MFL's large retail customer base and control its operating expenses.

ICRA also takes note of the deterioration in the asset quality because of the higher slippages from the restructured book. The company's gross non-performing assets (GNPAs) increased to 4.01% as on March 31, 2023 from 2.93% as on March 31, 2022. In addition, it had a standard restructured portfolio of 2.63% of the on-book portfolio as on December 31, 2022. MHIL's ability to prevent further slippages and recover from its delinquent borrowers would remain a monitorable.

The company reported a decline in the yields on average gross loans in FY2023 as disbursements were skewed towards Q4 FY2023. In addition, operating expenses rose because of the increase in employee benefit expenses, given the high recruitment in FY2023. Nevertheless, lower credit costs, because of higher bad debt recovery, helped MHIL report a marginal improvement in its earnings profile in FY2023 with the return on managed assets (RoMA) increasing to 0.63% in FY2023 from 0.45% in FY2022 and the return on net worth (RoNW) rising to 2.30% in FY2023 from 1.90% in FY2022. ICRA expects the company's profitability to improve further, with the increase in disbursements and growth in the AUM.

Going forward, continued support from its parent and the company's ability to manage the business growth and improve its asset quality indicators, while maintaining comfortable liquidity, would remain critical from a rating perspective.

Key rating drivers and their description

Credit strengths

Strong parentage; committed capital and funding support and board-level supervision from MFL – MHIL benefits from the strong parentage of MFL. MFL has demonstrated strong commitment to MHIL in terms of capital (Rs. 334 crore of capital infused so far) and liquidity support (the parent has committed Rs. 550 crore to MHIL in the form of intercorporate deposits

(ICDs) and term loans available as on-tap facility) and board-level supervision. Continued capital/funding support from the parent over the short-to-medium-term would remain a key rating sensitivity.

Access to MFL's branch network to help expand operations – As on December 31, 2022, MHIL operated through 110 branches across 16 states/Union Territories (UTs), with the majority of the operations being conducted from MFL's branches. The company plans to share MFL's branch network further, which will provide it with access to the parent's customer base and reduce its operating expenses. The shared brand name with the parent will also allow the company to leverage the Muthoot Group's franchise value while expanding geographically.

Comfortable capitalisation profile – MHIL's capitalisation stood comfortable with a gearing of 1.44 times as on March 31, 2023 against 1.79 times as on March 31, 2022 and a capital to risk weighted assets ratio (CRAR) of 62.53% as on December 31, 2022. The gearing improved primarily because of the decline in the overall borrowings. The company's regulatory capital adequacy is also supported by the relatively lower risk weights on small-ticket housing loans, which form a major part of its portfolio. With incremental business being funded from fresh borrowings, the gearing would increase from the current level. However, ICRA expects the company to maintain a prudent capitalisation profile over the medium term.

Credit challenges

Deterioration in asset quality metrics – Since MHIL caters to the affordable housing space, portfolio vulnerability remains relatively higher. The borrower segment largely includes economically weaker sections and lower-to-middle-income categories, which have low income buffers and are vulnerable to economic shocks. As a result, delinquencies are expected to remain volatile, especially in the softer buckets. MHIL's efforts to resolve the delinquencies in the softer buckets in a timely manner and arrest their movement into higher buckets will be a key monitorable.

MHIL's GNPA's improved to 2.93% as on March 31, 2022 from 4.85% as on March 31, 2021 because of higher write-offs in FY2022. However, the asset quality deteriorated in FY2023 with the GNPA's increasing to 4.01% as on March 31, 2023 on account of higher slippages from the restructured book. The standard restructured portfolio stood at 2.63% of the on-book portfolio as on December 31, 2022 (3.57% as on March 31, 2022). The company's ability to prevent further slippages and achieve recoveries from its delinquent borrowers would remain a monitorable.

Moderate scale of operations and profitability profile – MHIL's portfolio declined by 2% in FY2023 with the gross AUM at Rs. 1,438 crore as on March 31, 2023 vis-à-vis Rs. 1,470 crore as on March 31, 2022 because of low disbursements. ICRA expects the management to increase disbursements going forward, as seen in Q4 FY2023, and the same will remain a monitorable.

In FY2023, the company reported a decline in yields on average gross loans as disbursements were skewed towards Q4 FY2023. Operating expenses grew because of the increase in employee benefit expenses resulting from high recruitment in FY2023. However, the overall credit costs were lower due to higher bad debt recoveries and the company reported a marginal improvement in its earnings profile in FY2023 with the RoMA improving to 0.63% in FY2023 from 0.45% in FY2022 and the RoNW improving to 2.30% from 1.90% during this period. ICRA expects the company's profitability to improve further on the back of higher disbursements and growth in the AUM.

Relatively vulnerable borrower profile – MHIL's lending operations are focussed on low-and-middle-income borrowers, comprising a mix of salaried and self-employed professionals, who are relatively more vulnerable to economic cycles and have limited income buffers to absorb income shocks. However, considering the secured nature of the portfolio with moderate loan-to-value ratios, its losses on default are expected to be limited.

Liquidity position: Adequate

MHIL had around Rs. 23 crore of free cash and liquid investments and unavailed lines of Rs. 550 crore from MFL as on December 31, 2022 to pay its cumulative debt obligations of Rs. 86.3 crore till June 30, 2023. This, along with expected collections, is expected to keep the liquidity profile adequate.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Inadequate support from the parent and/or a deterioration in the credit profile of the parent could exert pressure on MHIL’s rating. In addition, weakening of its liquidity profile and/or its ability to raise fresh funds could impact its rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Impact of Parent or Group Support on an Issuer’s Credit Rating
Parent/Group support	Parent/Investor: Muthoot Finance Limited (MFL); ICRA factors in the support received by MHIL from MFL in the form of capital, liquidity, and infrastructure.
Consolidation/Standalone	Standalone

About the company

MHIL is registered as a housing finance company (HFC) with National Housing Bank (NHB). It provides housing loans to the lower-and-middle-income segments. It was incorporated in 2011 and is a wholly-owned subsidiary of Muthoot Finance Limited (MFL). As on December 31, 2022, the Mumbai-based company had operations in 16 states/UTs. The company’s product portfolio includes home loans catering to the salaried as well as self-employed segments. MHIL reported a profit after tax (PAT) of Rs. 10.4 crore in FY2023 on total AUM of Rs. 1,438 crore as on March 31, 2023 against a PAT of Rs. 8.4 crore in FY2022 and AUM of Rs. 1,470 crore as on March 31, 2022.

Muthoot Finance Limited

MFL is the flagship company of the Kerala-based business house, The Muthoot Group, which has diversified operations in financial services, healthcare, education and hospitality. MFL was incorporated in 1997 and is India’s largest gold loan focussed NBFC with total loan assets (standalone) of Rs. 57,331 crore and 4,672 branches as on December 31, 2022. The company derives a major portion of its business from South India (47% of the total gold loan portfolio as on December 31, 2022), where gold loans have traditionally been accepted as a means of availing short-term credit, although it has increased its presence beyond South India over the last few years.

Key financial indicators

Muthoot Homefin (India) Limited	FY2021	FY2022	FY2023
Accounting as per	IndAS	IndAS	IndAS
	Audited	Audited	Limited Review
Total income	240	206	143
Net interest income	92	83	76
Profit after tax	13	8	10
Net worth	439	447	457
On-loan book	1,403	1,054	1,087
Assets under management	1,704	1,470	1,438
Total managed assets	2,004	1,725	1,598
Return on average managed assets	0.6%	0.5%	0.6%
Return on average net worth	2.9%	1.9%	2.3%

Muthoot Homefin (India) Limited	FY2021	FY2022	FY2023
Accounting as per	IndAS	IndAS	IndAS
	Audited	Audited	Limited Review
Gearing (times)	2.76	1.79	1.44
Managed gearing (times)	3.44	2.72	2.21
Gross NPA	4.9%	2.9%	4.0%
Net NPA	3.4%	1.3%	1.4%
Solvency (Net NPA/Net worth)	10.8%	2.9%	3.2%
CRAR	49.9%	60.3%	NA

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; NA- Not available

Managed gearing = (on-book debt + off-book portfolio) / net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					May 18, 2023	May 20, 2022	May 31, 2021	Apr 30, 2020	
1	Commercial paper programme	Short term	500	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial paper programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Not placed	CP	NA	NA	NA	500.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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Branches



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