May 30, 2024

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 factors in Muthoot Homefin (India) Limited's (MHIL) increasing scale of operations, improved asset quality and comfortable capitalisation profile. After declining continuously for three years due to the Covid-19 pandemic-led disruptions and employee attrition, the company's assets under management (AUM) grew by 42% to Rs. 2,035 crore as on March 31, 2024. Further, the reported asset quality has improved with the gross non-performing assets (NPAs) declining to 1.9% as on March 31, 2024 from 4.0% as on March 31, 2023, driven by write-offs, recoveries and limited slippages. The capitalisation profile remains comfortable with a managed gearing of 3.8 times and a capital-to-risk weighted assets ratio (CRAR) of 37.5% as on March 31, 2024. Additionally, the rating considers ICRA's expectation of continued commitment from the parent, Muthoot Finance Limited (MFL; rated [ICRA]AA+ (Stable)/[ICRA]A1+; 100% stake in MHIL as on March 31, 2024), in the form of board-level supervision, liquidity and capital/debt-funding support.

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. ICRA expects the company to continue scaling up its operations with a focus on affordable housing finance.

ICRA takes note of the company's moderate, albeit improving, earnings profile with a return of 0.9% on average managed assets (AMA) and 4.0% on average net worth in FY2024 (0.6% and 2.3%, respectively, in FY2023). While the net interest margin improved and the credit costs remained low in FY2024, the operating expenses remained elevated due to manpower recruitment and higher employee expenses, thereby constraining the earnings profile. ICRA expects the company's earnings profile to improve gradually as it further scales up its operations. MHIL's ability to improve its operating efficiency and control its credit costs while further scaling up its operations remains key for enhancing its earnings profile.

Key rating drivers and their description

Credit strengths

Expectation of support from MFL – MHIL benefits from the strong parentage in the form of MFL. MFL has demonstrated significant commitment to the company in terms of capital (Rs. 334 crore of capital infused so far) and liquidity support (Rs. 550 crore committed to MHIL in the form of intercorporate deposits (ICDs) and term loans available as on-tap facility) and board-level supervision. 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 profile remains comfortable with a CRAR of 37.50% as on March 31, 2024 (62.91% as on March 31, 2023) and a managed gearing of 3.8 times (2.3 times as on March 31, 2023). Given the company's growth plans, it would need to raise equity capital in the near-to-medium term to maintain a prudent capitalisation profile. ICRA expects support from the parent to be forthcoming, if required.

Improved asset quality metrics – The company's asset quality indicators improved with the gross NPAs declining to 1.9% as on March 31, 2024 from 4.0% as on March 31, 2023, driven by write-offs, recoveries and limited slippages. The reported net NPAs were lower at 0.6% as on March 31, 2024 (1.4% as on March 31, 2023) with a high provision coverage of 70% on gross NPAs as on March 31, 2024, up from 66% as on March 31, 2023. Nevertheless, MHIL had a standard restructured portfolio (1.4% of on-book portfolio as on March 31, 2024), the performance of which remains a monitorable. Given the envisaged growth, the company's ability to maintain the asset quality and control slippages remains monitorable.

Credit challenges

Moderate earnings profile – Despite improving, the company's earnings profile remains subdued due to the elevated operating expenses. MHIL's net interest margin rose to 5.3% of AMA in FY2024 from 4.6% in FY2023, driven by the increase in its lending rates. Credit costs declined to 0.2% of AMA in FY2024 on the back of limited slippages and improved asset quality. Nevertheless, the operating expenses remained elevated (4.7% of AMA in FY2024; 3.6% of AMA in FY2023) due to manpower recruitment and higher employee expenses, thereby constraining the earnings profile. The company reported a net profit of Rs. 18 crore in FY2024, translating to a return of 0.9% on AMA and 4.0% on average net worth (Rs. 10 crore, 0.6% and 2.3%, respectively, in FY2023). ICRA expects MHIL's earnings profile to improve gradually as its further scales up its operations. The company's ability to improve its operating efficiency and control its credit costs while further scaling up its operations remains key for enhancing its earnings profile.

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. 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. However, considering the secured nature of the portfolio and the moderate loan-to-value ratios, its losses on default are expected to be limited.

Liquidity position: Adequate

As on March 31, 2024, MHIL had Rs. 192.1 crore of free cash and liquid investments and Rs. 550 crore of unavailed lines from MFL to pay for its cumulative debt obligation of Rs. 299 crore till March 31, 2025. This, along with the expected collections of Rs. 239 crore till March 31, 2025, 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. Additionally, a deterioration in its financial flexibility and the weakening of its liquidity profile could impact its rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
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 March 31, 2024, the company had operations across 16 states/Union Territories. It focusses on retail housing loans with an average ticket size of ~Rs. 12 lakh. MHIL reported a profit after (PAT) of Rs. 18.4 crore in FY2024 on total assets under management (AUM) of Rs. 2,035 crore as on March 31, 2024 against PAT of Rs. 10.4 crore in FY2023 and AUM of Rs. 1,438 crore as on March 31, 2023.

Muthoot Finance Limited

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 non-banking financial company (NBFC) with total loan assets (standalone) of Rs. 71,182 crore and 4,774 branches as of December 2023. The company derives a major portion of its business from South India (47% of the total gold loan portfolio as of September 2023), 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	FY2022	FY2023	FY2024
Accounting as per	Ind AS	Ind AS	Ind AS
	Audited	Audited	Limited Review
Total income	206	143	204
Profit after tax	8	10	18
Total managed assets	1,725	1,598	2,379
Return on average managed assets	0.5%	0.6%	0.9%
Managed gearing (times)	2.7	2.3	3.8
Gross NPA	2.9%	4.0%	1.9%
CRAR	60.3%	62.9%	37.5%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Total managed assets – Total assets + Impairment allowance + Off-book portfolio; 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 (FY2025)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on April 30, 2024 (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					May 30, 2024	May 18, 2023	May 20, 2022	May 31, 2021
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	**Commercial paper programme**	NA	NA	NA	500.00	[ICRA]A1+

Source: Company

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

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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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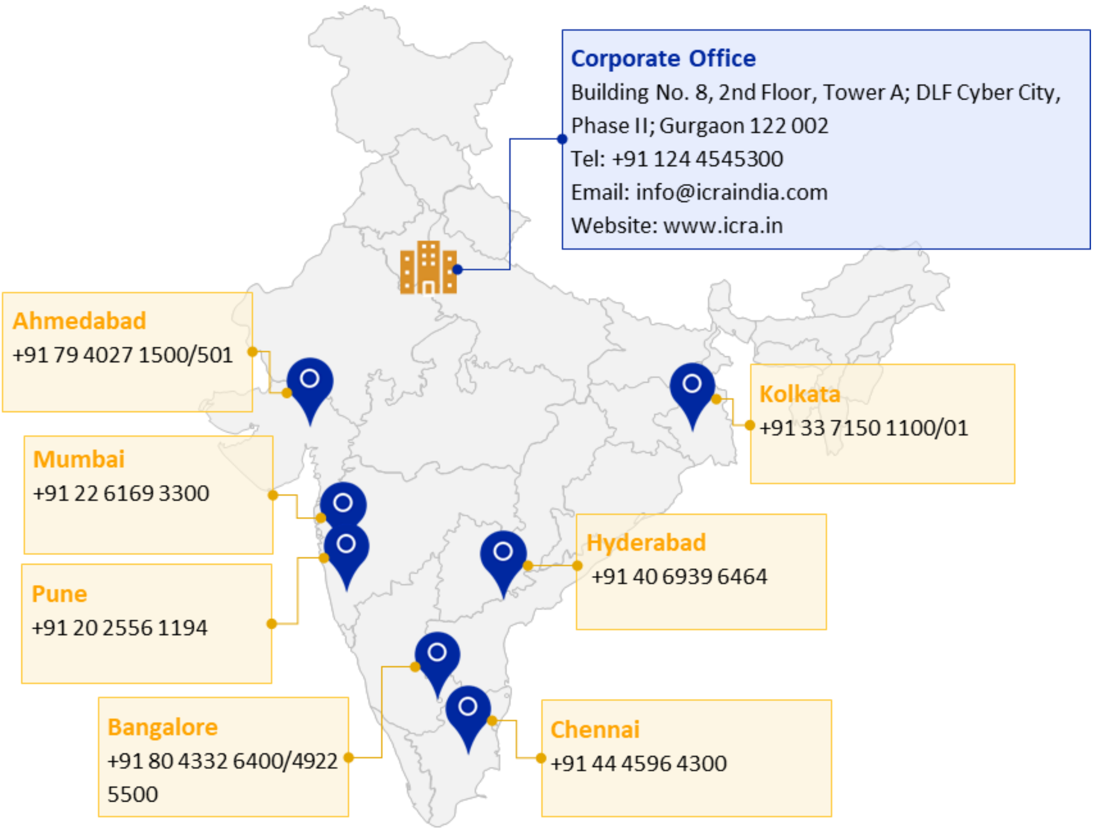

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