February 17, 2025

Muthoot Capital Services Limited: [ICRA]A+ (Stable) assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Non-convertible debentures (NCDs)	200.00	[ICRA]A+ (Stable); assigned
Total	**200.00**	

** Instrument details are provided in Annexure I*

Rationale

The assigned rating considers the strong operational, financial and managerial support received by Muthoot Capital Services Limited (MCSL) from the Muthoot Pappachan Group (MP Group[1]). Muthoot Fincorp Limited (MFL) is the Group's flagship entity while MCSL is its sole vehicle financing entity. The Group's promoters hold a 62.6% stake in the company. The rating also factors in MCSL's adequate capitalisation profile with the managed gearing[2] remaining below 4.0 times during FY2021-9M FY2025 (3.9 times as of December 2024). However, the rating is constrained by the modest scale, subdued asset quality and moderate profitability indicators in the recent past. ICRA notes that MCSL's profitability (profit after tax/average managed assets; PAT/AMA) stood at 1.8% in 9M FY2025 {4.6% in FY2024[3] and 2.9% in FY2023} as it witnessed lower margins, in line with the increasing share of the low-yielding partnership-based co-lending business.

MCSL has largely recovered from the asset quality stress it witnessed after the onset of the Covid-19 pandemic, with the residual stressed book being sold to asset reconstruction companies (ARCs) via two transactions in FY2024 and H1 FY2025. It sold ~Rs. 235 crore of loan assets in Q2 FY2024 and ~Rs. 96 crore in Q2 FY2025, resulting in a decline in the gross stage 3 (GS-3) to 4.7% as of December 2024 from 22.2% as of March 2023. ICRA notes that the company had gone slow on its growth plans post Covid, given the asset quality issues, though growth had picked up in 9M FY2025 as the assets under management (AUM) expanded to Rs. 2,833 crore as of December 2024 from Rs. 2,015 crore as of March 2024. MCSL has taken measures to strengthen its credit underwriting and systems as it envisions to grow its AUM at a compound annual growth rate (CAGR) of 35-45% over the medium term. Accordingly, it would have to raise capital in a timely manner to keep its managed gearing below 5 times in the medium term.

The Stable outlook reflects ICRA's opinion that the company would continue to receive support from the MP Group and maintain an adequate capitalisation profile with controlled asset quality indicators while it grows its AUM as envisaged.

Key rating drivers and their description

Credit strengths

Support from MP Group – ICRA takes into consideration the MP Group's strong operational, financial and managerial support, led by MFL. MFL and MCSL have the same promoters, who hold a majority stake in MCSL. MCSL is headed by the Executive Director, Ms. Tina George Muthoot, who is from the promoter's family, and has been associated with group companies at different roles across finance, strategy, treasury and marketing. The company also has two Non-Executive Directors (Ms. Ritu Elizabeth George and Ms. Susan John), who are from the promoter's family. MCSL is the sole vehicle financier in the Group

[1] ICRA has consolidated the business and financial profiles of MFL, Muthoot Microfin Limited, Muthoot Housing Finance Company Limited and MCSL, together referred to as the MP Group

[2] (Total debt including assigned book/Net worth)

[3] 1.8% excluding one-time gains

since it ventured into two-wheeler financing in 2008, contributing ~5% to the consolidated AUM as of March 2024 (~7% as of March 2023). It receives operational benefit through its business correspondent arrangements with MFL, which has a larger branch network comprising 3,683 branches spread across 25 states/Union Territories as of March 2024. ICRA notes that MCSL will continue to receive operational, managerial and funding/capital support from the Group and/or the promoters, when required.

Adequate capitalisation profile – MCSL's capitalisation was characterised by an adequate capital adequacy ratio of 23.2% with a net worth of Rs. 652 crore and a managed gearing of 3.9 times as of December 2024 (2.7 times as of March 2024). Further, it is expected to maintain the managed gearing below 5 times even during its envisaged growth phase. ICRA notes that MCSL is planning to raise equity capital in FY2026 to support the expected AUM growth in the near to medium term.

Credit challenges

Modest scale of operations – MCSL is primarily a two-wheeler financier and is diversifying into the used car/used commercial vehicle segment gradually. The company's AUM was range-bound at ~Rs. 2,000 crore during FY2021-FY2024 on account of the asset quality issues witnessed during the pandemic, which had slowed down AUM growth. However, it picked up in 9M FY2025 (Rs. 2,833 crore as of December 2024) and MCSL is looking to increase its AUM at a CAGR of 35-45% over the medium term. ICRA notes that the company had entered into partnership arrangements with other entities for co-lending from FY2023. The share of such partnership arrangements increased sharply to 33% of the AUM as of December 2024 (37% as of September 2024), though it is expected to be restricted to 20-25% over the medium term. MCSL's AUM, though improving, remains concentrated in southern India at 51% as of December 2024 (65% in December 2023). ICRA expects it to remain concentrated in southern India over the medium term.

Moderate risk profile of customer segment; performance is monitorable – MCSL's customer segment comprises borrowers who are susceptible to macro-economic shocks as witnessed during the pandemic with the GS-3 spiking up to 12.3% in March 2021 and further to 27.2% in March 2022. As of September 2024, ~91% of the AUM accounted for two-wheeler loans (largely commuter segment) while 77% accounted for loans with ticket sizes of less than Rs. 1 lakh. The recovery in the asset quality was largely through the sale of stressed loans of ~Rs. 235 crore and ~Rs. 96 crore to ARCs in Q2 FY2024 and Q2 FY2025, respectively. As a result, the GS-3 declined to 4.7% as of December 2024 from 22.2% as of March 2023. The company has an overall expected credit loss (ECL) provision coverage of 3.4% with stage 3 provision coverage of ~54% as of December 2024. Its ability to maintain the asset quality as it witnesses growth will be monitorable.

Moderate earnings profile – MCSL's profitability metrics remained moderate in recent years on account of higher credit costs and reduced net interest margins. The company reported lower profitability (PAT/AMA) of -6.1% and 1.8% in FY2022 and FY2021, respectively, vis-à-vis 2.1% in FY2020 due to higher credit costs as it provided management overlays (7.9% of AMA in FY2022) to absorb the impact of the pandemic. The total provision stood higher at 22.7% of the loan book as of March 2022. However, the profitability improved to 2.9% in FY2023 and 4.6% in FY2024, supported by some improvement in the asset quality and reversal of the management overlay provisions as the company had sold stressed loans amounting to Rs. 235 crore in Q2 FY2024. MCSL reported a profitability of 1.8% in 9M FY2025 on account of the pressure on margins as the share of the low yielding co-lending book has increased while credit costs rose to 0.1% of AMA from -3.4% in FY2024. ICRA notes that the company's ability to improve the margins and keep the credit costs under control remains monitorable.

Liquidity position: Adequate

As of December 2024, MCSL had cash and cash equivalents of Rs. 204.8 crore and unutilised bank lines of Rs. 156.0 crore against debt repayment obligations of Rs. 576.9 core in Q4 FY2025. The asset liability management profile, as of December 2024, showed positive cumulative mismatches across all buckets. Further, the average monthly collection in H1 FY2025 stood at ~Rs. 133 crore and is expected to support the liquidity.

MCSL's borrowing profile is fairly diversified with the share of bank borrowings at 43% as of December 2024, non-convertible debentures and market linked debentures at 37%, commercial paper at 10%, securitisation at 8% and sub-debt and public deposits accounting for the balance. As of December 2024, the company had 30 lenders.

Rating sensitivities

Positive factors – An improvement in the Group's credit profile could positively impact the rating. Further, a sustained improvement in MCSL's scale and earnings profile, while maintaining control over delinquencies, could have a positive impact on the rating.

Negative factors – An adverse change in the expected support from the MP Group or a deterioration in the Group's credit profile would impact the rating. A sustained increase in MCSL's leverage (managed gearing above 6 times) or continued weakening in the earnings or asset quality would put pressure on the rating.

Environmental and social risks

Given the financial services-oriented business of MCSL, its direct exposure to environmental risks/material physical climate risks is not significant. While lending institutions can be exposed to environmental risks indirectly through their portfolio of assets, there is increasing interest from policymakers towards identifying the exposure of financing companies to carbon emissions through their financing activities. This process is, however, in an early stage and ICRA expects any adverse implications to manifest only over a longer time horizon, giving financing companies adequate time to adapt and minimise the credit implications.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for lending institutions as material lapses could be detrimental to their reputation and invite regulatory censure. ICRA also notes that customer preferences are increasingly shifting towards digital modes, providing the opportunity to reduce the operating costs. In this regard, the MCSL is enhancing its processes backed by digitisation and is making investments to improve its digital interface with its customers.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	[ICRA's Credit Rating Methodology for Non-banking Finance Companies]
Parent/Group support	For arriving at the rating, ICRA has factored in support from the MP Group; ICRA has consolidated the business and financial profiles of MFL, Muthoot Microfin Limited, Muthoot Housing Finance Company Limited and MCSL for assessing the credit profile of the Group
Consolidation/Standalone	Standalone

About the company

Established in 1994 by the Muthoot Pappachan Group, Muthoot Capital Services Limited is a deposit-taking non-banking financial company (NBFC) registered with the Reserve Bank of India. As an NBFC under the Group, it offers retail finance products, primarily two-wheeler loans, along with finance for used cars, three-wheelers, and other commercial vehicles (CVs).

It also provides business loans to corporates and investment products in the form of fixed deposits through the network of branches of Muthoot Fincorp Limited, dealership points and various other means. As of December 2024, the company had operations across 338 districts in 22 states.

MCSL's equity shares have been listed on the BSE since April 1995 and on the NSE since August 2015. As of December 2024, the promoters together held a 62.6% stake in the company.

Key financial indicators (audited; Ind-AS)

MCSL	FY2023	FY2024	9M FY2025
Total income	441.6	399.8	335.3
Profit after tax	78.7	122.7	39.3
Total managed assets	2,848.8	2,479.6	3,381.7
RoMA	2.9%	4.6%	1.8%
Managed gearing (times)	3.8	2.7	3.9
Gross stage 3	22.2%	10.2%	4.7%
CRAR	27.9%	31.2%	23.2%

Source: Company, ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb-17- 2025	Date	Rating	Date	Rating	Date	Rating
NCD	Long term	200.00	[ICRA]A+ (Stable)	-	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity indicator
Non-convertible debenture	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
Proposed	**NCD**	NA	NA	NA	200.00	[ICRA]A+ (Stable)

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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