

Manappuram Finance Limited

February 18, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	270.12	270.12	[ICRA]AA- (Stable); Reaffirmed
Total	270.12	270.12	

*Instrument details are provided in Annexure-1

Rationale

The rating continues to factor in Manappuram Finance Limited's (MAFIL) established track record in the gold loan segment (70% of the consolidated portfolio as on December 31, 2018), its experienced management team, prudent gold loan credit policies and efficient internal controls systems. The rating also considers MAFIL's good financial risk profile with comfortable capitalisation, healthy profitability and adequate liquidity. This is also supported by a fairly-diversified funding profile and the availability of sanctioned and unutilised bank lines.

These credit strengths are, however, partially offset by the steady increase in the share of unsecured loans in MAFIL's consolidated portfolio, geographical concentration of the portfolio and the marginal borrower profile. MAFIL's gold loans are also vulnerable to adverse gold price fluctuations, notwithstanding the short-term nature of the loans. While the asset quality of the gold loan segment is under control at present, the relatively subdued asset quality of the non-gold segments and the steady increase in the share of unsecured loans impact the consolidated portfolio risk. Going forward, the evolving performance of the non-gold segments, considering the limited seasoning, would be critical from a rating perspective.

Outlook: Stable

ICRA believes that MAFIL would continue to benefit from its established track record in the gold loan segment and its comfortable overall financial risk profile. The outlook may be revised to Positive if the Group demonstrates sustained good quality growth in the gold and non-gold segments, while maintaining a comfortable capitalisation and liquidity profile. The outlook may be revised to Negative if there is a significant deterioration in the Group's asset quality, earnings, liquidity or capitalisation profile.

Key rating drivers

Credit strengths

Established franchise, especially in South India, and experienced senior management team – MAFIL has a strong retail franchise, especially in South India, supported by its long-standing presence in the gold loan business. The promoter has an established track record of operating in the gold loan business and is actively engaged in the company's operations. Over the years, MAFIL has developed robust credit appraisal, internal control and collection mechanisms, which have driven business growth while maintaining good asset quality. MAFIL's senior management maintains a close control over

operations through frequent internal audits. MAFIL has a seven-member board of directors, including five independent directors and an institutional investor nominee.

Good gold loan asset quality; scope to improve quality in non-gold segment – MAFIL had shifted to gold loans with a three-month loan tenure from April 2016. However, it reintroduced some longer tenure (6/9/12 months) loan products, in a limited way, from September 2017, to capture borrowers requiring longer-tenure loans. The company's primary focus, nevertheless, continues to be on the three-month loans, which accounted for 92% of the overall gold loan portfolio in September 2018. MAFIL is focussed on regular interest collections and it also undertakes timely auctions in the event of overdues (within two-three months from the date of loan maturity). This, to an extent, de-risks the gold loan portfolio from adverse gold price fluctuations. The gold loan asset quality is healthy with 90+ dpd at 0.3% as on December 31, 2018 (vis-à-vis 0.3% as on March 31, 2018 and 1.7% as on March 31, 2017). The standalone overall gross NPAs stood at 0.6% as on December 31, 2018.

The gross NPAs of Asirvad Microfinance Private Limited (Asirvad; a 92% subsidiary of MAFIL) reduced to 0.8% as on December 31, 2018 (from 2.3% as on March 31, 2018 and 4.5% as on March 31, 2017). This was due to the write-off of loans (Rs. 148 crore during FY2017- FY2018) and undertaking of recoveries as the asset quality had weakened post demonetisation. ICRA notes that NPAs in the housing and commercial vehicle(CV) segments stood at 4.9% and 2.4% respectively in December 2018. Going forward, it is critical for the company to grow its non-gold business at an optimal pace without adversely impacting its asset quality and consolidated earnings.

Comfortable capitalisation profile – MAFIL has a comfortable capital structure with a standalone gearing of 2.8 times (consolidated gearing of 3.3 times) as on September 30, 2018, supported by good internal capital generation. ICRA expects MAFIL to be able to meet the medium-term capital requirements of its subsidiaries, without adversely impacting its capital structure. ICRA also takes note of the proposed acquisition of Indian School Finance Company Limited, which is currently pending regulatory approvals. The consolidated gearing is expected to remain at about 4.0-5.0 times during FY2019-FY2022, as MAFIL envisages consolidated portfolio growth at a CAGR of 20% during this period.

Healthy profitability profile – MAFIL's consolidated PAT/AAUM¹ stood at 5.3% in 9M FY2019 vis-à-vis 4.6% in FY2018. Profitability in FY2018 was impacted by the high credit cost in Asirvad and the increase in security-related expenses for the gold loan branches. ICRA takes note of the company's initiatives to optimise its security-related expenses by making investments in technology for the remote surveillance of the branches and the gold storage facility. However, increase in the systemic rates is expected to exert some pressure on the interest margins, although MAFIL is passing on some portion of the increased cost to its borrowers and is also cutting down on interest rate rebates/discounts on its loan products. MAFIL's standalone PAT/AAUM was 5.7% in 9M FY2019 (5.7% in FY2018 and 6.6% in FY2017). ICRA expects the consolidated net profitability to remain at about 4.5-5.0% in the near term, supported by healthy returns from the gold loan segment. However, going forward, it would be crucial to keep credit costs under control, especially in the non-gold segment, and optimise operating efficiencies further.

Credit challenges

Steady increase in share of unsecured loans and performance of non-gold portfolio are key monitorables – The share of microfinance in the consolidated portfolio increased to 15% in March 2018 (18% in December 2018) from 13% in March 2017. As the growth rate of the microfinance segment is expected to be higher, at a CAGR of about 40% during FY2019-FY2022 vis-à-vis the 10-12% growth expectation for the gold loan segment, ICRA expects the share of microfinance to be about 30-32% of the consolidated portfolio by March 2022. ICRA notes that MAFIL, as a policy, would

¹ AAUM - Average assets under management

invest around 10-15% of its Group capital in Asirvad, in medium term, but would hold majority stake in it and maintain it as a subsidiary.

ICRA takes note of the current weakness in the asset quality of the CV and home finance segments and the low portfolio seasoning. The microfinance segment is vulnerable to socio-political and operational risks, which could adversely impact the consolidated operational and financial indicators. Going forward, MAFIL's ability to grow its gold loan portfolio as well as the other loan segments at an optimal pace and steadily increase the share of secured loans in the non-gold loan segments would be crucial from a rating perspective.

Operations concentrated in South India – MAFIL's gold loan operations are largely concentrated in South India, which constituted 59% of the total gold loan portfolio as on December 31, 2018. ICRA notes that while the share of the gold loan portfolio in South India has steadily reduced from 70%, as on March 31, 2014, about 44% of microfinance is concentrated in the five southern states.

Vulnerability to adverse gold price movements – Notwithstanding the company's efforts to reduce the impact of gold price fluctuations, MAFIL's credit profile remains susceptible to adverse and sharp movements in gold prices.

Liquidity position

The asset liability maturity (ALM) profile of MAFIL, as of December 2018, based on the past behavioural trend for the gold loan segment, reflects no cumulative negative mismatches in the <1-year bucket. Although the contractual tenor of gold loans is three months, most (~60%) of the gold loans are rolled over as fresh loans on or before the respective maturity dates, wherein only the interest is serviced. Moreover, the loan is renewed as a new loan, based on the prevailing gold rates. ICRA notes that the ALM, adjusting for the rollovers, is comfortable, considering the sizeable unutilised bank lines (around Rs. 1,924 crore in December 2018).

As of December 2018, bank loans, non-convertible debentures and commercial papers accounted for 58%, 16% and 26%, respectively, of the total borrowings. The company has relationships with close to 24 banks and is also raising debt through the public issuance of debentures. MAFIL's ability to maintain a comfortable liquidity profile, on a consolidated basis, given the increase in longer-tenure loans, would be crucial going forward.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	NA
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of MAFIL. As on March 31, 2018, the company had three subsidiaries (mentioned in Annexure-2)

About the company

Manappuram Finance Limited, the flagship company of the Manappuram Group, is a Thrissur, Kerala-based non-deposit taking, systemically important non-banking finance company (ND-NBFC-SI) that lends primarily against gold ornaments. The promoter, Mr. V.P. Nandakumar, and his family members held a 35.14% stake in the company as on December 31, 2018, with the rest being held by foreign institutions (39.44%), domestic institutions (5.72%) and the public (19.70%). As on December 31, 2018, the company had a total gold loan portfolio of Rs. 12,525 crore and a network of 3,349 branches with 4.1 million customers.

The company has two wholly-owned subsidiaries, Manappuram Home Finance Limited with a portfolio size of Rs. 478 crore as on December 31, 2018, and Manappuram Insurance Brokers Limited. As on December 31, 2018, the company held a stake of 92% in its subsidiary, Asirvad Microfinance Limited, with a managed microfinance portfolio of Rs. 3,195 crore as on December 31, 2018.

In 9M FY2019, MAFIL reported consolidated net profit of Rs. 664 crore on AUM of Rs. 17,783 crore against a consolidated net profit of Rs. 671 crore on AUM of Rs. 15,765 crore in FY2018. On a standalone basis, MAFIL reported a net profit of Rs. 577 crore in 9M FY2019 on AUM of Rs. 14,207 crore against a net profit of Rs. 700 crore in FY2018 on AUM of Rs. 12,953 crore.

Key financial indicators (audited)

	Standalone		Consolidated	
	FY2017	FY2018	FY2017	FY2018
Total Income (Rs. crore)	3,008	2,946	3,392	3,451
Profit after Tax (Rs. crore)	726	700	756	671
Net Worth (Rs. crore)	3,311	3,815	3,362	3,836
Total Managed Portfolio (Rs. crore)	11,551	12,953	13,657	15,765
Total Managed Assets (Rs. crore)	13,146	14,676	15,221	17,334
Return on Average Managed Assets (%)	5.8%	5.0%	5.4%	4.1%
Return on Average Net Worth (%)	24.0%	19.7%	24.7%	18.6%
Gross NPA (%)	2.0%	0.7%	-	-
Net NPA (%)	1.7%	0.3%	-	-
Net NPA/ Net Worth (%)	5.9%	1.0%	-	-
Gearing (reported)	2.9	2.8	3.3	3.3
%CRAR	26%	27%	-	-

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2019)		Date & Rating February 2019	Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY2018 December 2017	Date & Rating in FY2017 July 2016	Date & Rating in FY2016 June 2015	
NCD	Long Term	270.12	270.12	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE522D07750	NCD	05-Apr-14	11.50%	05-Apr-19	0.50	[ICRA]AA- (Stable)
INE522D07768	NCD	05-Apr-14	12.00%	05-Apr-19	0.47	[ICRA]AA- (Stable)
INE522D07776	NCD	05-Apr-14	Zero Coupon	05-Apr-19	0.38	[ICRA]AA- (Stable)
INE522D07784	NCD	05-Apr-14	Zero Coupon	05-Feb-20	18.78	[ICRA]AA- (Stable)
INE522D07AC2	NCD	14-Oct-16	9.99%	14-Oct-19	250.00	[ICRA]AA- (Stable)

Source: MAFIL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Manappuram Home Finance Limited	100.00%	Full Consolidation
Manappuram Insurance Brokers Limited	100.00%	Full Consolidation
Asirvad Microfinance Limited	92.00%	Full Consolidation

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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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