

May 29, 2017

Manappuram Finance Limited

Summary of rated instruments

Instruments*	Rated Amount (Rs. crore) ¹	Rating Action
Commercial paper programme	1,250.00 [#]	[ICRA]A1+; assigned / outstanding
Non-convertible debenture programme	250.00	[ICRA]AA- (stable); reaffirmed
Non-convertible debenture programme	137.68 ^{##}	[ICRA]AA- (stable); reaffirmed
Non-convertible debenture programme	43.64	[ICRA]AA- (stable); withdrawn

*Instruments details are provided in Annexure-1

[#]enhanced from Rs. 500.00 crore

^{##}reduced from Rs. 149.33 crore

Rating action

ICRA has assigned an [ICRA]A1+ (pronounced ICRA A one plus)² rating to the Rs. 1,250.00 crore commercial paper programme (enhanced from Rs. 500.00 crore) of Manappuram Finance Limited (MAFIL) and has also reaffirmed the rating of [ICRA]AA- with a stable outlook outstanding on the company's Rs. 387.68 crore non-convertible debenture programme (reduced from Rs. 399.33 crore). ICRA has withdrawn the rating of [ICRA]AA- with a stable outlook outstanding on the Rs. 43.64 crore non-convertible debenture programme, at the request of the company as the instrument is fully redeemed and there is no amount outstanding against the rated instrument.

Rationale

The rating action factors in the company's established track record in the gold loan business, its good internal controls and audit systems, good profitability indicators, adequate capitalisation profile, comfortable asset quality and liquidity on the back of short tenured loans and access to unutilised bank limits.

The rating however is constrained by the company's concentration in the gold loan segment, making it vulnerable to adverse gold prices movements, its marginal borrower profile and geographically concentrated operations. ICRA takes note of the company's initiatives to diversify its product portfolio by expanding into vehicle finance, loans against property, home finance and microfinance business.

Key rating drivers

Credit strengths

- Established franchise, especially in South India and experienced senior management team
- Robust credit appraisal, internal controls and collection systems, resulting in healthy asset quality
- Shorter tenure loans and increased focus on monthly interest collections enable the company to better manage gold price risk
- Comfortable liquidity with well-matched asset liability profile and access to unutilised bank limits; shorter tenure asset portfolio also supports the liquidity profile
- Comfortable capitalisation profile, expected to support medium term business expansion
- Good profitability profile, characterised by consolidated return on average assets at 5.1% for 9MFY2017 (2.9% for FY2016)

¹ Rs. 1 crore = Rs. 10 million = Rs. 100 lakh

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.

Credit weaknesses

- Concentration on gold loan business; however, initiatives taken to diversify product profile
- Vulnerability to adverse gold price movements, notwithstanding the efforts to de-risk the portfolio and the regulatory cap on loan-to-value (LTV)
- Geographically concentrated presence, with the southern states constituting 65% of the total gold loan portfolio as on December 31, 2016
- Concentrated resource profile with high reliance on bank funding and institutional investors

Description of key rating drivers:

The company has a strong retail franchise, especially in South India, supported by its long standing presence in the gold loan business. Over the years, MAFIL has developed robust credit appraisal, internal control and collection mechanisms, which have driven business growth while maintaining good asset quality. Starting April 2016, the company has completely shifted to three-month loan products and is focusing on monthly interest collections and undertakes prompt auctions (within six months from loan origination) in the event of overdues. This de-risks the portfolio from gold price volatility to an extent and improves the company's overall credit risk profile. The rating also considers the greater stability in the gold loan business pursuant to the various regulatory changes over the past few years, especially the capping of LTV ratio at 75%.

Following the demonetisation event in November 2016, MAFIL's gold loan collection efficiency was impacted with the 30+ dpd and 90+ dpd increasing from 7.4% and 0.7% respectively as on September 30, 2016 to 15.3% and 1.7% respectively as on December 31, 2016. ICRA expects the overdues to reduce with an improvement in collections with better availability of currency going forward.

MAFIL's portfolio is concentrated with gold loans constituting 84% of the company's consolidated portfolio of Rs. 14,554 crore as on December 31, 2016 (88% as on March 31, 2016). However, ICRA expects the share of gold loans to reduce going forward with a strong growth in new segments viz., vehicle finance, loan against property, home finance (through Manappuram House Finance Private Limited; wholly owned subsidiary) and microfinance (through Asirvad Microfinance Private Limited; 90% subsidiary of MAFIL). In 9MFY2017, the company's consolidated portfolio registered a growth of 27.3% (19.2% in FY2016) as against gold loan portfolio growth of 21.7% (9.2% in FY2016). Given MAFIL's comfortable capitalisation position with a standalone gearing of 3.6 times (consolidated gearing of 3.8 times) as on December 31, 2016, ICRA expects the company to be able to meet the medium term capital requirements of its subsidiaries, without raising external capital.

The shorter tenure loans and the sizable unutilised bank limit (Rs. 2,310 crore as on November 30, 2016) support the company's comfortable liquidity profile. However, the company's debt profile remains concentrated with bank loans constituting 57% of the total debt as on December 31, 2016, followed by commercial paper (20%), non-convertible debentures (22%) and others (1%). The company's consolidated return on average assets improved to 5.1% during 9MFY2017 from 2.9% during FY2016, aided by tighter collections in the gold loan business leading to an improvement in business yields. Also, the company's operating expenses / average managed assets at the consolidated level reduced from 6.9% in FY2016 to 6.4% in 9MFY2017 on account of an improvement in operational efficiency in the gold loan business, with the gold loan portfolio per branch improving from Rs. 2.8 crore as on March 31, 2015 to Rs. 3.7 crore as on December 31, 2016. The company's ability to grow in the new segments at a healthy pace while maintaining good asset quality and profitability would be crucial.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

ICRA's Credit Rating Methodology for Non-Banking Finance Companies

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), and lends primarily against gold ornaments. The promoter Mr. V.P. Nandakumar and his family members held 34.4% stake in the company as on December 31, 2016, with the rest of the shareholding being with foreign institutions (36.0%), domestic institutions (11.3%) and public (18.3%). As on December 31, 2016, the company had a total gold loan portfolio of Rs. 12,267 crore and operated out of a network of 3,293 branches and 2.25 million customers.

The company has two wholly owned subsidiaries, Manappuram Housing Finance Private Limited with portfolio size of Rs. 263 crore as on December 31, 2016 and Manappuram Insurance Brokers Private Limited. As on December 30, 2016, the company held 90.4% stake in its subsidiary Asirvad Microfinance Private Limited (rated [ICRA]A(stable)) with a total microfinance portfolio of Rs. 1,650 crore.

In FY2016, MAFIL reported a consolidated net profit of Rs. 353 crore on a managed asset base of Rs. 12,839 crore as compared with a consolidated net profit of Rs. 271 crore on a managed asset base of Rs. 11,616 crore in FY2015. For 9MFY2017, the company reported a consolidated net profit of Rs. 555 crore (Rs. 223 crore for 9MFY2016).

In FY2016, MAFIL reported a standalone net profit of Rs. 337 crore on a managed asset base of Rs. 11,911 crore as compared with a standalone net profit of Rs. 271 crore on a managed asset base of Rs. 11,332 crore in FY2015. For 9MFY2017, the company reported a standalone net profit of Rs. 519 crore (Rs. 212 crore for 9MFY2016).

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years					
		Type	Rated amount (Rs. crore)	May 2017	September 2016	July 2016	February 2016	September 2015	June 2015	December 2014
1	Commercial Paper	Long Term	1,250.00	[ICRA]A1+	-	[ICRA]A1+	-	[ICRA]A1+	-	-
2	Non-convertible debenture programme	Long term	250.00	[ICRA]AA-(stable)	[ICRA]AA-(stable)	-	-	-	-	-
3	Non-convertible debenture programme	Long term	137.68	[ICRA]AA-(stable)	-	[ICRA]AA-(stable)	-	-	[ICRA]A+(stable)	[ICRA]A+(stable)
4	Non-convertible debenture programme	Long term	43.64	Withdrawn	-	[ICRA]AA-(stable)	-	-	[ICRA]A+(stable)	[ICRA]A+(stable)
5	Short-term fund based bank facilities	Short term	-	-	-	Withdrawn	-	-	[ICRA]A1+	[ICRA]A+(stable)
6	Long-term fund based bank facilities	Long term	-	-	-	-	Withdrawn	-	[ICRA]A+(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**

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Non-convertible Debentures					
INE522D07750	05-Apr-14	11.50%	05-Apr-19	0.50	[ICRA]AA-(stable)
INE522D07768	05-Apr-14	12.00%	05-Apr-19	0.47	[ICRA]AA-(stable)
INE522D07727	05-Apr-14	12.25%	05-Apr-17	58.51	[ICRA]AA-(stable)
INE522D07735	05-Apr-14	12.50%	05-Apr-17	11.54	[ICRA]AA-(stable)
INE522D07743	05-Apr-14	NA	05-Apr-17	28.44	[ICRA]AA-(stable)
INE522D07776	05-Apr-14	NA	05-Apr-19	0.67	[ICRA]AA-(stable)
INE522D07784	05-Apr-14	NA	05-Feb-20	37.55	[ICRA]AA-(stable)
INE522D07AC2	14-Oct-16	9.99%	14-Oct-19	250.00	[ICRA]AA-(stable)
Total Non-convertible Debentures				387.68	
Commercial Paper Programme	-	-	-	200.00	[ICRA]A1+

Source: MAFIL

Analyst Contacts

Mr. Rohit Inamdar

+91 124 4545 847

rohit.inamdar@icraindia.com

Mr. A M Karthik

+91 44 4596 4308

a.karthik@icraindia.com

Mr. Vivekanandan L

+91 44 4297 4306

l.vivekanandan@icraindia.com

Relationship Contact

Mr. L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

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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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500