

Muthoot Finance Limited

Instruments	Amount In Rs. Crore ¹	Rating Action (July 2016)
Non-convertible debenture programme	6,600	[ICRA]AA (stable); upgraded from [ICRA]AA-(stable)
Non-convertible debenture programme	200	
Subordinated debt programme	100	
Term Loans	50 [^]	
Long-term fund based bank limits	8,286 [^]	[ICRA]A1+; reaffirmed
Short-term fund based bank limits	9,392 [^]	
Commercial paper programme	200	

[^] Term loans and long-term fund based bank limits include interchangeable limit of Rs. 35 crore. Also, long-term and short-term fund based bank limits include interchangeable limit of Rs. 6,559 crore. The total rated bank facilities stands at Rs. 11,134 crore

ICRA has upgraded the long-term ratings for the Rs. 6,800.00 crore non-convertible debenture programmes, Rs. 100.00 crore subordinate debt programme, Rs. 50.00 crore term loans and Rs. 8,286.00 crore long-term fund based bank facilities of Muthoot Finance Limited (MFL) to [ICRA]AA (pronounced ICRA double A)² from [ICRA]AA- (pronounced ICRA double A minus). ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 9,392.00 crore short-term fund based bank limits and Rs. 200.00 crore commercial paper programme of the company. The term loans and long-term fund based bank limits include interchangeable limit of Rs. 35.00 crore. Also, long-term and short-term fund based bank limits include interchangeable limit of Rs. 6,559.00 crore. The total rated bank facilities stands at Rs. 11,134 crore.

The revision in the long-term rating factors in MFL's initiatives to improve its credit risk profile by tightening interest collections (regular interest collections vis-a-vis bullet collections in the past), which is likely to offset the risks on account of gold volatility to an extent. While the company continues to offer the traditional 12 month loan product, it is now monitoring monthly interest collections from its loan contracts, and has set up mechanisms to undertake collections by actively following-up with borrowers for payments. The rating action also factors in the expected stability in gold loan business pursuant to the various regulatory changes over the past few years, especially the capping of loan to value (LTV) ratio at 75%. While the pace of growth in the sector has moderated pursuant to these regulations, it has led to more stable and sustainable business volumes. While MFL's portfolio grew at a CAGR of 52.5% during FY2011 to FY2013, it de-grew by 17.1% during FY2014 and the CAGR moderated to 5.6% during FY2015 and FY2016.

The ratings continue to factor in the company's track record in the gold loan business with its leadership position in the market, its established franchise with network of 4,294 branches (as on June 30, 2016) across the country, efficient internal controls and audit systems, ability to raise funds via public issue of NCDs, comfortable capitalisation (gearing of 3.7 times as on March 31, 2016) and liquidity profile, and healthy profitability indicators (RoA of 3.0% in FY2016). The ratings however remain constrained on account of the company's portfolio concentration in gold loan business, geographical concentration with South India contributing to 53% of the total portfolio as on June 30, 2016, its marginal borrower profile and limited earnings diversity.

MFL offers gold loans with one year tenure, wherein the borrowers enjoy interest rate rebate for monthly and quarterly payment of interests. Earlier, most of borrowers opted to service the interest along with the principal at the end of the loan tenure; however, from Q4FY2016, the company has been encouraging and regularly following up with its borrowers (through branches and dedicated call centres) to pay interests on a monthly or quarterly basis to keep the accrual of interest at moderate levels and also offset credit risks. Consecutively, the total interest accrued as a proportion of total portfolio outstanding has moderated from 4.8% as on March 31, 2015 to 3.2% as on June 30, 2016. ICRA also takes note that the portion of the portfolio for which interest was not serviced for 6 months and above has reduced from 30% as on April 30, 2014 to 14% as on June 30, 2016. Similarly, for the 9 months and above, the proportion has reduced from 21% as on April 30, 2014 to 8% as on

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.

June 30, 2016. Regular interest collection is likely to support the company's liquidity profile and also result in better business yields, as the extent of interest reversals would be lower than in the past in case of borrower defaults. MFL's portfolio stood at 25,861 crore on Jun 30, 2016 vis-a-vis 24,409 crore on Jun 30, 2015; a growth of 5.9%.

MFL's 90+ dpd improved from 4.8% as on March 31, 2016 (same level as on March 31, 2015) to 3.6% as on June 30, 2016; the gross NPAs³ were moderate at 2.2% as on June 30, 2016 (2.9% as on March 31, 2016). MFL also stopped one time settlement schemes, which were offered to its delinquent customers in the past. The company is expected to undertake timely auction of delinquent contracts going forward, which is likely to support improvement in the delinquency levels.

The company's return on average assets improved to 3.0% in FY2016 from 2.6% in FY2015 aided by an improvement in the business yields, which was partly on account of better auction realizations during Q4 FY2016 due to favourable gold price movement; it auctioned Rs. 1,238 crore during Q4 FY2016 which was around 37% of the total auctions during FY2016. In the medium term, MFL's RoA is expected to be about 2.8-3.2%. MFL has good operating efficiency (operating expenses / average managed assets stood at 4.2-4.4% during the last two fiscals) with portfolio per branch of Rs. 6.0 crore as on June 30, 2016 and has scope to further improve the same to around Rs. 6.5 crore level as seen during FY2012 and FY2013. The company's moderate branch addition plans during the current fiscal would aid its business expansion without exerting much pressure on its operating efficiencies. The ratings also consider the company's comfortable capitalisation profile (gearing at 3.7 times as on March 31, 2016) and adequate liquidity on the back of sizeable un-utilized bank lines (~Rs.3,200 crore as on March 31, 2016).

ICRA also takes note of the growth plans for MFL's subsidiaries over the next two fiscals, which would diversify its product presence to an extent. The subsidiaries include the housing finance business through Muthoot Homefin (India) Limited which is a 79% subsidiary, microfinance business through Belstar Investment and Finance Private Limited, wherein MFL currently holds 46.8% stake and is expected to become its subsidiary in the near term and insurance products through Muthoot Insurance Brokers Private Limited, which is a wholly owned subsidiary. Given MFL's comfortable capitalisation currently, it should be able to meet the medium term capital requirements of its subsidiaries without adversely impacting its capital structure. However, the company's ability to grow its non-gold business at an optimal pace, while maintaining good asset quality and profitability profile would be crucial going forward.

Company Profile

Muthoot Finance Ltd (MFL) is the flagship company of the Kerala based business house 'The Muthoot Group', which has diversified operations in financial services, healthcare, real estate, education, hospitality, power generation and entertainment. MFL has a long and established track record of operating in the gold loan business and is India's largest gold loan focused NBFC with a managed advance base of Rs. 25,861 crore as on June 30, 2016. The company operates through an extensive pan-India branch network of 4,294 as on June 30, 2016. The company derives a major proportion of its business from South India (53% of total portfolio as on June 30, 2016) where gold loans have traditionally been accepted as means of availing short term credit, although over the past few years it has increased its presence beyond South India.

Recent Results

During Q1FY2017, MFL achieved a net profit of Rs. 270.3 crore against a net profit of Rs. 183.2 crore during Q1FY2016.

As per standalone audited financials for FY2016, MFL reported net profit of Rs. 809.6 crore on a managed asset base of Rs. 24,379 crore as compared to a profit of Rs. 670.5 crore on a managed asset base of Rs. 23,408 crore in FY2015.

July 2016

³ In March 2016, in-line with the regulatory requirements, the company shifted its NPA recognition norm from 180+ dpd to 150+ dpd



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