April 17, 2017

Muthoot Homefin (India) Limited

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	100.00	[ICRA]A1+; Assigned
Long Term Fund Based Bank Lines	600.00	[ICRA]AA-(stable); Outstanding

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has assigned the rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 100 crore Commercial Paper Programme of Muthoot Homefin (India) Limited (MHIL). ICRA also has a rating outstanding of [ICRA]AA- (pronounced ICRA double A minus) on the Rs. 600 crore Long Term Fund Based Bank Lines of MHIL. The outlook on the long term rating is stable.

Rationale

The rating factors in MHIL's strong parentage (Muthoot Finance Limited[1] holds 86% shareholding as on December 2016 (rated [ICRA]AA(stable) on long term scale) and the commitment from the parent in terms of capital support (infused total equity of Rs 75 crore till December 2016), board level supervision and infrastructure sharing. ICRA notes that shared brand name and combined marketing activities would help the company to tap the large customer base of Muthoot Finance Limited, which is also into retail lending segment. Further, sharing of branches in some locations would help the company to keep a control on the operating expenses in initial stages of operations. The rating also favourably factors in the experienced management team and adequate credit appraisal norms. Although MHIL has short track record and small scale of operations (portfolio of Rs 204 crore as on December 2016), MHIL's credit profile will continue to benefit from it being a subsidiary of Muthoot Finance Limited. ICRA, however, takes note that the company focuses on relatively riskier borrower segment (lower-middle income (LMI) segment with loan ticket sizes up to Rs 50 lakh and the ability of the management to scale up operations while maintaining good asset quality and profitability indicators remains to be seen. ICRA expects the company to receive timely capital support from the parent to support the envisaged portfolio growth while maintaining capitalisation at adequate levels. Going forward, however the ability to manage business growth and portfolio quality, maintain a sound liquidity policy and diversification of the funding mix would remain crucial from a rating perspective.

Credit Strengths

- Strong parentage with 86% equity holding with Muthoot Finance Limited (MFL, rated [ICRA]AA(stable)); committed capital support from the parent company
- Shared brand name and access to the wide distribution network and large customer base of the Muthoot group
- Good management team with long standing experience in the retail finance business
- Focus on retail housing loans to individuals and first time buyers, a relatively less risky segment

Credit Challenges

- Limited track record and small scale of operations (loan book of ~Rs. 204 crore as on December 31, 2016); however, month on month disbursements growth has been healthy in FY2017
- Although the company reported profits in its first full year of operations, ability of the company to improve profitability in the competitive affordable housing segment remains to be seen

[1] Rated [ICRA]AA(stable)/[ICRA]A1+

Description of key rating drivers highlighted above:

MHIL started operation in FY2016 and had a portfolio of around Rs 204 crore as on December 31, 2016 with 100% of them being towards housing loans. The company intends to focus only on the housing loan segment in the near term with a ticket size of up to Rs 50 lakh in metros and up to Rs 25 lakh in other cities. As for the target segment, the company gives loans to both salaried and self-employed customers based on reported and assessed income. The management plans to keep more than 50% of the portfolio towards salaried customers. The company is operating out of 23 branches spread across 23 cities as on December 31, 2016 with some of the branches being shared with the parent's existing branch network. The management intends to grow its portfolio in the central and western region of India. The asset quality of the portfolio has remained healthy albeit on a low seasoned book. Although the shorter bucket delinquency inched up post demonetization, the company had reported nil gross NPAs as on December 31, 2016. ICRAs opinion, ability of the company to scale up operations while diversifying geographically and maintaining good asset quality indicators will be a key rating sensitivity.

As for the funding profile, the company has been able to raise funding though bank lines, though the scale remains small as on December 31, 2016 and would be looking to leverage up to 6-8 times in the medium term. The promoters are further expected to infuse capital in stages periodically FY2018 to support the growth plans of the company. ICRA expects that the capital support from the parent would be forthcoming as and when the company requires.

Given the focus of the company in lower-middle income segment, its lending yields are likely to be high (11%-13%). While the company is investing in branch expansion, technology, automation, as well as training of manpower, the shared brand name, combined marketing activities and sharing of branches in some locations would help the company to keep a control on the operating expenses. Therefore, it would take around 3-4 years for the company to achieve double digit returns on equity with an expected gearing of 6-8 times. In ICRAs opinion ability of the company to scale up operations, bring down its operating expenses and also tie-up funds to grow the loan book while maintaining prudent capitalization levels and control on credit norms would be important from a credit perspective.

Analytical approach:
For arriving at the ratings, ICRA has taken a standalone view of MHIL along with the implicit support of the parent company, Muthoot Finance Limited (rated [ICRA]AA (stable)/A1+) due to shared brand name, operational linkages and common promoters.

Links to applicable criteria:
ICRA's Credit Rating Methodology for Non-Banking Finance Companies

About the Company
Muthoot Homefin (India) Limited
Muthoot Homefin (India) Limited (MHIL) is registered as a Housing Finance Company (HFC) with NHB and is engaged in providing housing loans to the lower and middle income (LMI) segment. MHIL was incorporated in 2011 and is promoted by Muthoot Finance Limited with 86% shareholding as on December 31, 2016. The company has its corporate office in Mumbai and is operating out of 23 branches as on December 31, 2016. Its product portfolio comprises home loans catering to both salaried and self-employed segment. In FY2016, MHIL reported a PAT of Rs. 0.01 crore on a total asset base of Rs 57.20 crore. In 9MFY2017, the company reported a PAT of Rs. 0.74 crore on a total asset base of Rs. 209.24 crore. The total networth of the company stood at Rs 86.03 crore on as December 31, 2016.

Muthoot Finance Limited

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. 26,963 crore as on December 31, 2016. The company operates through an extensive pan-India branch network of 4,308 as on December 31, 2016. The company derives a major proportion of its business from South India (52% of total portfolio as on December 31, 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. MFL achieved a standalone net profit of Rs. 858.1 crore (unaudited) on an asset base of Rs. 30,550 crore during 9MFY2017 against a net profit of Rs. 544.3 crore on an asset base of Rs. 28,140 crore during 9MFY2016. MFL reported a standalone net profit of Rs. 809.6 crore on an asset base of Rs. 27,049 crore in FY2016 as compared with a net profit of Rs. 670.5 crore on an asset base of Rs. 26,769 crore in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

Sr. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	April 2017	FY2017	FY2016	FY2015
					October 2016	-	-
1	Commercial Paper Programme	Short term	100.00	[ICRA]A1+; assigned	-	-	-
2	Long term Fund Based Bank Lines	Long term	600.00	[ICRA]AA- (stable)	[ICRA]AA- (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

Details of Instrument

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Current Rating and Outlook
Commercial Paper Programme	NA	NA	7-365 days	100.00	[ICRA]A1+
Term Loans	July 2016	NA	January 2024	125.00	[ICRA]AA- (stable)
Cash Credit	2016	NA	NA	10.00	[ICRA]AA- (stable)
Proposed Bank Lines	NA	NA	NA	465.00	[ICRA]AA- (stable)

Source – Company

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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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