

February 14, 2020

## Manappuram Finance Limited: Rating reaffirmed and withdrawn

### 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Non-convertible Debenture Programme	270.12	270.12	[ICRA]AA-(Stable); reaffirmed and withdrawn
<b>Total*</b>	<b>270.12</b>	<b>270.12</b>	

\* Instrument details are provided in Annexure-1

### Rationale

ICRA has withdrawn the rating of [ICRA]AA-(Stable) for Manappuram Finance Limited's (MAFIL) non-convertible debenture (NCD) programme, aggregating Rs. 270.12 crore, as these debentures were fully redeemed, and no amount is outstanding against the rated instruments. The rating was withdrawn in accordance with ICRA's policy on withdrawal and suspension (click here for the [Policy](#)).

The reaffirmation of the rating factors in MAFIL's established track record in the gold loan segment (67% of the consolidated portfolio as on September 30, 2019), its experienced management team, prudent gold loan credit policies and efficient internal control 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 gold loan 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 profile. Going forward, the evolving performance of the non-gold segments, considering the limited seasoning, would be critical from a rating perspective.

### Key rating drivers and their description

#### 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 segment 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 the business growth while maintaining a good asset quality. MAFIL's senior management maintains a close control over the operations through frequent internal audits. MAFIL's board comprises nine members, including six independent directors.

**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. The company's primary focus, nevertheless, remains on the three-month loans, which accounted for 86% of the overall gold loan portfolio in September 2019. MAFIL is focused on regular interest collections and it also undertakes timely auctions in the event of overdues (within two-three months of 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 the 90+dpd at 0.3% as on December 31, 2019 (vis-à-vis 0.5% as on March 31, 2019 and 0.4% as on March 31, 2018). MAFIL's (standalone) overall gross NPAs stood at 0.5% as on December 31, 2019.

Asirvad Microfinance Limited's (93.33%-subsidiary of MAFIL) gross NPAs stood at 1.3% as on December 31, 2019 (0.5% as on March 31, 2019 and 1.7% as on March 31, 2018). The NPAs in the housing (via the housing finance subsidiary) and commercial vehicle (CV; on the books of MAFIL) segments stood at 4.3% and 2.9%, respectively, in December 2019. Going forward, it is critical for the company to grow its non-gold business at an optimal pace without affecting its asset quality and consolidated earnings.

**Comfortable capitalisation profile and fairly-diversified funding profile** – MAFIL has a comfortable capital structure with a standalone gearing of 3.3 times (consolidated gearing of 3.6 times) as on December 31, 2019 vis-à-vis 3.0 times (consolidated gearing of 3.4 times) as on March 31, 2019. The gearing increased due to borrowings to maintain growth and liquidity, which were partly offset by good internal capital generation. ICRA expects MAFIL to be able to meet the medium-term capital requirements of its subsidiaries without affecting its capital structure. The consolidated gearing is expected to remain at about 3.5-4.0 times during FY2020-FY2023, as MAFIL envisages consolidated portfolio growth at a CAGR of 20% during this period.

As of December 2019, bank/FI loans, commercial papers, NCDs and external commercial borrowings (ECBs) accounted for 58%, 16% and 26%, respectively, of the total borrowings. The company has relationships with 28 banks and is raising debt through the public issuance of debentures. While gold loans are short term in nature, the company faces high loan rollovers on or before maturity. The availability of unavailed bank sanctions (Rs. 449.3 crore in September 2019) provides comfort. MAFIL's ability to maintain a comfortable liquidity profile, on a consolidated basis, given the increase in longer-tenure loans, would be crucial.

**Healthy profitability profile** – MAFIL's consolidated adjusted PAT<sup>1</sup>/AAUM<sup>2</sup> stood at 5.9% in 9M FY2020 vis-à-vis 5.0% in FY2019. While the increase in the systemic rates is expected to exert some pressure on the borrowing cost, the improvement in the operating efficiencies supported profitability. MAFIL's standalone adjusted PAT/AAUM was 5.3% in 9M FY2020 (4.9% in FY2019 and 5.0% in FY2018). 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 the 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 21% in December 2019 from 20% in March 2019 and 15% in March 2018. As the growth rate of this segment is expected to be higher, at a CAGR of about 40% during FY2020-FY2023 vis-à-vis the growth expectation of 10-15% for the gold loan segment, ICRA expects the share of microfinance to increase

<sup>1</sup> Adjusted PAT excludes a Rs. 60.15-crore one-time benefit arising from rent reversal after adopting Ind-AS 116

<sup>2</sup> PAT/AUM = Profit after tax/Average Assets under management

in the consolidated portfolio. ICRA notes that MAFIL, as a policy, would invest around 10-15% of its Group capital in Asirvad, in the medium term, but would hold a 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.

**Operations concentrated in South India** – MAFIL's gold loan operations are largely concentrated in South India, which constituted 58% of the total gold loan portfolio as on September 30, 2019. ICRA notes that while the share of the gold loan portfolio in South India has steadily reduced from 70% in March 31, 2014, about 39% of the microfinance segment is concentrated in the five southern states.

**Vulnerability to adverse gold price movements** – Notwithstanding its 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 – Not applicable

### Rating sensitivities – Not applicable

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a> <a href="#">ICRA's policy on Withdrawal and Suspension of Credit Rating</a>
Parent/Group Support	NA
Consolidation	ICRA has considered the consolidated financials of MAFIL. The consolidated financials of the Group include four subsidiaries as listed in Annexure-2

### About the company

Thrissur (Kerala)-based Manappuram Finance Limited, the flagship company of the Manappuram Group, is a non-deposit taking, systemically important non-banking finance company (ND-NBFC-SI), which primarily lends against gold ornaments. As on March 31, 2019, it had 4,351 branches across India with a total employee base of 25,610. The company went public in August 1995. Over the years, the Group has diversified into other businesses such as home loans, microfinance, vehicle and equipment finance, SME finance and insurance broking. The overall assets under management (AUM) stood at Rs. 19,438 crore as on March 31, 2019, including gold loans (67%), microfinance (20%), vehicle and equipment finance (6%), housing (3%), and other businesses. The gold loan business is diversified across 3,372 branches in 28 states and Union Territories (UTs) while the microfinance business (Asirvad) is spread across 942 branches in 23 states and UTs. The vehicle and equipment finance business are spread across 168 branches in 21 states and the housing finance business is spread across 35 branches in 6 states. For FY2019, the consolidated profit after tax (PAT) was Rs. 920 crore on total income of Rs. 4,165 crore compared to PAT of Rs. 676 crore on total income of Rs. 3,476 crore for FY2018.

## Key financial indicators (audited)

	Standalone			Consolidated		
	FY2018	FY2019	H1 FY2020	FY2018	FY2019	H1 FY2020
Total Income	2,953	3,427	2,028	3,476	4,165	2,519
Adjusted Profit after Tax**	690	790	496	676	920	671
Net Worth	3,813	4,392	4,807	3,813	4,525	5,056
Total Managed Portfolio	12,481	15,005	17,392	15,244	17,812	21,032
Total Managed Assets	14,593	17,646	20,930	17,030	20,454	24,277
Return on Average Managed Assets (%)	5.0%	4.9%	5.2%	4.2%	5.0%	5.5%
Return on Average Net Worth (%)	19.4%	19.3%	21.6%	18.7%	22.1%	28.0%
Gross NPA %	0.7%	0.6%	0.6%	-	-	-
Net NPA %	0.3%	0.3%	0.3%	-	-	-
Net NPA / Net Worth	1.0%	1.0%	1.0%	-	-	-
Gearing (reported; times)	2.8	3.0	3.3	3.3	3.4	3.6
% CRAR	27.0%	23.8%	22.6%	-	-	-

Note: Amount in Rs. crore

\* Information available as per financial statements prepared under Ind-AS

\*\* After minority interest and excluding a Rs. 60.15-crore one-time benefit arising from rent reversal after adopting Ind-AS 116

Source: MAFIL's financial statements, ICRA research

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018		FY2017	
					14-02-20		18-02-2019	11-12-2017		29-05-2017
1	NCD	Long Term	270.12	270.12	[ICRA]AA-(Stable) Reaffirmed and withdrawn	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[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](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE522D07750	Non-convertible Debentures	05-Apr-14	11.50	05-Apr-19	0.50	[ICRA]AA-(Stable); withdrawn
INE522D07768	Non-convertible Debentures	05-Apr-14	12.00	05-Apr-19	0.47	[ICRA]AA-(Stable); withdrawn
INE522D07776	Non-convertible Debentures	05-Apr-14	Zero Coupon	05-Apr-19	0.38	[ICRA]AA-(Stable); withdrawn
INE522D07784	Non-convertible Debentures	05-Apr-14	Zero Coupon	05-Feb-20	18.78	[ICRA]AA-(Stable); withdrawn
INE522D07AC2	Non-convertible Debentures	14-Oct-16	9.99	14-Oct-19	250.00	[ICRA]AA-(Stable); withdrawn
<b>Total Non-convertible Debentures</b>					<b>270.12</b>	

Source: MAFIL

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership (as of March 2019)	Consolidation Approach
Manappuram Home Finance Limited	100.00%	Full Consolidation
Manappuram Insurance Brokers Limited	100.00%	Full Consolidation
Asirvad Microfinance Limited	93.33%	Full Consolidation
Manappuram Comptech and Consultants Limited	81.07%	Full Consolidation

## Analyst Contacts

**Mr. Karthik Srinivasan**  
+91 22 6114 3444  
[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Mr. A M Karthik**  
+91 44 4596 4308  
[a.karthik@icraindia.com](mailto:a.karthik@icraindia.com)

**Mr. Shaik Abdul Saleem**  
+91 44 4596 4325  
[shaik.saleem@icraindia.com](mailto:shaik.saleem@icraindia.com)

**Mr. Amlan Jyoti Badu**  
+91 80 4332 6406  
[amlan.badu@icraindia.com](mailto:amlan.badu@icraindia.com)

## Relationship Contact

**Mr. L. Shivakumar**  
+91 22 6114 3406 / +91 98210 86490  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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