

## Manappuram Finance Limited

December 11, 2017

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	387.68	270.12	[ICRA]AA-(stable); reaffirmed
Commercial Paper	1,250.00	0.00	[ICRA]A1+; withdrawn
<b>Total</b>	<b>1,637.68</b>	<b>270.12</b>	

\*Instruments details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the [ICRA]AA- (pronounced ICRA double A minus)<sup>1</sup> rating for the Rs. 270.12 crore<sup>2</sup> non-convertible debenture programme (reduced from Rs. 387.68 crore) of Manappuram Finance Limited (MAFIL). The outlook on the long-term rating is Stable. ICRA has withdrawn the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 1,250.00 crore commercial paper programme, as requested by the company, 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 experienced senior management team, efficient internal controls and audit systems and its ability to maintain good asset quality. The rating also factors in MAFIL's good financial risk profile with comfortable capitalisation, healthy profitability and adequate liquidity on account of the short tenure gold loans, and access to diversified funding sources and unutilised bank limits.

The rating is however constrained by the company's portfolio concentration in the gold loan business making the operations vulnerable to the adverse gold price fluctuations, geographical concentration of its gold loan portfolio in South India and its marginal borrower profile. The gold loan portfolio declined during H1FY2018 on account of subdued demand and intense competition. ICRA takes note of the company's ongoing efforts to grow its gold loan business and increase the share of non-gold loans like housing and microfinance through its subsidiaries.

### Outlook: Stable

ICRA believes that MAFIL's prudent credit and monitoring policies would continue to support its asset quality, and the company to maintain its overall financial risk profile characterised by healthy profitability and comfortable capital structure. The outlook may be revised to 'Positive' with a steady revival in the gold loan segment growth and as the share of non-gold segment improves on a consolidated basis. The outlook may be revised to 'Negative' in case of a significant deterioration in the company's asset quality, profitability and capitalisation profile.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications.

<sup>2</sup> 100 lakh = 1 crore = 10 million

## 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 audit inspections and contract-wise monitoring of underlying security of loans. MAFIL has a nine member board of directors, including five independent directors and an institutional investor nominee director.

**Focus on shorter tenure loans with tighter interest collections and timely auctions enable the company to better manage gold price risk and maintain good asset quality** – The company had shifted to three-month loan products in April 2016; however, it reintroduced some longer tenure (6/9/12 month) products in a limited way during September 2017, to capture customers requiring longer tenure loans. The company's primary focus nevertheless continues to be on the three-month loans.

MAFIL is focussed on regular interest collections and it also undertakes timely auctions in the event of overdues (within six months from loan origination, in case of three-months loan). This de-risks the portfolio from adverse gold price fluctuations to an extent and also supports the company's liquidity profile.

Following the demonetisation event in November 2016, the 90+ dpd in MAFIL's gold loan segment increased from 0.7% as on September 30, 2016 to 1.7% as on December 31, 2016 and remained at the same level as on March 31, 2017. With improvement in currency circulation and sizable auctions during Q4FY2017 and H1FY2018, the 90+ dpd reduced to 1.1% as on September 30, 2017. ICRA however takes note of the increase in gross NPA levels (based on 90+ dpd NPA recognition norm) in Asirvad Microfinance Limited (Asirvad; 90% subsidiary and into microfinance business) from 0.2% as on September 30, 2016 to 6.9% as on June 30, 2017; the same moderated to 3.0% as on September 30, 2017 following loan write-offs during Q2FY2018 resulting in net losses for H1FY2018. With good provision cover, Asirvad's net NPA and net NPA to net worth stood at 0.9% and 8.0% respectively as on September 30, 2017. Going forward, it is critical for the company to grow its non-gold business at an optimal pace without impacting its asset quality and the consolidated profitability profile.

**Comfortable capitalisation profile to support medium term business expansion** – MAFIL has a comfortable capital structure with a standalone gearing of 2.5 times (consolidated gearing of 3.0 times) as on September 30, 2017 aided by good internal capital generation. Given the net losses reported by Asirvad for H1FY2018, it would require capital infusion from MAFIL in the near term to maintain a risk adjusted capital structure and to support portfolio growth. ICRA expects MAFIL to be able to meet the medium term capital requirements of its subsidiaries, without adversely impacting its standalone capital structure.

**Good profitability profile supported by better business yields and favourable cost of funds** – MAFIL's net interest margin improved from 11.3% during FY2016 to 15.9% during FY2017 aided by tighter collections and reduction in the systemic borrowing rates. The operational expenses / average managed assets at the consolidated level remained stable at 6.9% during FY2016 and FY2017, while credit cost increased from 0.3% during FY2016 to 0.8% during FY2017. The consolidated return on average assets improved from 2.9% during FY2016 to 5.4% during FY2017. However, the consolidated return on average assets reduced to 4.1% during H1FY2018 on account of increase in operational expenses / average managed assets to 7.4% because of the increase in security expenses for gold loan branches and higher credit costs in Asirvad during this period. ICRA notes that the company has a scope to improve its operating efficiency by

increasing the gold loan portfolio per branch from Rs. 3.3 crore as on September 30, 2017 (Rs. 3.1 crore as on March 31, 2016). Going forward, an improvement in the operating efficiency and keeping the credit costs, especially in the non-gold loan book, under control would be crucial for incremental profitability.

**Comfortable liquidity with diversified funding sources** – Shorter tenure loan products and sizable unutilised bank limit (around Rs. 4,000 crore in September 2017) support the company's liquidity profile. In line with the shift towards shorter tenure loans, the company has increased the proportion of shorter tenure commercial paper in total borrowings from 10% as on March 31, 2016 to 32% as on June 30, 2017. The proportion of bank loans and non-convertible debenture stood at 44% and 23% respectively as on June 30, 2017 (76% and 9% respectively as on March 31, 2016). MAFIL's ability to maintain a comfortable liquidity profile on a consolidated basis given the increase in longer tenure loans would be crucial.

## Credit weaknesses

**Growth impacted by the concentration on gold loan business; initiatives underway to diversify product profile** – MAFIL's portfolio is concentrated with gold loans constituting 79% of the company's consolidated portfolio of Rs. 13,723 crore as on September 30, 2017. This share has reduced from 88% as on March 31, 2016 with a decline in gold loan portfolio and a sharp 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; 90% subsidiary). The company's consolidated portfolio registered a growth of 19.5% during FY2017 and 1.0% (annualised) during H1FY2018 as against gold loan portfolio growth of 10.4% during FY2017 and a decline of 6.5% (annualised) during H1FY2018. The company's gold loan business is currently facing subdued demand and intense competition. Going forward, the company's ability to grow both its gold loan portfolio and other loan segments at an optimal pace and also steadily increase the share of non-gold loans in the consolidated portfolio 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 61% of its total gold loan portfolio as on September 30, 2017. ICRA notes while the share of gold loan portfolio in South India has steadily reduced from 83% as on March 31, 2012, the other major segments viz., housing and microfinance are also concentrated in the south.

**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. Any steep decline in gold prices would weaken the company's asset quality and business risk profile.

**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 September 30, 2017, with the rest of the shareholding being with foreign institutions (34.9%), domestic institutions (12.0%) and public (18.6%). As on September 30, 2017, the company had a total gold loan portfolio of Rs. 10,761 crore and operated out of a network of 3,300 branches and 2.2 million customers.

The company has two wholly owned subsidiaries, Manappuram Housing Finance Private Limited with portfolio size of Rs. 327 crore as on September 30, 2017 and Manappuram Insurance Brokers Private Limited. As on September 30, 2017, the company held 90.4% stake in its subsidiary Asirvad Microfinance Private Limited (rated [ICRA]A(stable)) with a total microfinance portfolio of Rs. 1,965 crore.

MAFIL achieved a standalone net profit of Rs. 358 crore (unaudited) on an asset base of Rs. 12,892 crore during H1FY2018 against a net profit of Rs. 329 crore on an asset base of Rs. 14,321 crore during H1FY2017. On a consolidated basis, MAFIL achieved a net profit of Rs. 315 crore (unaudited) on an asset base of Rs. 15,046 during H1FY2018 against a net profit of Rs. 353 crore on an asset base of Rs. 15,841 crore during H1FY2017.

### **Key Financial Indicators (Audited)**

	<b>FY 2016</b>	<b>FY 2017</b>
Total Income	2,214	3,008
Profit after Tax	337	726
Net worth	2,737	3,311
<b>Total Managed Portfolio</b>	<b>10,314</b>	<b>11,551</b>
Total Managed Assets	11,911	13,146
Return on Average Managed Assets	2.9%	5.8%
Return on Average Net worth	12.6%	24.0%
Gross NPA %	1.0% (based on 120+ dpd)	2.0% (based on 90+ dpd)
Net NPA %	0.7%	1.7%
Net NPA / Net worth	2.8%	5.9%
Gearing	3.3	2.9
% CRAR	24.0%	26.1%

Note: Amounts in Rs. crore

Source: MAFIL's standalone financial statements, ICRA research

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

### **Any other information: None**

### Rating history for last three years:

Instrument	Type	Current Rating (FY2018)				Chronology of Rating History for the past 3 years					
		Amount rated (Rs. crore)	Amount Outstanding (Rs. crore)	Dec-17	May-17	Sep-16	FY2017	Jul-16	Feb-16	Sep-15	FY2015
1 Commercial Paper	Long Term	1,250.00	0.00	Withdrawn	[ICRA]A1+	-	[ICRA] A1+	-	-	[ICRA] A1+	-
2 NCD	Long term	250.00	250.00	[ICRA]A- (stable)	[ICRA]A- (stable)	AA- (stable)	[ICRA]	-	-	-	-
3 NCD	Long term	149.33	20.12	[ICRA]A- (stable)	[ICRA]A- (stable)	-	[ICRA] AA- (stable)	-	-	A+ (stable)	A+ (stable)
4 NCD	Long term	43.64	-	-	Withdrawn	-	[ICRA] AA- (stable)	-	-	A+ (stable)	A+ (stable)
5 Fund based bank facilities	Short term	-	-	-	-	-	Withdrawn	-	-	[ICRA] A1+	[ICRA] A1+
6 Fund based bank facilities	Long term	-	-	-	-	-	Withdrawn	-	-	A+ (stable)	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](http://www.icra.in)

### **Annexure-1: Instrument Details**

<b>ISIN No</b>	<b>Instrument Name</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
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

## 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. Vivekanandan L**

+91 44 4297 4306

[l.vivekanandan@icraindia.com](mailto:l.vivekanandan@icraindia.com)

## RELATIONSHIP CONTACT

**Mr. L. Shivakumar**

+91 22 6114 3406

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

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[naznin.prodhani@icraindia.com](mailto:naznin.prodhani@icraindia.com)

### Helpline for business queries:

+91-124-3341580 (open Monday to Friday, from 9:30 am to 6 pm)

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

For more information, visit [www.icra.in](http://www.icra.in)

## 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) 6609999

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