

Manappuram Finance Limited

October 10, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	5,475.00 (Enhanced from 4,927.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term bank facilities	3,525.00 (Reduced from 4,073.00)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	9,000.00 (₹ Nine thousand crore only)		
Non-convertible debentures - IV	100.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-convertible debentures - V	830.58	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-convertible debentures - VI	325.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-convertible debentures - VII	500.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-convertible debentures - VIII	100.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-convertible debentures - X	125.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total long-term instruments	1,980.58 (₹ One thousand nine hundred eighty crore and fifty-eight lakh only)		
Commercial paper	4,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	4,000.00 (₹ Four thousand crore only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and debt instruments of Manappuram Finance Limited (MAFIL) factor-in the long track record of operations and the established market position of MAFIL as one of the leading players in the gold loan industry in India, the experienced promoters and management team, healthy profitability indicators albeit moderation in FY22 (refers to the period April 01 to March 31) and Q1FY23 (refers to the period April 01 to June 30), good asset quality, comfortable capitalisation levels, diversified resource profile, and adequate risk management and management information systems in place. The ratings are, however, constrained by the product concentration on a single asset class, exposure to the price risk of gold and the geographical concentration of the loan portfolio. The ratings also take note of the limited track record in the vehicle, MSME and corporate loan portfolio and the increasing competition from banks in the gold loan business. There is intense competition between banks and non-banking finance companies (NBFCs) in the gold loan segment, and this resulted in decrease in the yields for the company during FY22. MAFIL's gold loan assets under management (AUM) grew at 4% in FY22 as against 12% in FY21 majorly due to competition and increased auctions in gold loans.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in the scale of operations, with improvement in the geographical and product diversification along with stable asset quality.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative factors – Factors that could lead to negative rating action/downgrade:

- Weakening of asset quality parameters, with gross non-performing asset (GNPA) of above 3% on a sustained basis.
- Weakening of capital adequacy levels, with capital adequacy ratio (CAR) falling below 20% on a sustained basis.
- Moderation in profitability to return on total assets (ROTA) of below 2.50% on a sustained basis.

Detailed description of the key rating drivers
Key rating strengths

Long track record and established market position: MAFIL has an established track record of operations for more than 25 years in the gold loan financing segment and has consequently established a strong brand image in the market. MAFIL is the one of the biggest gold loan NBFCs in India. The company's consistent efforts in advertising and branding strategy have increased its brand recall significantly among the customers. As on March 31, 2022, MAFIL had 3,524 branches spread across India, with assets under management (AUM) of ₹22,413 crore.

Experienced promoters and management team: The promoters have been in the gold loan business for more than six decades. The business was founded by V. C. Padmanabhan in 1949, and V. P. Nandakumar took over the business in 1986. Later in 1992, MAFIL was incorporated to expand the group's presence in the gold loan business by opening branches pan-India, with 3,524 branches as on March 31, 2022. The day-to-day operations are looked after by a team of professionals overseen by the board, which comprises nine directors, including five independent directors with extensive experience in the NBFC sector.

Healthy profitability, however, moderation is witnessed during FY22 and Q1FY23 on account of higher competition: The overall portfolio grew by 9% during FY22 (PY: 8%) aided by the relatively moderate growth majorly in the gold loan segment. The gold loan portfolio grew by 4% during FY22 (PY:12%); on a tonnage basis, gold holding (pledged) grew by 3% from 65 tonne as on March 31, 2021 to 67 tonne as on March 31, 2022. As on June 30, 2022, the tonnage reduced to 66 tonne.

The net interest margin (NIM) has seen moderation, from 13.78% in FY21 to 11.93% in FY22, mainly due to decline in the yield on account of increase in the competition on higher ticket size loans. The company brought down the interest rates on higher ticket size loans to compete with the banks during FY22. NIM remained at relatively lower levels during Q1FY23 and stood at 10.95%. The cost of borrowings came down from 9.42% in FY21 to 7.53% in FY22 and continues to remain low at 7.77% during Q1FY23. Currently, the company is focussing on improving the yields. However, the yield is expected to still remain lower than the earlier levels.

The operating expenses to average total assets increased from 4.33% in FY21 to 5.17% in FY22, mainly on account of increased advertisement and marketing expense as well as new staff recruitment. During Q1FY23, opex to average total asset stood at 5.24. The credit costs remained low at 0.31% in FY22 (PY: 0.52%). The profit after tax (PAT) decreased from ₹1,698 crore in FY21 to ₹1,305 crore during FY22 with decline in NIM and increase in Opex. The ROTA decreased from 6.85% in FY21 to 4.95% in FY22. During Q1FY23, PAT and ROTA stood at ₹290 crore and 4.28%, respectively.

The ability of the company to maintain yields and overall profitability of the company remains a key rating monitorable.

Good asset quality with moderation in FY22 due to delayed auctions: Due to the shorter tenure, secured nature of the gold loans and timely auction, MAFIL was able to maintain an asset quality of gold loan book at comfortable levels in the past few years. MAFIL reported gross non-performing assets (GNPA) and net NPA (NNPA) of 2.95% and 2.72%, respectively, as on March 31, 2022, as against GNPA and NNPA of 1.92% and 1.54%, respectively, as on March 31, 2021. However, the company does monitoring on MTM basis and carries out auctioning. The company suffered a principal loss of Rs.8.75 crore in auction during FY22 majorly due to decline in the gold prices from peak price during August 2020. The GNPA and NNPA, as on June 30, 2022, stood at 1.43% and 1.25%, respectively.

The company's restructured portfolio outstanding stood at ₹90 crore as on March 31, 2022 and ₹69 crore as on June 30, 2022. The company also has a limited track record and low seasoning in the vehicle finance segment, and performance through different economic cycles is yet to be established in this segment.

Comfortable capitalisation level: The capitalisation level continues to be comfortable aided by healthy internal accruals. CAR and Tier-1 CAR stood at 31.33% and 31.01%, respectively, as on March 31, 2022, as against 29.02% and 28.74%, respectively, as on March 31, 2021. The overall gearing, as on March 31, 2022, stood at 2.37x as against 2.71x, as on March 31, 2021. CAR and overall gearing stood at around 31.45% and 2.22x as on June 30, 2022. CAR is likely to remain comfortable over the medium-term.

Adequate risk management and management information systems in place: MAFIL has put in place adequate risk management systems. The branch employees have been trained to appraise gold jewellery provided as security against loans by prospective borrowers. The company has implemented systems for ensuring gold security and reducing custodial risks, including highly secured vaults with dual control and insurance of gold. All the branches are monitored by surveillance cameras. The core gold loan application software, which was developed in-house by the MAFIL team, is used by the branches and is linked to the financial software. Furthermore, all the branches are inter-connected, which helps the company to extract various reports for monitoring all the branches on a day-to-day basis. Notably, MAFIL has developed an app-based (web and mobile) application for re-pledge and closure of gold loans. The presence of adequate information technology (IT) and management information system (MIS) ensures smooth functioning of operations and helps the senior management in exercising effective control of its operations.

Diversified resource profile; share of market borrowings increased in last two fiscals: MAFIL has a fairly diversified funding profile, with access to funding from banks and market instruments like NCDs and commercial papers (CPs). As on March 31, 2022, the company's funding profile consisted of bank borrowings at 55% of the total borrowings (PY: 42%), followed by NCDs at 25% (PY: 37%), external commercial borrowings (ECBs) at 15% (PY: 14%), and CP at 4% (PY: 6%). Interest expenses to average borrowings decreased from 9.42% in FY21 to 7.53% in FY22.

Key rating weaknesses

Product concentration of gold loans notwithstanding the increase in the share of non-gold loan segments in the past four years: As on March 31, 2022, gold loans constituted around 89% of the portfolio, as against 94% as on March 31, 2021. As a part of the diversification strategy, during FY15, MAFIL ventured into the vehicle finance and other segments. The vehicle finance portfolio stood at ₹1,643 crore as on March 31, 2022, and at ₹1,754 crore as on June 30, 2022, as against ₹1,057 crore as on March 31, 2021.

The company also built a corporate loan portfolio, wherein, it lends only to NBFCs, which stood at ₹27 crore as on March 31, 2022, against ₹184 crore as on March 31, 2021. MAFIL performs due diligence on these companies on a regular basis. In addition to the in-house team, it also uses the services of well-established third-parties for due diligence. The company also has presence in other loan segments such as MSME, two-wheeler, micro home loans, etc., and this portfolio stands at ₹871 crore as on March 31, 2022 and ₹1,041 crore as on June 30, 2022.

MAFIL has a presence in the microfinance and housing finance segments through its subsidiaries, namely, Asirvad Microfinance Limited and Manappuram Home Finance Private Limited (MHFL; rated 'CARE AA-; Stable'). MHFL is a wholly-owned subsidiary of MAFIL, whereas MAFIL holds 97.51% in AMFL as on March 31, 2022. MAFIL has been infusing equity into the subsidiaries on a need basis. As on March 31, 2022, AMFL and MHFL has assets under management (AUM) of ₹7,002 crore and ₹845 crore, respectively. On a consolidated basis, non-gold loan business accounted for 33% of the portfolio, as on March 31, 2022 (PY: 30%).

Geographical concentration: MAFIL has a pan-India presence, with its 3,524 branches as on March 31, 2022 and June 30, 2022. Over the past few years, the gold loans portfolio as a percentage of AUM in south India has been decreasing. As on June 30, 2022, the southern states constituted around 58% of the total portfolio.

Increasing competition from banks in the gold loan business: During FY21, as a one-time measure to help the public/borrowers at large, the RBI relaxed loan-to-value (LTV) norms for banks, wherein, the banks were allowed to extend loans at a LTV of 90% (until March 31, 2021), as against the regular LTV norm of 75%. Furthermore, due to the unfavourable economic environment with limited credit growth opportunities, many of the banks have increased the focus on gold jewellery loans. As per

the sectoral deployment of credit (source: RBI), gold jewellery loan extended by the banks has increased from ₹33,503 crore as on March 27, 2020, to ₹60,849 crore as on March 26, 2021, and further to ₹73,743 crore as on March 25, 2022. With regard to MAFIL, the tonnage of gold holdings (underlying security) declined from 72 tonne as on March 31, 2020, to 65 tonne as on March 31, 2021, however, improved to 68 tonne in March 31, 2022. The quantum of loans with ticket size above ₹2 lakh increased from ₹1,191 crore as on March 31, 2018, to ₹6,575 crore as on March 31, 2022. The same has increased to ₹6,733 crore, as on June 30, 2022. This resulted in decline in the yields due to increased competition. The ability of MAFIL to attract new customers is critical to its AUM growth and remains a key monitorable.

Industry outlook and prospects

In the past, gold loan NBFCs witnessed volatility in performance on account of volatility in the gold loan prices and consequent under recovery of principal and/or interest on loans extended. Due to the various regulatory measures announced by RBI majorly during 2012 and 2013, such as capping of LTV, standardisation of valuation of gold jewellery, standardisation of auction process, etc., the sector witnessed stability and large players (especially top two gold loan NBFCs primarily supported by scale of economies and relatively low cost of funds) reported healthy and relatively stable profitability. Attracted by higher ROTA, other NBFCs have tried venturing into gold loans, however, not many of them could succeed and establish large gold loan business and top two gold loan NBFCs continue to hold their market share in gold loans. However, competition among existing players remains intense and smaller players continue to report relatively lower ROTA due to higher cost of funds and opex. In the recent past, on account of muted credit growth in corporate segment, the banks have started focusing on retail loan segment, including gold jewellery loan, which is relatively safer asset class. Gold loan NBFC industry is characterised by relatively high opex (ranging from 4% to 6%), which is offset by relatively high spreads and lowest credit cost (ranging from 0.5 to 1% historically) resulting in healthy ROTA.

Going forward, gold loan NBFCs' growth to remain moderate considering the prevailing competitive scenario from the banks, especially in the higher ticket segment with continuation of low credit cost and relatively higher ROTA.

Liquidity: Adequate

The liquidity profile of MAFIL remained adequate, with no cumulative mismatch in any of the time brackets in assets liability maturity (ALM) upto 5 years as on March 31, 2022, due to the shorter tenure of loans and relatively longer tenure of the borrowings. As on June 30, 2022, MAFIL had cash, bank balance, and liquid investments of around ₹1,384 crore and un-availed lines of credit of ₹1,603 crore, mainly in the form of cash credit (CC) and working capital demand loan (WCDL).

Analytical approach: Standalone. The rating also considers the likely support to the subsidiaries.

Applicable criteria:

[Criteria on assigning Outlook and Credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[CARE's Rating Methodology for Non-Banking Finance Companies \(NBFCs\)](#)

[Rating Methodology: Notching by Factoring Linkages in Ratings](#)

About the company

Manappuram Finance Limited (MAFIL) is an NBFC registered with RBI as a non-deposit accepting loan company, headquartered in Valapad, Kerala. MAFIL is promoted by Mr V.P. Nandakumar in 1992 and as on June 30, 2022, the promoters' stake in MAFIL stood at 35.15%. The company is listed in BSE and NSE. Other major stake holders of MAFIL are Quinag Acquisition (Fpi) Ltd

(9.90%), Fidelity Investment Trust Fidelity Series Emerging Markets Opportunities Fund (3.63%), and the rest is held by FIIs and Public.

The company offers loan against used jewellery/ gold ornaments and it constitutes around 89% of AUM as on March 31, 2022. During FY15, the company has ventured into vehicle financing and it constitutes 7% of AUM as on March 31, 2022. Remaining AUMs majorly include corporate NBFC, MSME loans & other loans, and it stood at 4% as on March 31, 2022. During June 30, 2022, the gold loan constitutes around 88%, vehicle financing at 8% and other loans being the remaining.

The company has AUM of ₹22,413 crore as on March 31, 2022 and has AUM of ₹22,919 crore as on June 30, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	5,194	4,587	1,110
PAT	1,698	1,305	290
Interest coverage (times)	2.49	2.43	2.09
Total assets	25,745	27,016	27,253
Net NPA (%)	1.54	2.72	1.25
ROTA (%)	6.85	4.95	4.28

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Bank lender details for this company: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	June 2027	3925.00	CARE AA; Stable
Fund-based - ST-Working capital demand loan	-	-	-	-	3525.00	CARE A1+
Fund-based - LT-Cash credit	-	-	-	-	1550.00	CARE AA; Stable
Debentures-Non-convertible debentures-V	INE522D07A19	Nov 29, 2018	10.00%	Nov 29, 2023	57.42	CARE AA; Stable
Debentures-Non-convertible debentures-V	INE522D07AL3	Nov 29, 2018	10.40%	Nov 29, 2023	30.00	CARE AA; Stable
Debentures-Non-convertible debentures - V	INE522D07AO7	Nov 29, 2018	Zero Coupon	Nov 29, 2023	14.80	CARE AA; Stable
Debentures-Non-convertible debentures-V	INE522D07AP4	Nov 29, 2018	Zero Coupon	Nov 29, 2025	39.77	CARE AA; Stable
Debentures-Non-convertible debentures - V	INE522D07AV2	Mar 06, 2019	9.75%	Mar 06, 2024	28.50	CARE AA; Stable
Debentures-Non-convertible debentures - V	INE522D07AX8	Mar 06, 2019	10.15%	Mar 06, 2024	20.54	CARE AA; Stable
Debentures-Non-convertible debentures - V	INE522D07AZ3	Mar 06, 2019	Zero Coupon	Mar 06, 2024	8.99	CARE AA; Stable

Debentures-Non-convertible debentures - V	INE522D07BA4	Mar 06, 2019	Zero Coupon	May 05, 2026	20.48	CARE AA; Stable
Debentures-Non-convertible debentures - V	INE522D07BY4	Dec 30, 2021	6.95%	Dec 30, 2024	250.00	CARE AA; Stable
Debentures-Non-convertible debentures - V (Proposed)	-	-	-	-	360.08	CARE AA; Stable
Debentures-Non-convertible debentures - IV and VI	INE522D07BF3	Feb 14, 2020	9.25%	Feb 14, 2023	425.00	CARE AA; Stable
Debentures-Non-convertible debentures -VII	INE522D07BI7	May 08, 2020	9.00%	May 08, 2023	100.00	CARE AA; Stable
Debentures-Non-convertible debentures - VII and VIII	INE522D07BJ5	June 01, 2020	9.10%	June 01, 2023	500.00	CARE AA; Stable
Debentures-Non-convertible debentures - X	INE522D07BN7	July 09, 2020	9.50%	July 09, 2030	125.00	CARE AA; Stable
Commercial paper-Commercial paper (Standalone)	INE522D14NT5	Aug 12, 2022	6.35%	Oct 31, 2022	250.00	CARE A1+
Commercial paper-Commercial paper (Standalone)	INE522D14NU3	Aug 12, 2022	6.35%	Oct 28, 2022	250.00	CARE A1+
Commercial paper-Commercial paper (Standalone) (Proposed)	-	-	-	-	3500.00	CARE A1+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (05-Jul-19)
2	Fund-based - LT-Term loan	LT	3925.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Mar-22) 2)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (28-Apr-20)	1)CARE AA; Stable (10-Sep-19) 2)CARE AA; Stable (05-Jul-19) 3)CARE AA; Stable (19-Jun-19)
3	Fund-based - ST-Working capital demand loan	ST	3525.00	CARE A1+	-	1)CARE A1+ (30-Mar-22) 2)CARE A1+ (08-Sep-21)	1)CARE A1+ (09-Sep-20) 2)CARE A1+ (28-Apr-20)	1)CARE A1+ (10-Sep-19) 2)CARE A1+ (05-Jul-19) 3)CARE A1+ (19-Jun-19)

4	Fund-based - LT-Cash credit	LT	1550.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Mar-22) 2)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (28-Apr-20)	1)CARE AA; Stable (10-Sep-19) 2)CARE AA; Stable (05-Jul-19) 3)CARE AA; Stable (19-Jun-19)
5	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (05-Jul-19)
6	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (05-Jul-19)
7	Commercial paper-Commercial paper (Standalone)	ST	4000.00	CARE A1+	-	1)CARE A1+ (30-Mar-22) 2)CARE A1+ (08-Sep-21)	1)CARE A1+ (09-Sep-20)	1)CARE A1+ (10-Sep-19) 2)CARE A1+ (05-Jul-19)
8	Debentures-Non-convertible debentures	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Mar-22) 2)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (13-Aug-20)	1)CARE AA; Stable (05-Jul-19)
9	Debentures-Non-convertible debentures	LT	830.58	CARE AA; Stable	-	1)CARE AA; Stable (30-Mar-22) 2)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (13-Aug-20)	1)CARE AA; Stable (05-Jul-19)
10	Debentures-Non-convertible debentures	LT	325.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Mar-22) 2)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20)	1)CARE AA; Stable (11-Feb-20)
11	Debentures-Non-convertible debentures	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Mar-22) 2)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (30-Apr-20)	-
12	Debentures-Non-convertible debentures	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Mar-22) 2)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable	-

							(28-May-20)	
13	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (30-Mar-22) 2)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (10-Jun-20)	-
14	Debentures-Non-convertible debentures	LT	125.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Mar-22) 2)CARE AA; Stable (08-Sep-21)	1)CARE AA; Stable (09-Sep-20) 2)CARE AA; Stable (08-Jul-20)	-

* Long-term/Short-term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:

Name of the Instrument	Detailed explanation
Bank Facility	CRAR as per RBI guidelines (>=15%)
	NNPA not to exceed 3.00%
	Gearing should not exceed 7:1

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Debentures-Non-convertible debentures	Simple
3	Fund-based - LT-Cash credit	Simple
4	Fund-based - LT-Term loan	Simple
5	Fund-based - ST-Working capital demand loan	Simple

Note on complexity levels of the rated instruments: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure-5: Bank lender details for this company:

To view the lender wise details of bank facilities please [click here](#)

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