



## RATING RATIONALE

28 March 2023

### Manappuram Finance Ltd

**Brickwork Ratings downgrades and withdraws the rating of the Bank Loan facilities and downgrades the rating of NCDs of Manappuram Finance Ltd**

#### Particulars

Instruments/ Facilities**	Amount Rs.Crs.		Tenor	Rating*	
	Previous	Present		Previous (10 March, 2022)	Present
Bank Loans (existing)	4286.00	<b>3,915.57</b>	Long Term	BWR AA+/Stable	<b>BWR AA/Stable (Downgraded) and Withdrawn</b>
Bank Loans (Proposed)	2714.00	<b>0.00</b>		BWR AA+/Stable	<b>Withdrawn on non utilisation</b>
NCDs	1003.00	<b>950.62</b>		BWR AA+/Stable	<b>BWR AA/Stable (Downgraded)</b>
<b>Total</b>	8003.00	<b>950.62</b>	<b>Rupees Nine Hundred Fifty Crore and Sixty Two lakhs only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

\*\* Details of bonds are provided in Annexure-I & II

#### RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) has downgraded and withdrawn the rating of Bank Loan facilities of Rs. 3915.57 Crs of Manappuram Finance Ltd (MFL or the Company), at the request of the company and after obtaining NOC from all the lenders for the withdrawal of rating. BWR downgrades the NCD ratings of the Company. BWR has also withdrawn the rating for the proposed bank loan facilities of the company, at the request of the company confirming that, BWR rating has not been utilized to raise any loans against the BWR rated proposed fund based loan limits and no amount is outstanding against the rated proposed facilities. The rating withdrawal is as per BWR policy on withdrawal of rating.

The rating downgrade necessarily factors in the weakening of asset quality over the years on an annual basis, and upto nine monthly performance of FY23. The GNPA ratio of the company was weakening over the years, from 0.88% in FY20 to 1.92% in FY21 and 2.95% in FY22. While the asset quality deterioration in FY21 was due to impact of COVID19 pandemic, the FY22 asset quality position was a result of the RBI circular of Nov 2021 on asset classification, and though its weakening was expected, it was substantially high leading to expectations of negligible levels of further asset quality deterioration over the near to medium term. However, the asset quality



remained weak in 9MFY23, weakening to 1.65% in 9MFY23 from the gross NPA ratio of 1.36% in 9MFY22, thereby being a monitorable over the near to medium term. BWR also notes that the company made adequate provisioning to maintain its Net NPA levels below 2%, The Net NPA ratios were at 0.47% in FY20, 1.53% in FY21 and 2.72% in FY22. The same were at 1.03% in 9MFY22 which weakened to 1.42% in 9MFY23, and hence the provisioning though adequate, its impact on profitability shall remain a monitorable over the near term.

The rating also factors in the experience of promoters and professional management, Manappuram Group's established track record, comfortable capitalisation and adequate liquidity and management information systems. The rating is, however, constrained by the inherent risks associated with the gold loan and non-gold loan portfolio, coupled with regional concentration risk and the impact of any weakening in the asset quality over its profitability shall remain monitorable over the near to medium term.

The outlook is maintained at Stable as BWR believes MFL's consolidated business and credit risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of a rating change over the medium term.

#### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

BWR has considered MFL's consolidated financial profile, wherein the financial performance of MFL's subsidiaries Asirvad Microfinance Pvt Ltd, Manappuram Home Finance Pvt Ltd, Manappuram Insurance Broker Pvt Ltd and Manappuram Comptech and Consultants Limited gets consolidated, and applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

#### **KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED - NIL**

#### **KEY RATING DRIVERS**

##### **Credit Strengths-:**

- **Experienced promoters and board:** MFL, the flagship company of Manappuram Group founded by Late Shri V C Padmanabhan, is one of India's leading gold loan NBFCs engaged in providing finance against used household gold ornaments since the last three decades. Incorporated in 1992, the company is promoted by Mr. V.P. Nandakumar (current MD and CEO), whose family has been involved in the gold loan business since 1949. It has also ventured into housing loans, insurance brokerage and micro finance through its subsidiaries. MFL has a strong board consisting of professionals having necessary expertise.
- **Comfortable Capitalisation :** As on 31 Dec 2022, MFL's total capital to risk weighted assets ratio (CRAR) stood comfortably at 32.86%, which is well above the RBI's stipulated minimum requirement of a total CAR of 15%. As on 31 Dec 2022, MFL's consolidated net worth stood at Rs 8,722 Crs against total debt of Rs 27,019 Crs, resulting in a comfortable net gearing of 2.23x. MFL's profitability at consolidated levels increased from Rs. 1,067.74 Crs for 9MFY22 to Rs. 1,084.9 Crs for 9MFY23. With the



increasing share of the non-gold segment, MFL's ability to maintain the net interest margin and control credit costs while sustaining growth in profitability will be a key monitorable.

- **Adequate risk management and management information systems in place:** Manappuram Group has put in place adequate risk management systems. Branch employees have been trained to appraise gold jewellery provided as security against loan by prospective borrowers. The company has implemented systems, including highly secured vaults with dual control and insurance of gold, for ensuring the gold security and reducing custodial risks. All branches are monitored by surveillance cameras. The core gold loan application software, which was developed in-house by MFL's team, is used by the branches and is linked to 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. The presence of adequate information technology and MIS ensures the smooth functioning of operations and helps the senior management in exercising effective control of its operations..

#### **Credit Risks:-**

- **Moderation in asset quality and its impact on earnings to remain monitorable:** During FY22, on consolidated basis, MFL's AUM stood at Rs.30,300 Crs (FY21: Rs.27,224 Crs) with total loan portfolio of Rs.28,750 Crs (FY21:Rs.26,508 Crs). While there was a decline in the total income from operations to Rs. 6061 Cr (FY21:Rs.6331 Cr) and a decline in PAT to Rs.1329 Crs (FY21:Rs. 1725 Crs). During 9MFY23, MFLs AUM increased to Rs.31900 Crs (FY22: Rs.30,300 Crs) while the loan portfolio was at Rs.19450 Crs (FY22: Rs.28750 Crs). For 9MFY23, the income from operations was Rs.4912 Crs (FY22: Rs.6061 Crs) with PAT at Rs.1085 Crs (FY22: Rs.1329 Crs). The GNPA ratio of the company was weakening over the years from 0.88% in FY20 to 1.92% in FY21 and 2.95% in FY22. The FY22 asset quality was a result of the RBI circular of Nov 2021 on asset classification, and though its weakening was expected, it was at substantially high leading to expectations of negligible levels of asset quality deterioration over the near to medium term. However, the gross NPA ratio of 1.36% in 9MFY22 had weakened to 1.65% in 9MFY23, and the asset quality to remain monitorable over the near to medium term. BWR also notes that the company made adequate provisioning to maintain its Net NPA levels below 2%, The Net NPA ratios were at 0.47% in FY20, 1.53% in FY21 and 2.72% in FY22, the same were at 1.03% in 9MFY22 which weakened to 1.42% in 9MFY23, and hence the provisioning though adequate its impact on profitability shall remain a monitorable. Asset quality was majorly impacted in microfinance, vehicle finance and equipment finance businesses. With reduction in operating income and increased NPAs, ROA declined to 4.1% in FY22 (FY21: 5.61%) and ROE declined to 16.9% in FY22 (FY21: 26.17%).
- **Inherent risks associated with gold loan and non-gold loan segments:** Being a majority gold loan finance company, MFL is exposed to inherent risks such as price fluctuation of gold and operational risks such as theft, burglary and intensive



competition. Since the company operates under a highly regulated environment, it is also exposed to policy changes. However, the company has adequate theft, burglary, fidelity and fire insurance cover to protect against such operational risks. The non-gold segment accounted for 41.6% of the overall portfolio as on 31 December 2022 and is in nascent stages, which exposes the company to potential challenges such as the low seasoning of the loan book, moderate asset quality and profitability issues as the credit costs in these segments are higher. Going forward, the company's ability to manage the asset quality and credit cost over with the seasoning of the portfolio will be a key monitorable

- **Geographical and product concentration risk:** MFL's loan portfolio is largely concentrated, with ~63% of the total loans to the southern states of India, and the fact that 58.4% of the loans are gold loans, exposes the company to geographical and product concentration risks. As a mitigation to the product concentration risk, MFL has diversified into other synergistic products such as commercial vehicle loans, MFI loans through subsidiary Asirvad Microfinance Pvt Ltd, housing loans through subsidiary Manappuram Home Finance Pvt Ltd and insurance broking under subsidiary Manappuram Insurance Broker Pvt Ltd. The share of non-gold loans increased from 19% in FY17 to 41.6% in 9MFY23. The company's ability to diversify geographically and increase the share of non-gold loans will be key rating sensitivity

## **RATING SENSITIVITIES**

**Positive:** A substantial increase in the AUM and profitability with sustained asset quality and improved capitalisation levels will be key rating positives.

**Negative:** A substantial deterioration in asset quality and capitalisation levels, and lower-than-expected growth in the AUM and profitability will be key rating monitorable.

## **LIQUIDITY POSITION: Strong**

At a consolidated level, MFL's liquidity position remains strong with no negative cumulative mismatches across various buckets, as per the ALM profile dated 31 December 2022. This is mainly on account of the longer tenure of the borrowings as compared to that of loans disbursed, which is short-term in nature. Additionally, the company maintains undrawn bank lines in excess of Rs 4,761 Crs, and cash and bank balances of Rs 4,879 Crs as on 31 December 2022.

## **About the Company**

Manappuram Finance Ltd. is one of India's leading gold loan NBFCs. Promoted by Shri. V.P. Nandakumar, the current MD & CEO, its origins go back to 1949 when it was founded in the coastal village of Valapad (Thrissur District) by his late father Mr. V.C. Padmanabhan. The firm was involved in pawnbroking and money lending carried out on a modest scale. Shri Nandakumar took over the reins in 1986 after his father expired. Since then, it has been a story of unparalleled growth with many milestones crossed. Incorporated in 1992, Manappuram Finance Ltd. has grown at a rapid pace. Today, it has 5000+ (Includes branches of subsidiary companies) branches across 28 states/UTs with assets under management (AUM) of Rs. 318 billion and a workforce of more than 45,000.



Manappuram Finance Ltd. is a professionally run company promoted by Shri V.P. Nandakumar who controls approximately 29% of the total equity of the company. A similar share is held by various Indian and foreign private equity funds while the balance is dispersed among the public. The shares of the company are traded on both the BSE and NSE. The company is managed by a Board consisting of eleven directors headed by Mr. Shailesh Mehta, Chairman, independent and non executive Director. Shri V.P. Nandakumar is the MD & CEO of the company.

**KEY FINANCIAL INDICATORS - (Consolidated) (in ₹ Cr)**

<b>Key Financial Indicators</b>	<b>Units</b>	<b>FY2021</b>	<b>FY2022</b>	<b>9MFY23</b>
Result Type		<b>Audited</b>	<b>Audited</b>	<b>Unaudited</b>
Consolidated AUM	Rs.Crs.	27,224	30,300	31,900
Gold Loan Portfolio	Rs.Crs.	19,077	19,900	18,600
Total Income	Rs. Ct	6,331	6,061	4,912.36
PAT	Rs. Cr	1,725	1,328.7	1,084.9
Gross NPA (Standalone)	%	1.92	2.95	1.61
Net NPA (Standalone)	%	1.53	2.72	1.42
CRAR (Standalone)	%	28.88	31.33	32.86
TNW	Cr	7,307	8,368	8,722
<i>Gearing</i>	(x)	3.11	2.88	2.23

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY -  
NA**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]**

Sl. No.	Instrument/Facility	Current Rating			Rating History		
		Type	Amount (Rs Crs)	Rating	2022	2021	2020
1.	NCD	Long Term	950.62	BWR AA/ Stable (Downgrade)	10 Mar 2022 BWR AA+/ Stable (Rs.1003 Crs)	02 Mar 2021 BWR AA+ /Stable (Rs.1003 Crs)	9 Nov 2020 BWR AA+/ Stable (Rs.1003 Crs)
2.	BLR Existing	Long Term	3915.57	BWR AA/ Stable (Downgrade and withdrawn)	10 Mar 2022 BWR AA+/ Stable (Rs.4286 Crs)	02 Mar 2021 BWR AA+ /Stable (Rs.7000 Crs)	9 Nov 2020 BWR AA+/ Stable (Rs.7000 Crs)
3	BLR Proposed	Long Term	0	Withdrawn on non utilisation	10 Mar 2022 BWR AA+/ Stable (Rs.2714 Crs)		

**COMPLEXITY LEVELS OF THE INSTRUMENTS - BLR and NCD - SIMPLE**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- **General Criteria**
- **Banks and Financial Institutions**
- **Approach to financial ratios**
- **Policy on Rating Withdrawal**
- **Consolidation of Companies**
- **Rating based on group approach**

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**Manappuram Finance Limited**

**ANNEXURE I  
Details of Bank Loan Facilities rated by BWR:**

Sr no	Name of the Bank/Lender	Type of Facility	Long Term (in Rs Crs)	Short Term (in Rs Crs)	Total (in Rs Crs)
1	HDFC Bank	Cash Credit/WCDL	1501	0	1501
2	Punjab National bank	Cash Credit	830	0	830
3	Punjab National Bank	Term Loan	400	0	400
4	Punjab National Bank	Bank Guarantee	20	0	20
5	IndusInd Bank	Term Loan	400	0	400
6	IndusInd Bank	WCDL	200	0	200
7	Bank of Baroda	Cash Credit	200	0	200
8	Dhanlaxmi Bank	Cash Credit	5	0	5
9	Yes Bank	Cash Credit	200	0	200
10	Yes Bank	Term Loan	43.75	0	43.75
11	Bajaj Finance Ltd	Term Loan	95.82	0	95.82
12	Shinhan Bank	Term Loan	20	0	20
	Proposed Bank Loans	Term Loan/Cash Credit	0	0	0
	<b>Total</b>		<b>3915.57</b>	<b>0</b>	<b>3915.57</b>

**ANNEXURE II  
INSTRUMENT (NCD/Bonds/CP/FDs) DETAILS:**

Instrument	Issue Date	Amount (Rs Crs) (present)	Coupon Rate (%)	Maturity Date	ISIN Particulars
NCDs	20-Mar-18	0	13%	20-Mar-23*	INE522D07552
	29-Nov-18	57.42	10%	29-Nov-23	INE522D07AI9
	29-Nov-18	30	10.40%	29-Nov-23	INE522D07AL3
	29-Nov-18	14.8	Zero Coupon	29-Nov-23	INE522D07AO7
	29-Nov-18	39.77	Zero Coupon	29-Nov-25	INE522D07AP4
	6-Mar-19	0	9.35%	6-Mar-22*	INE522D07AU4

	6-Mar-19	0	9.75%	6-Mar-22*	INE522D07AW0
	6-Mar-19	0	Zero Coupon	6-Mar-22*	INE522D07AY6
	6-Mar-19	28.5	9.75%	6-Mar-24	INE522D07AV2
	6-Mar-19	20.54	10.15%	6-Mar-24	INE522D07AX8
	6-Mar-19	8.99	Zero Coupon	6-Mar-24	INE522D07AZ3
	6-Mar-19	20.48	Zero Coupon	5-May-26	INE522D07BA4
O/s NCDs		<b>220.5</b>			
Proposed NCDs		730.12			
<b>TOTAL</b>		<b>950.62</b>			

\* refers to the ISINs redeemed during the review period

### ANNEXURE III

#### List of entities consolidated:

Name of Entity	% ownership	Extent of consolidation	Rationale for consolidation
Asirvad Microfinance Ltd	97.51%	Full	Subsidiary
Manappuram Home Finance Ltd	100%	Full	Subsidiary
Manappuram Insurance Brokers Pvt Ltd	100%	Full	Subsidiary
Manappuram Comptech and Consultants Limited	99.81%	Full	Subsidiary





### **For print and digital media**

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