



RATING RATIONALE

Muthoot Fincorp Ltd

7 January 2021

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities, NCD issues, IPDI issues and Commercial Paper Facilities of Muthoot Fincorp Ltd.

Particulars:

Facility/ Instrument	Amount (in Rs Cr)		Tenure	Rating*	
	Previous	Present		Previous	Present
				(Jan 2020)	
Bank Loan Facilities	1000	1000	Long Term	BWR A+/ Stable	BWR A+/Stable (Reaffirmed)
Secured NCD	1000	1000		BWR A+/ Stable	BWR A+/Stable (Reaffirmed)
Commercial Paper	900	900	Short Term	BWR A1+	BWR A1+ (Reaffirmed)
IPDI	264	264	Long Term	BWR A/Stable	BWR A/Stable (Reaffirmed)
Total	3164	3164	INR Three Thousand One Hundred and Sixty Four Crores only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

**Details of NCD are provided in Annexure – I

***Details of bank loan facilities are provided in Annexure -II

RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) reaffirms the ratings for the bank loan facilities, non-convertible debenture (NCD) issues, IPDI issues and commercial paper facilities of Muthoot Fincorp Ltd (MFL or the company), as tabulated above.

Rationale/Description of Key Rating Drivers/Rating Sensitivities:

BWR has principally relied on audited financials up to FY20, the provisional financials of H1FY21, publicly available information and information/clarifications provided by the company.

The rating, inter alia, factors in the experience of the promoters and management team, long track record and established market position in the gold loan industry, adequate capitalisation and adequate liquidity profile of the company. The ratings are, however, constrained by the inherent risk of the gold loan portfolio.



Description of Key Rating Drivers

Credit Strengths:

- **Extensive experience of promoters and management team:** MFL is part of the Muthoot Pappachan group. Muthoot Pappachan Group has diversified interests in financial services, hospitality, real estate, and auto dealership. MFL is largely a promoter-driven company, jointly managed by Mr. Thomas John Muthoot (group chairman and managing director), Mr. Thomas George Muthoot (director), and Mr. Thomas Muthoot (executive director) (all brothers). The company's promoters have a deep understanding of the gold loan business and have been in this business for over eight decades.
- **Sizeable portfolio with established market position:** MFL's standalone assets under management (AUM) has consistently grown over the years and stood at Rs 17377 Cr as on 30 September 2020 (at Rs 15894 Cr as on 31 March 2020 and at Rs 13073 Cr as on 31 March 2019). The gold loan portfolio constitutes ~95.2% of the AUM, at Rs 15133 Cr as of 30 September 2020. MFL has a well-established market position in the gold loan segment with a strong network of 3,597 branches across India.
- **Adequate capitalisation:** MFL has an adequate capitalisation profile, with the capital to risk weighted assets ratio (CRAR) at 19.28% as of H1FY21, compared with the minimum regulatory requirement of 15%. The company's net worth was at Rs 2963.7 Cr as of H1FY21 and has consistently increased due to profit retention. The net worth coverage to net non-performing assets (NPA) was moderate, at 5.7 times as of H1FY21. The leverage was at 4.1x as of FY20. The company's ability to achieve timely equity infusion and improve the capitalisation profile will be a monitorable.

Credit Risks:

- **Inherent risk of portfolio and geographic concentration risk:** MFL being an NBFC, with a 95.2% portfolio concentration of gold loans, as of 30 September 2020, was exposed to the inherent risks of gold loan NBFCs and severe competition in the industry. As of 30 September 2020, the company had an AUM of Rs 17376.8 Cr, spread across 20 states and 3541 branches. The portfolio was primarily concentrated in south India, across Tamil Nadu, Karnataka, Kerala, Andhra Pradesh and Telangana, thus displaying moderate geographic concentration risk. However, the company had been diversifying its geographic mix over the years, depending on market opportunities. The company's expansion strategies, impact on asset quality from new regions and earnings on account of expansion will be monitorable.

The gross NPA was at 4.5% and net NPA at 3.3% as of H1FY21, compared with the gross NPA and net NPA of 1.9% and 0.7%, respectively, as of FY20. The increase in the



NPA was primarily due to the non-auction of gold during the H1FY21 because of COVID-19-related constraints. The company's ability to improve the asset quality would be a monitorable.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the company's ability to improve its capitalisation profile, while maintaining portfolio growth and liquidity will be key rating sensitivities.

Positive: The company's ability to substantially scale-up business by reducing geographic concentration risk; improving the asset quality, capitalisation and earnings profile; and maintaining liquidity are key rating positives.

Negative: The weakening of the capitalisation is a rating negative.

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organization (WHO), has become a full-blown crisis globally, including in India. COVID-19 has impacted the domestic economy of India, as the nation had gone into lockdown 24 March 2020 onwards (later converted to partial lockdown in various states). As per BWR, financial institutions, mainly those lending to retail low-income borrower segments, could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India, on interest and principal on bank debt, has provided some cushion to the lending community to realign its collection mechanism and operations during this period. However, lenders' ability to ensure credit discipline among borrowers, to collect accumulated interest and principal dues on a timely basis will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact of its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

LIQUIDITY POSITION: ADEQUATE

As per the ALM dated 30 September 2020, MFL had no negative cumulative mismatches. The company had cash and cash equivalents of Rs 1812.5 Cr as of 1 November 2020, compared with the total debt repayments and operational expenses of Rs 2361.2 Cr for the five-month period ending 31 March 2021. Although collections had slowed down in Q1FY21 due to COVID-19-related lockdown restrictions, they have shown an improving trajectory and have reported ~95% collection efficiency as of November 2020. Hence, based on cash and cash equivalents, monthly collections and the funding pipeline, MFL has an adequate liquidity buffer for its debt repayments and other operational expenses on an ongoing basis.

About the Company

Muthoot Fincorp Ltd, (part of Muthoot Pappachan Group) is a non-deposit taking systemically important non-banking finance company (NBFC) headquartered in Trivandrum, Kerala. It is primarily in the business of lending against household used gold jewellery to individuals. In



addition to lending against gold, the company is also into other segments, including MSME loans, forex operations, the money transfer business and wind power generation. The company has a lineage of 135 years from the present promoter's grandfather Mr. Ninan Mathew. MFL's operating history has evolved over a period of 85 years.

Muthoot Pappachan Group has diversified interests in financial services, hospitality, real estate and auto dealership. MFL is largely a promoter-driven company, jointly managed by Mr. Thomas John Muthoot (managing director), Mr. Thomas George Muthoot (director), and Mr. Thomas Muthoot (executive director) (all brothers). The promoters of the company have a deep understanding of the gold loan business and have been in this business for over eight decades. The top management is supported by professionals with designated heads looking after strategy, credit risk, operations, treasury functions, marketing, audit and other support functions.

Financial Performance

Particulars	Units	FY18	FY19	FY 20
		Audited	Audited	Audited
Net worth	Rs. Crores	2685	2797	2954
PAT	Rs. Crores	126	155	219.1
AUM	Rs. Crores	11445	13073	15894
CRAR	%	22.2	21.7	19.6
GNPA	%	1.9	2.6	1.9

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: Nil



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

Facility/ Instrument	Current Rating			Rating History				
	(January 2021)			2020	2019			2018
	Type	Amount (Rs Cr)	Rating		Dec	Nov	Aug	
NCD	Long Term	500	BWR A+/Stable (Reaffirmed)	BWR A+/Stable	BWR A+/Stable	Nil	Nil	Nil
		500		BWR A+/Stable	BWR A+/Stable	BWR A+/Stable	BWR A+/Stable	Nil
Bank Loan Facilities	Long Term	1000	BWR A+/Stable (Reaffirmed)	BWR A+/Stable	BWR A+/Stable	BWR A+/Stable	Nil	Nil
IPDI	Long Term	264	BWR A/Stable (Reaffirmed)	BWR A/Stable	BWR A/Stable	BWR A/Stable	BWR A/Stable	BWR A/Stable
Commercial Paper	Short Term	900	BWR A1+ (Reaffirmed)	BWR A1+	BWR A1+	BWR A1+	BWR A1+	Nil
NCD	Long Term	0	-	-	-	-	Withdrawn	BWR A+/Stable
Total		3164	INR Three Thousand One Hundred Sixty-Four Crores only					

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)
- [Basel III Compliant Instruments](#)

For any other criteria obtain hyperlinks from website

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ANNEXURE 1
Details of NCD issues rated by BWR

Instrument	Issue Date	Amount (₹ in Cr)	Coupon Rate	Maturity Date	ISIN Particulars
Perpetual Debt Instruments	30-Nov-2008	50	12%	NA	INE549K08061
	30-Sep-2010	26			INE549K08079
	21-Dec-2009	54			INE549K08053
	10-Aug-2009	14			INE549K08046
	2-Nov-2017	24			INE549K08145
	17-Oct-2017	48			INE549K08152
	26-Feb-2018	48			INE549K08160
Secured NCD	25-Oct-2019	30.93	9.00%	27-Nov-2020	INE549K07436
	25-Oct-2019	11.30	9.25%	25-Oct-2021	INE549K07444
	25-Oct-2019	70.62	9.50%	25-Oct-2022	INE549K07451
	25-Oct-2019	3.62	9.50%	25-Oct-2021	INE549K07469
	25-Oct-2019	24.76	10.00%	25-Oct-2022	INE549K07477
	25-Oct-2019	82.34	9.25%	27-Nov-2020	INE549K07485
	25-Oct-2019	12.86	9.50%	25-Oct-2021	INE549K07493
	25-Oct-2019	180.58	10.00%	25-Oct-2022	INE549K07501

ANNEXURE 1
Details of Bank Loan facilities rated by BWR

Sl.no	Bank Name	Type of Facility	Total (₹ in Cr)
1	Bank of Baroda	Term Loan	370
		Cash Credit	450
2	Punjab and Sind Bank	Term Loan	9.99
3	Au Small Finance Bank	Term Loan	6.25
4	Dhanlaxmi Bank	Cash Credit	25
5	Yes Bank	Term Loan	120.83
6	Proposed	Term Loan/ Cash Credit	17.92
Total			1000

INR One Thousand Crores Only

For print and digital media

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