MANAPPURAM®
FINANCE LIMITED
Make Life Easy

Ref: Sec/ SE/402/17-18
14th August 2017

BSE Limited,
PhirozeJeejeebhoy Towers
Dalal Street
Mumbai- 400001

National Stock Exchange of India Limited
5th Floor, Exchange Plaza
Bandra (East),
Mumbai-400051

Dear Sir/Madam,

Sub : CARE rating upgraded Long term credit rating and Debt Instruments of the company

We are glad to inform you that CARE rating has upgraded the long term rating to CARE AA stable (pronounced double A; Outlook:Stable) from CARE AA- (pronounced double A minus; Outlook:Stable) for the Bank Facilities of Rs. 5680 crores and Non-Convertible Debenture of Rs.580 crores of the company.

The detailed CARE rating rationale issued on 14th August 2017 is attached.

Request you to take the same on record.

Thanking You.

Your Faithfully

For Manappuram Finance Limited

Ramesh Periasamy
Company Secretary

Manappuram Finance Limited

August 14, 2017

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	5,680	**CARE AA; Stable (Double A; Outlook: Stable)**	**Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)**
Short-term Bank Facilities	3,320	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Bank Facilities	**9,000 (Rupees Nine Thousand crore only)**		
Non-Convertible Debenture issue - I	390	**CARE AA; Stable (Double A; Outlook: Stable)**	**Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)**
Non-Convertible Debenture issue – II	150	**CARE AA; Stable (Double A; Outlook: Stable)**	**Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)**
Non-Convertible Debenture issue - III	40	**CARE AA; Stable (Double A; Outlook: Stable)**	**Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)**
Total Instruments	**580 (Rupees Five Hundred and Eighty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the long-term bank facilities and debt instruments of Manappuram Finance Limited (MAFIL) factors in the significant improvement in financial performance of the company during FY17 (refers to the period April 01 to March 31) primarily supported by its focus on shorter tenure loans leading to lesser under recovery. Furthermore, adherence to shorter tenure loans helps the company to reduce the price risk associated with gold jewellery pledged as collateral. The profitability in FY17 is also aided by growth in AUM and decline in the cost of borrowings in trend with industry.

The ratings continue to factor in long track record and the established market position of MAFIL as one of the leading players in the gold loan industry in India, experienced promoters & management team, comfortable capitalisation level and liquidity position and adequate risk management & management information systems in place.

The ratings are, however, constrained by product concentration on a single asset class, exposure to price of gold, geographical concentration of the loan portfolio and moderation in asset quality during FY17 on account of transition from 120 dpd (days past due) to 90 dpd.

Key Rating Strengths

Long track record and established market position

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[2]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

MAFIL has an established track record of operations for almost two decades in the gold loan financing segment and has consequently established a strong brand image in the market. MAFIL is one of the leading gold loan financiers in India. The company has AUM of Rs.11,551 crore and operates through 3,290 branches spread across 23 states and 4 Union territories as on March 31, 2017.

Experienced promoters and management team

The promoters have been in the gold loan business for more than six decades. The business was founded by Mr V C Padmanaban in 1949 and in 1986, Mr V P Nandakumar took over the business. Later in 1992, MAFIL was incorporated to expand the group's presence in gold loan business by opening branches Pan India spanning 23 states and 4 union territories. The day-to-day operations are looked after by a team of professionals overseen by the Board which comprises majority of independent directors with extensive experience in the NBFC sector. Mr Jagdish Capoor, (former Deputy Governor, RBI and former Chairman of HDFC Bank) who had joined the Board in July 2010, has been the Chairman since May 2012.

Increased focus on shorter tenure loans leading to lesser under recovery and help the company to reduce the price risk

To delink the gold loans from the gold price fluctuations the company has started concentrating on shorter tenure loans of less than 3 months. During Q3FY17 and Q4FY17, the company has disbursed loans with tenure of 3 months or less. As a result, the share of gold loan portfolio with less than 3 month tenure increased from 34.91% in March 2015 to 99.87% as on March 31, 2017. Due to shorter tenure of loans, in respect of overdue loans the extent of under recovery is minimised. With increase in share of shorter tenure loans in FY17 under recovery has seen a sharp decline from Rs.256 crore in FY16 to Rs.42 crore in FY17. Going forward, adherence to shorter tenure loans is critical to maintain under recovery at lower level.

Significant Improvement in profitability supported by growth in AUM and decline in cost of borrowings

During FY17, AUM grew by 12% to Rs.11,551 crore as on March 31, 2017, aided by high growth in disbursements. However, average AUM in FY17 was Rs.12,003 crore, 26% y-o-y increase.Growth in the total income was higher at 36% compared with AUM growth on account of sharp decline in under recovery from Rs.256 crore in FY16 to Rs.42 crore in FY17. As a result of lower under recovery, the yield on advances has increased from 22.50% as on March 31, 2016, to 27.28% as on March 31, 2017. This coupled with decrease in cost of borrowings in trend with industry, NIM improved from 11.26% in FY16 to 15.85% in FY17. Furthermore, increase in AUM without addition of branches aided profitability, resulting in the company reporting ROTA of 5.82% in FY17 against 2.91% in FY16.

Comfortable capitalisation and liquidity position

CAR remained comfortable at 26.12% as on March 31, 2017, compared with 24.00% as on March 31, 2016, mainly due to accretion to reserves. Tier I CAR stood at 25.73% as on March 31, 2017. Asset liability maturity profile is comfortable as there are no cumulative mismatches in any of the buckets. This is due to longer tenure of the borrowings as compared with that of loans disbursed which is of short term in nature.

Adequate risk management & management information systems in place

MAFIL has put in place adequate risk management systems. Branch employees have been trained to appraise gold jewelry provided as security against loan by prospective borrowers. The company has implemented systems for ensuring the gold security and reducing the 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 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. The presence of adequate Information Technology and MIS ensures smooth functioning of operations and helps the senior management in exercising effective control of its operations.

Prospects

The gold loan industry has undergone various regulatory changes during FY13-14. These changes & guidelines in addition to downtrend in market prices of gold have impacted the growth, asset quality and profitability of the gold loan NBFCs in the two fiscal years ended March 2014. After this period, gold loan NBFCs have witnessed some stability in terms of AUM and profitability in FY15 and FY16. During FY17, pre-demonetisation, gold loan NBFCs grew significantly but slowed down post demonetisation. With track record of more than two decades, established brand name with wider branch network and healthy capitalisation levels, MAFIL is better placed to benefit from upside growth in gold loan business. It has also ventured into micro finance and housing finance segment through its subsidiaries. This has resulted in improvement in portfolio diversification. Going forward, the ability of MAFIL to maintain comfortable capital adequacy levels, improve its asset quality, maintain its strategy of focusing on shorter tenure gold loans to mitigate price risk and any change in the regulatory scenario would be the key rating sensitivities.

Key Rating Weaknesses

Product concentration on a single asset class

The company earns a major portion of income from lending against gold. As on March 31, 2017 gold loans constitute around 96% of the total AUM. The commercial vehicle finance and loan against property loan portfolio stood at Rs.306 crore and Rs.40 crore, respectively, and rest being gold loans as on March 31, 2017.

MAFIL has presence in microfinance and housing finance segments through its subsidiaries, namely, Asirvad Microfinance Limited (AML) and Manappuram Home Finance Private Limited (MHFL)**.** As on March 31, 2017, AML and MHFL have AUM of Rs.1,796 crore and Rs.310 crore, respectively.

Geographical concentration

MAFIL has presence in 23 states and 4 union territories across India with its 3,290 branches. As on March 31, 2017, 67% of AUM comes from the southern states of India as compared with 65% as on March 31, 2016. However, the portfolio is well distributed within South with Kerala, Tamil Nadu, Karnataka, Andhra Pradesh and Telangana. The company is making consistent efforts to relocate its branches from non-viable business region to the regions with high business potential.

Moderation in asset quality during FY17

The asset quality has seen moderation during FY17. The GNPA and NNPA levels have increased from 0.97% in FY16 to 2.02% in FY17 and 0.75% in FY16 to 1.71% in FY17. The moderation in asset quality is mainly due to change in NPA recognition norms from 120 dpd to 90 dpd and demonetisation. With the company focusing on loans with shorter tenure and follow-up of auction immediately after this period, the extent of NPA and under recovery is expected to be minimal, going forward.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook 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)]

About the Company

Manappuram Finance Limited, (MAFIL) is an NBFC registered with RBI as non-deposit accepting loan company, headquartered in Valapad, Kerala. MAFIL is promoted by Mr V.P. Nandakumar in 1992 and as on March 31, 2017, the promoters' stake in MAFIL stood at 34.45%. The company gives loan against used jewellery/ gold ornaments and it constitutes around 96% of AUM as on March 31, 2017. During FY15, the company has ventured into vehicle financing and mortgage financing/loan against property (LAP) and it constitutes 4% of AUM as on March 31, 2017.

During FY17, the company's total income was Rs.3,009 crore as against the total income of Rs.2,217 crore in FY16. The company registered a PAT of Rs.726 crore in FY17 as against Rs.337 crore in FY16.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2,217	3,009
PAT	337	726
Interest coverage (times)	1.59	2.11
Total Assets	11,911	13,088
Net NPA (%)	0.75	1.71
ROTA (%)	2.91	5.82

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	27-Dec-19	512.50	CARE AA; Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	3320.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	5167.50	CARE AA; Stable
Debentures-Non Convertible Debenture-I	28-Jul-16	10.3%	28-Jul-18	100	CARE AA; Stable
Debentures-Non Convertible Debenture-I	29-Jul-16	10.3%	28-Jul-18	40	CARE AA; Stable
Debentures-Non Convertible Debenture-I	5-Aug-16	10.3%	28-Dec-18	100	CARE AA; Stable
Debentures-Non Convertible Debenture-I	5-Aug-16	10.3%	15-Mar-19	150	CARE AA; Stable
Debentures-Non Convertible Debentures-II	24-May-16	10.5%	4-Apr-19	75	CARE AA; Stable
Debentures-Non Convertible Debentures-II	24-May-16	10.5%	8-Apr-19	75	CARE AA; Stable
Debentures-Non Convertible Debentures-III	29-Jun-16	9.8%	28-Jun-19	40	CARE AA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	390.00	CARE AA; Stable	-	1)CARE AA-; Stable (31-Dec-16) 2)CARE AA- (05-Aug-16) 3)CARE AA- (21-Jul-16)	1)CARE AA- (27-Aug-15) 2)CARE AA- (23-Jul-15)	1)CARE AA- (17-Mar-15) 2)CARE A+ (07-Nov-14)
2.	Fund-based - LT-Term Loan	LT	512.50	CARE AA; Stable	-	1)CARE AA-; Stable (31-Dec-16) 2)CARE AA- (21-Jul-16)	1)CARE AA- (27-Nov-15) 2)CARE AA- (26-Jun-15)	-
3.	Fund-based - ST-Working Capital Demand loan	ST	3320.00	CARE A1+	-	1)CARE A1+ (31-Dec-16) 2)CARE A1+ (21-Jul-16)	1)CARE A1+ (27-Nov-15) 2)CARE A1+ (26-Jun-15)	-
4.	Fund-based - LT-Cash Credit	LT	5167.50	CARE AA; Stable	-	1)CARE AA-; Stable (31-Dec-16) 2)CARE AA- (21-Jul-16)	1)CARE AA- (27-Nov-15) 2)CARE AA- (26-Jun-15)	-

5.	Debentures-Non Convertible Debentures	LT	150.00	CARE AA; Stable	-	1)CARE AA-; Stable (31-Dec-16) 2)CARE AA- (21-Jul-16) 3)CARE AA- (25-May-16)	-	-
6.	Debentures-Non Convertible Debentures	LT	40.00	CARE AA; Stable	-	1)CARE AA-; Stable (31-Dec-16) 2)CARE AA- (21-Jul-16) 3)CARE AA- (29-Jun-16)	-	-

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