

## RATING RATIONALE

25 Feb 2022

### Muthoot Fincorp Ltd

Brickwork Ratings assigns the ratings for the subordinated debt and reaffirms ratings of the Innovative Perpetual Debt Issue (IPDI), existing Bank Loan Facilities, Non Convertible Debentures (NCD) and Commercial Paper Facilities of Muthoot Fincorp Ltd.

#### Particulars:

Facility/ Instrument **	Amount (in Rs Cr)		Tenure	Rating*	
	Previous	Present		Previous (Dec 2021)	Present
Fund Based- Bank Loan Facilities	1,000.00	<b>1,000.00</b>	Long Term	BWR A+/Stable (Reaffirmed)	<b>BWR A+/Stable (Reaffirmed)</b>
NCD	490.37	<b>449.71</b>	Long Term	BWR A+/Stable (Reaffirmed)	<b>BWR A+/Stable (Reaffirmed)</b>
Commercial Paper	900.00	<b>900.00</b>	Short Term	BWR A1+ (Reaffirmed)	<b>BWR A1+ (Reaffirmed)</b>
IPDI	374.00	<b>374.00</b>	Long Term	BWR A/Stable (Assigned/ Reaffirmed)	<b>BWR A/Stable (Reaffirmed)</b>
Proposed Subordinated Debt	-	<b>50.00</b>	Long Term	-	<b>BWR A+/Stable (Assigned)</b>
<b>Total</b>	2,764.37	<b>2,773.71</b>	<b>Rupees Two Thousand Seven Hundred Seventy Three Crores and Seventy One Lakh Only</b>		

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

\*\*Details of rated facilities / instruments are provided in Annexures – I to V

#### RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) assigns the ratings of the Proposed Subordinated Debts and reaffirms the ratings of the bank loan facilities, Non-Convertible Debenture (NCD) issuances, Commercial Paper facilities and IPDI issuances of Muthoot Fincorp Ltd (MFL or the company), as tabulated above. The rating assignment for the subordinated debt issue factors in the nature of the instrument, its priority in redemption over that of the perpetual debt issue and its indicative term sheet shared by the company. The indicative terms for the proposed subordinated debt issue state that the said issue shall be eligible for the consideration under Tier II capital, will be repayable in bullet at the end of tenor of upto six years and shall be raised at competitive coupon rate to be serviced on a monthly basis

The rating assignment/ reaffirmation continues to factor in the experience of the promoters and management team, long track record and established market position in the gold loan industry and strong liquidity profile of the company. The ratings are, however, constrained by the concentration of the loan portfolio into the Gold loan segment and increasing level of gross non performing assets as of 31 Dec 2021.

## **KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA**

## **KEY RATING DRIVERS:**

### **Credit Strengths:-**

- **Extensive experience of promoters and management team:** MFL is the flagship company of the Muthoot Pappachan Group. The Group has diversified interests in financial services, hospitality, real estate, and auto dealerships. 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. The top management is supported by professionals with designated heads looking after strategy, credit risk, operations, treasury functions, marketing, audit and other support functions.
- **Adequate capitalisation:** During the ongoing FY22, the company had issued preference shares worth Rs.150 Crs and additional Perpetual Debt Instruments worth Rs.135 Crs. The proposed Subordinated debt of Rs.50 Crs is also expected to be raised before the end of FY22 to augment its Tier II capital of the company. The total capital adequacy ratio (CAR) of the company improved to 19.84% as at 31 Dec 2021 from 16.85% as at 31 Mar 2021. The networth of the company as at 31 Dec 2021 was Rs.3,522 Crores (including Cumulative Compulsory Convertible Preference Shares of Rs.150 Crs) (FY21: Rs.3,201 Crs). Gearing levels have shown slight improvement from 5.58 times as at 31 Mar 2021 to 5.08 times as at 31 Dec 2021 mainly on account of increase in net worth through retention of net profits and steady outstanding borrowings since 31 Mar 2021.
- **Revamping disbursements post H1FY22 and improvement in AUM:** Disbursements during Q3 FY22 have increased to Rs.11,084 Crs from Rs.7,894 Crs in Q2 FY22. The AUM (excluding Co-Lending) of the company as at 31 Dec 2021 was Rs. 17,128 Crs, increased from Rs.16,493 Crs as on 30 Sep 2021. Further, the AUM under co-lending has also been continuously increasing with outstanding of Rs.1,820 Crs as on 31 Dec 2021 from Rs.1,621 Crs outstanding as on 30 Sep 2021 and Rs.618 Crs as on 31 Mar 2021.

### **Credit Risks:-**

- **Inherent risk of portfolio and Geographic concentration risk:** The total AUM (Excl.Co-lending) as on Dec 31, 2021 of Rs.17,128 Crs consisted of a gold loan portfolio

of Rs.16,518 Crs (~96.4%). The loan portfolio has an inherent risk due to volatility in gold prices. Further around 60% of the portfolio is concentrated in the southern part of India though spread across different states. The portfolio product mix and geographic concentration is expected to remain in line with the existing composition in the medium term.

- **Increasing Delinquencies in the current financial year:**

The company's portfolio comprises mainly gold loans and partly to loans to the small and medium enterprise (SME) segment. The recoveries from the weaker asset from the SME segment continue to remain slow, while the company increased its loan book from the gold loan segment which had better recoveries, to manage the overall asset quality. The gold loan segment which had an option to make good the recoveries through auctions in case of any incremental delinquencies, provides comfort in increasing the asset book from this segment, as against the SME book. However during 9MFY22, the increasing delinquencies shall be a monitorable on the asset quality of the company over the near to medium term

As of 31 Dec 2021, the GNPA and NNPA in absolute terms were elevated at Rs.836 Crs (4.88%) and Rs. 608 Crs (3.55%) respectively from Rs.474 Crs (2.87%) and Rs.271 Crs (1.67%), respectively as on 30 Sep 2021. The Gold Loan GNPA & NNPA ratios stood at 3.35% and 2.83% as of 31 Dec 2021, weakened from 1.10% and 0.56% as on 30 Sep 2021. This was mainly on account of limited auctions conducted for the recoveries caused by the third wave of the covid pandemic during Q3FY22. The limited auctions carried out in Q3 FY22 have since improved and better recoveries in the near to medium term are expected to improve the overall asset quality of the company. The company's ability to recover the arrears and manage the NPA levels at an early stage shall be a key rating monitorable.

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

For arriving at its ratings, BWR has evaluated the risk profile of MFL on a standalone basis. 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 maintain and improve its capitalisation profile and asset quality, 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:** Any sharp decline from the present level of capitalisation, substantial increase in NPA levels and increase in credit costs are key rating negatives.

### LIQUIDITY POSITION: STRONG

As on 31 Jan 2022, the company had a total liquidity of Rs.2,505 crs consisting cash and cash equivalents and bank balances of Rs.1,151 Crs, undrawn sanctions of term loans of Rs.350 Crs and Unutilised CC/OD limits of Rs.1,004 Crs. Against the above liquidity, debt obligations of the company from March 2022 upto July 2022 is Rs.1,742 Crs (Excl. WCDL due for rollover). The Company's average quarterly collections during FY22 were around Rs.9,000 Crs and its continuation over the next few quarters shall be more than adequate to meet the debt obligations. Hence liquidity position is considered as strong. WCDL is expected to get a rollover in a timely manner based on the past trends and present position of the company.

### About the Company

Muthoot Fincorp Ltd, (part of Muthoot Pappachan Group) is a non-deposit taking systemically important non-banking finance company, headquartered in Trivandrum, Kerala. It is primarily in the business of lending against household used gold jewellery to individuals. In addition, the company is also into other segments, including MSME loans, forex operations, money transfer business and wind power generation. The company has a lineage of 134 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 dealerships. Muthoot Fincorp Ltd. is the parent company of Muthoot Microfin Ltd., Muthoot Housing Finance Co. Ltd. and Muthoot Pappachan Technologies Ltd.

### Key Financial Performance

Particulars	Units	FY20	FY21
		Audited	Audited
Net worth	Rs. Crores	2,954	3,201
PAT	Rs. Crores	219	369
AUM	Rs. Crores	15,894	18,700
CRAR	%	19.6	16.85
GNPA	%	1.86	1.92

### COMPLEXITY LEVELS OF THE INSTRUMENTS

Bank Loan Facilities: **Simple**

Commercial Paper: **Simple**

NCD and Subordinated Debt: **Complex**

IPDI: **Highly Complex**

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

**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							
				2021			2020	2019			2018
	Type	Amount (Rs Cr)	Rating	Dec 2021	Aug 2021	Jan 2021		Dec	Nov	Aug	
NCD	Long Term	449.71	BWR A+/Stable (Reaffirmed)	BWR A+/Stable (Reaffirmed)	BWR A+/Stable (Reaffirmed)	BWR A+/Stable	BWR A+/Stable	BWR A+/Stable	Nil	Nil	Nil
								BWR A+/Stable	BWR A+/Stable	BWR A+/Stable	Nil
Bank Loan Facilities	Long Term	1,000	BWR A+/Stable (Reaffirmed)	BWR A+/Stable (Reaffirmed)	BWR A+/Stable (Reaffirmed)	BWR A+/Stable	BWR A+/Stable	BWR A+/Stable	BWR A+/Stable	Nil	Nil
IPDI	Long Term	374	BWR A /Stable (Reaffirmed)	BWR A /Stable (Reaffirmed) (Rs.324 crs)	BWR A /Stable (Reaffirmed)	BWR A /Stable	BWR A /Stable	BWR A /Stable	BWR A /Stable	BWR A /Stable	BWR A /Stable
IPDI- proposed	Long Term			BWR A/Stable (Assigned) (Rs. 50 Crs)	-	-	-	-	-	-	-
Commercial Paper	Short Term	900	BWR A1+ (Reaffirmed)	BWR A1+ (Reaffirmed)	BWR A1+ (Reaffirmed)	BWR A1+	BWR A1+	BWR A1+	BWR A1+	BWR A1+	Nil
NCD	Long Term	-	-	-	-	-	-	-	-	Withdrawn	BWR A+/Stable
Proposed Sub Debt	Long Term	50	BWR A+/Stable (Assigned)	-	-	-	-	-	-	-	-
<b>Total</b>		<b>2,773.71</b>	<b>Rupees Two Thousand Seven Hundred and Seventy Three Crore and Seventy One Lakh Only</b>								

**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

Analytical Contacts		
<b>Sonam Vora</b> Senior Analyst - Ratings +91 22 6745 6638 <a href="mailto:sonam.v@brickworkratings.com">sonam.v@brickworkratings.com</a>		<b>Hemant Sagare</b> Associate Director - Ratings +91 80 4040 9999 Ext -333 <a href="mailto:hemant.s@brickworkratings.com">hemant.s@brickworkratings.com</a>
1-860-425-2742	I	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>

**ANNEXURE I**  
**Details of Long-term Bank Loan Facilities rated by BWR**

Sr. No.	Lender Name	Type of Facility	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Rated Amt (Rs. Crs)*
1	Bank of Baroda	Term Loan	200.00	-	200.00
		CC/WCDL	450.00	-	450.00
2	Dhanlaxmi Bank	WCDL	30.00	-	30.00
3	Yes Bank	Term Loan	92.39	-	92.39
4	Ujjivan Small Finance Bank	Term Loan	39.00	-	39.00
5	Bajaj Finance Limited	Term Loan	24.79	-	24.79
	<b>Total</b>		836.18	-	836.18
	Proposed		163.82		163.82
	<b>Total Rated</b>		<b>1000.00</b>		<b>1000.00</b>

\*outstanding/ sanctioned amount as on 31.01.2022

**ANNEXURE II**

#### Details of NCDs rated by BWR

Instrument	Issue Date	O/s Amount (Rs. Crs.)*	Coupon Rate	Maturity Date	ISIN Particulars
NCD	25 Oct 2019	70.62	9.5	25 Oct 2022	INE549K07451
NCD	25 Oct 2019	24.76	10	25 Oct 2022	INE549K07477
NCD	25 Oct 2019	180.59	10	25 Oct 2022	INE549K07501
NCD	07 Feb 2020	31.24	9.40	09 Apr 2023	INE549K07535
NCD	07 Feb 2020	26.32	9.50	07 Feb 2025	INE549K07543
NCD	07 Feb 2020	10.441	9.90	08 Apr 2023	INE549K07568
NCD	07 Feb 2020	8.91	10.00	07 Feb 2025	INE549K07576
NCD	07 Feb 2020	41.24	9.90	08 Apr 2023	INE549K07600
NCD	07 Feb 2020	55.60	10.00	07 Feb 2025	INE549K07618
Total		<b>449.71</b>			

\*outstanding amount as on 18 Feb 2022

**Total Rupees Four Hundred Forty Nine Crores Seventy One lakhs Only**

#### ANNEXURE III

##### Details of CPs rated by BWR

Instrument	Issue Date	O/s Amount (Rs. Crs.)*	Coupon Rate	Maturity Date	ISIN Particulars
Commercial Paper	06 Dec 2021	20.00	6.25%	28 Feb 2022	INE549K14BH3
Commercial Paper	24 Dec 2021	115.00	6.25%	28 Feb 2022	INE549K14BH3
Commercial Paper	24 Dec 2021	2.00	6.25%	28 Feb 2022	INE549K14BH3
Commercial Paper	24 Dec 2021	8.00	6.25%	28 Feb 2022	INE549K14BH3
<b>Total O/s</b>		<b>145.00</b>			
Proposed		755.00			
<b>Total Rated</b>		<b>900.00</b>			

\*outstanding amount as on 18 Feb 2022

**Total Rupees Nine Hundred Crores Only**

#### ANNEXURE IV

### Details of IPDIs rated by BWR

Instrument	Issue Date	O/s Amount (Rs. Crs.)	Coupon Rate	Maturity	ISIN Particulars
Perpetual Debt Instrument	30 Nov 2008	50.00	12%	Perpetual	INE549K08061
Perpetual Debt Instrument	10 Aug 2009	26.00	12%	Perpetual	INE549K08079
Perpetual Debt Instrument	21 Dec 2009	54.00	12%	Perpetual	INE549K08053
Perpetual Debt Instrument	30 Sep 2010	14.00	12%	Perpetual	INE549K08046
Perpetual Debt Instrument	02 Nov 2017	24.00	12%	Perpetual	INE549K08145
Perpetual Debt Instrument	17 Oct 2017	48.00	12%	Perpetual	INE549K08152
Perpetual Debt Instrument	26 feb 2018	48.00	12%	Perpetual	INE549K08160
Perpetual Debt Instrument	18 Aug 2021	60.00	12%	Perpetual	INE549K08277
Perpetual Debt Instrument	20 Dec 2021	25.00	12%	Perpetual	INE549K08319
<b>Total O/s</b>		<b>349.00</b>			
Proposed	-	25.00	-	-	-
<b>Total Rated</b>		<b>374.00</b>			

\*outstanding amount as on 18 Feb 2022

**Total Rupees Three Hundred Seventy Four Crores Only**

### ANNEXURE V

#### Details of Subordinated Debt rated by BWR

Instrument	Issue Date	Rated Amount (Rs. Crs.)	Coupon Rate	Maturity	ISIN Particulars
Proposed Subordinated Debt	-	50.00	-	-	-

**Total Rupees Fifty Crores Only**





**For print and digital media** The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

**About Brickwork Ratings :** Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**DISCLAIMER :** Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "**BWR Party**") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness



for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, [www.brickworkratings.com](http://www.brickworkratings.com). More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.