

Muthoottu Mini Financiers Limited

August 12, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	2,015.00 (Enhanced from 515.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total bank facilities	2,015.00 (₹ Two thousand fifteen crore only)		
Non-convertible debentures - III	79.15	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Non-convertible debentures – IV	127.71	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Non-convertible debentures – V	112.20 (Reduced from 166.26)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Non-convertible debentures – VI	233.58	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Non-convertible debentures - VII	170.86	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Non-convertible debentures – VIII	243.26	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Non-convertible debentures – IX (Proposed)	300.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total long-term instruments	1,266.76 (₹ One thousand two hundred sixty-six crore and seventy-six lakh only)		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The rating assigned to the proposed bank facilities and non-convertible debentures (NCDs) of Muthoottu Mini Financiers Limited (MMFL) factors in the increase in the scale of operations during FY22 (refers to the period April 01 to March 31) resulting in improved assets under management (AUM) per branch and improved profitability metrics while maintaining good asset quality. The rating continues to factor in the strong brand recognition of the group, the long track record of the promoters in the gold loan business, adequate capitalisation levels, good asset quality levels and adequate liquidity position. The rating continues to be constrained by the geographical concentration of loan portfolio, concentrated resource profile notwithstanding the improvement seen in FY22, concentration in a single asset class which is exposed to the market risk related to gold, intense competition in the gold loan business and significant investment in fixed assets.

Rating sensitivities

Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Improvement in profitability with return on total assets (ROTA) of above 2.50% on a sustained basis along with improvement in the scale of operations.
- Improvement in the resource profile with good mix of borrowings from diversified sources.

Negative factors – Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Moderation in profitability with ROTA of less than 1% on a sustained basis.
- Deterioration in asset quality with gross non-performing asset (GNPA) of above 3% on a sustained basis.
- Weakening of capitalisation with net gearing increasing to above 5.5x.

Detailed Description of the key rating drivers

Key Rating Strengths

Strong brand value and experienced promoters

The 'Mini Muthoottu' group has been in the gold loan business for more than six decades and has established a strong brand value in the market. MMFL is a business venture of the 'Mini Muthoottu' group and has been providing gold loan advances from FY07. Over the years, the company has expanded and strengthened its branch network across south India and has initiated its branch expansion to the rest of India. The promoters of the group have rich experience in the gold loan business. The company also has a strong board of directors, consisting of highly-experienced and qualified individuals; and the day-to-day operations of the company are looked after by a team of professionals who have extensive experience in banking and finance.

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

Adequate risk management systems

MMFL has put in place strong appraisal systems, including the evaluation of gold. Several tests for checking spurious gold, including touchstone test and nitric acid test, are conducted by the branches. The company has implemented systems for ensuring gold security and reducing custodial risks, including highly-secured vaults with dual control and insurance. Furthermore, surveillance cameras have been installed at all its branches. It also has an internal audit system, wherein the gold auditors inspect the branches where the auditor verifies all the gold ornaments, every 30 days. All the branches of the company are subject to regular internal audit of accounts once in three months. The company also tracks mark to market price (MTM) based on the underlying gold for the loans on a regular basis.

Improvement in the scale of operations during FY22

MMFL's loan portfolio grew at a rate of 25% from ₹1,994 crore as on March 31, 2021 to ₹2,499 crore as on March 31, 2022. The company disbursed gold loans of ₹6,858 crore during FY22 as against ₹5,772 crore in FY21. The loan portfolio has grown at a compounded annual growth rate (CAGR) of 22% over the last three years. The company has again started slowly increasing the branches in new geographies. Gold loan portfolio/branch improved from ₹2.40 crore as on March 31, 2021 to ₹2.98 crore as on March 31, 2022, resulting in improvement in Opex to average total assets.

	March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022
Branches	767	784	807	814
Gold loan portfolio (₹ crore)	1,281	1,645	1,932	2,427
Gold loan portfolio per branch (₹ crore)	1.67	2.10	2.40	2.98

Adequate capital adequacy levels

The total capital adequacy ratio (CAR) and Tier-I CAR moderated to 21.65% and 18.18%, respectively, as on March 31, 2022, as against 25.75% and 22.38%, respectively, as on March 31, 2021, with increase in the scale of operations during FY22. The overall gearing stood at 4.81x as on March 31, 2022, as against 3.93x as on March 31, 2021. While net gearing (excluding the cash and cash equivalents) stood at 3.89x as on March 31, 2022, as against 3.32x as on March 31, 2021. CARE Ratings Limited (CARE Ratings) expects net gearing to remain below 5.5x on a steady state basis.

Stable profitability

The cost of borrowings has been decreasing gradually over the last four years and stood at 9.64% during FY22 (PY: 10.93%). The net interest margin (NIM) has remained stable at 7.03% during FY22 (PY: 7.71%). The operating expenses to average total assets improved to 4.84% in FY22 (PY: 5.24%) owing to increased AUM per branch. With credit cost remaining low at 0.25% in FY22, ROTA has improved from 1.40% in FY21 to 1.60% in FY22, while ROTA-profit before tax (PBT) stood at 2.06% in FY22 (PY: 2.34%). Going forward, improving profitability remains critical for the company.

Good asset quality

The loans are mainly backed by gold jewelry that is a liquid and safe security. MMFL is concentrating on gold loans with a tenure of six to nine months, and the proportion of gold loans having a tenure of six to nine months increased from 14% as on March 31, 2021, to 54% as on March 31, 2022. Notably, earlier, the loans with a tenure of upto six months accounted for 81% in FY21. In case the borrowers fail to repay the loans within the stipulated time period, the company reserves the right to auction the gold jewelry kept as the security. Also, to further reduce the risk due to volatility in gold prices, MMFL follows a MTM system driven through management information system (MIS) where there is an internal trigger if the MTM value is above the determined level. In such a scenario, the company asks the customer for repayments or more collateral. The asset quality improved during FY22 with the company reporting GS3 and NS3 of 0.61% and 0.52% as on March 31, 2022 as against 0.86% and 0.75% as on March 31, 2021. The ability of the company to maintain asset quality and maintain nil/low under-recovery on auctions remains a key rating sensitivity.

Key Rating Weaknesses

High product and geographical concentration

MMFL has majority of its portfolio concentrated towards southern India. As on March 31, 2022, Tamil Nadu constituted around 47% (PY: 43%) of the gold loan portfolio. The five south Indian states constituted around 96% of the gold loan portfolio as on March 31, 2022. The portfolio is expected to remain concentrated in south India over the medium-term. Majority of the company's loan portfolio consists of loans against the gold jewelry. Although the risk is mitigated to an extent as the loans are backed by gold jewelry, which is highly liquid in nature, the company is exposed to a price risk associated with the gold, which could have a bearing on the full recoverability of principal and interest portion. However, MMFL has been giving out loans of shorter tenure and has implemented internal systems to reduce the impact due to the price volatility. As on March 31, 2022, gold loans accounted for 97% of the loan portfolio and the rest are micro-finance loans and loan against property (LAP) loans. The proportion of gold loans to the total loan portfolio is expected to remain higher in the medium term.

Concentrated resource profile notwithstanding the improvement in the proportion of bank borrowings seen in FY22

The resource profile of MMFL is concentrated towards retail debentures (including sub-debt), which constituted around 71% (PY: 81%) of the total borrowings, as on March 31, 2022. However, the share of bank borrowings has witnessed increase from 19%

as on March 31, 2021, to 29% as on March 31, 2022. CARE Ratings expects the proportion of bank borrowings on the overall resource profile to improve in the medium term.

Significant exposure to fixed assets, however, reducing on a year-on-year basis

MMFL made significant investments in fixed assets during FY16 from related parties. However, with equity infusion post that and revaluation in the value of fixed assets purchased, the fixed assets/net worth ratio has reduced. With retention of profits and no new acquisition of fixed assets, fixed assets/networth improved to 34% as on March 31, 2022, as against 61% as on March 31, 2017.

Intense competition in the gold loan business

Geographically, the gold loan financing industry is predominantly placed in southern India with an active interest of both, the south India-based banks and the large non-banking financial companies (NBFCs) operating out of this region. MMFL faces heavy competition from larger players (including banks and other NBFCs) offering gold loans in the regions in which the company operates.

Liquidity: Adequate

The asset and liability management (ALM) profile, as on March 31, 2022, is at a comfortable level, with no cumulative negative mismatch in any of the time brackets upto one year. ALM is comfortable mainly on account of the shorter tenor of loans provided by MMFL with access to longer tenure borrowings. As on June 27, 2022, the company had cash and cash equivalents of ₹110 crore.

Analytical approach: Standalone

Applicable criteria:

[Criteria on assigning outlook and credit watch to credit ratings](#)

[CARE's policy on default recognition](#)

[Financial ratios-Financial sector](#)

[CARE's rating methodology for non-banking finance companies \(NBFCs\)](#)

About the company

Muthoottu Mini Financiers Ltd (MMFL) was incorporated on March 18, 1998, and operated as an investment company for other group entities until FY06. Further, MMFL started gold loan advances from FY07 and undertook rapid branch expansions from FY09 onwards. The company was converted to a public limited company on November 27, 2013, and consequently, the name was changed from Muthoottu Mini Financiers Private Limited to MMFL. MMFL also operates as an agent of several money transfer service set-ups, realising agency commission for these services. As on March 31, 2022, the company had a loan portfolio of ₹2,499 crore.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23
Total operating income	368	430	NA
PAT	32	46	NA
Interest coverage (times)	1.28	1.27	NA
Total Assets	2,531	3,246	NA
Net NPA (%)	0.75	0.52	NA
ROTA (%)	1.40	1.60	NA

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 instrument / facility: 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-Long-term (Proposed)	-	-	-	-	2015.00	CARE A-; Stable
Debentures-Non-convertible debentures-III	INE101Q07490	Sep 12, 2019	10.25%	Sep 12, 2022	18.28	CARE A-; Stable
	INE101Q07508	Sep 12, 2019	10.50%	Sep 12, 2022	3.39	CARE A-; Stable
	INE101Q07516	Sep 12, 2019	10.25%	Sep 12, 2022	18.70	CARE A-; Stable
	INE101Q07524	Sep 12, 2019	10.35%	Sep 12, 2024	13.44	CARE A-; Stable
	INE101Q07532	Sep 12, 2019	10.65%	Sep 12, 2024	2.67	CARE A-; Stable
	INE101Q07540	Sep 12, 2019	10.35%	Sep 12, 2024	22.67	CARE A-; Stable
Debentures-Non-convertible debentures-IV	INE101Q07573	Feb 18, 2020	10.00%	Feb 17, 2023	25.91	CARE A-; Stable
	INE101Q07581	Feb 18, 2020	10.22%	Apr 17, 2024	30.95	CARE A-; Stable
	INE101Q07599	Feb 18, 2020	10.50%	Feb 17, 2025	27.27	CARE A-; Stable
	INE101Q07607	Feb 18, 2020	10.07%	Dec 17, 2025	1.65	CARE A-; Stable
	INE101Q07615	Feb 18, 2020	10.28%	Mar 17, 2027	41.93	CARE A-; Stable
Debentures-Non-convertible debentures-V	INE101Q07680	July 2, 2020	10.00%	Jul 01, 2023	26.94	CARE A-; Stable
	INE101Q07698	July 2, 2020	10.22%	Aug 31, 2024	16.86	CARE A-; Stable
	INE101Q07706	July 2, 2020	10.50%	Jul 01, 2025	36.84	CARE A-; Stable
	INE101Q07714	July 2, 2020	10.28%	Jul 31, 2027	31.56	CARE A-; Stable
Debentures-Non-convertible debentures-VI	INE101Q07961	Sep 16, 2021	8.75%	Jan 07, 2023	23.75	CARE A-; Stable
	INE101Q07979	Sep 16, 2021	9.00%	Sep 15, 2023	29.86	CARE A-; Stable
	INE101Q07987	Sep 16, 2021	9.54%	Sep 15, 2023	52.36	CARE A-; Stable
	INE101Q07995	Sep 16, 2021	9.50%	Mar 15, 2025	44.04	CARE A-; Stable
	INE101Q07AA1	Sep 16, 2021	10.22%	Nov 15, 2025	33.57	CARE A-; Stable
	INE101Q08159	Sep 16, 2021	10.00%	Mar 15, 2027	25.92	CARE A-; Stable
	INE101Q08167	Sep 16, 2021	10.41%	Sep 15, 2028	24.08	CARE A-; Stable
Debentures-Non-convertible debentures-VII	INE101Q07AB9	Jan 03, 2022	8.50%	Apr 27, 2023	23.13	CARE A-; Stable
	INE101Q07AC7	Jan 03, 2022	8.75%	Jan 02, 2024	19.19	CARE A-; Stable
	INE101Q07AD5	Jan 03, 2022	9.09%	Jan 02, 2024	23.02	CARE A-; Stable
	INE101Q07AE3	Jan 03, 2022	9.50%	Jan 02, 2025	17.51	CARE A-; Stable
	INE101Q07AF0	Jan 03, 2022	9.75%	Jan 02, 2026	61.82	CARE A-; Stable
	INE101Q07AG8	Jan 03, 2022	10.13%	July 02, 2027	26.19	CARE A-; Stable
Debentures-Non-convertible debentures-VIII	INE101Q07AH6	May 23, 2022	8.00%	Sept 14, 2023	21.42	CARE A-; Stable
	INE101Q07AI4	May 23, 2022	8.50%	May 22, 2024	25.55	CARE A-; Stable
	INE101Q07AJ2	May 23, 2022	8.90%	May 22, 2024	33.35	CARE A-; Stable
	INE101Q07AK0	May 23, 2022	9.25%	May 22, 2025	28.69	CARE A-; Stable
	INE101Q07AL8	May 23, 2022	9.50%	May 22, 2026	90.70	CARE A-; Stable
	INE101Q07AM6	May 23, 2022	10.00%	Nov 22, 2027	43.55	CARE A-; Stable
Debentures-Non-convertible debentures- IX (Proposed)	-	-	-	-	300.00	CARE A-; Stable

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 (06-Jan-20)
2	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (07-Mar-22) 2)CARE BBB+; Stable (28-Jul-21)	1)CARE BBB; Stable (22-Dec-20)	1)CARE BBB; Stable (06-Jan-20)
3	Debentures-Non-convertible debentures	LT	79.15	CARE A-; Stable	1)CARE A-; Stable (01-Jul-22)	1)CARE BBB+; Stable (07-Mar-22) 2)CARE BBB+; Stable (28-Jul-21)	1)CARE BBB; Stable (22-Dec-20)	1)CARE BBB; Stable (06-Jan-20) 2)CARE BBB; Stable (03-Jul-19)
4	Debentures-Non-convertible debentures	LT	127.71	CARE A-; Stable	1)CARE A-; Stable (01-Jul-22)	1)CARE BBB+; Stable (07-Mar-22) 2)CARE BBB+; Stable (28-Jul-21)	1)CARE BBB; Stable (22-Dec-20)	1)CARE BBB; Stable (06-Jan-20) 2)CARE BBB; Stable (20-Dec-19)
5	Debentures-Non-convertible debentures	LT	112.20	CARE A-; Stable	1)CARE A-; Stable (01-Jul-22)	1)CARE BBB+; Stable (07-Mar-22) 2)CARE BBB+; Stable (28-Jul-21)	1)CARE BBB; Stable (22-Dec-20)	1)CARE BBB; Stable (16-Mar-20)
6	Debentures-Non-convertible debentures	LT	233.58	CARE A-; Stable	1)CARE A-; Stable (01-Jul-22)	1)CARE BBB+; Stable (07-Mar-22) 2)CARE BBB+; Stable (28-Jul-21)	-	-
7	Debentures-Non-convertible debentures	LT	170.86	CARE A-; Stable	1)CARE A-; Stable (01-Jul-22)	1)CARE BBB+; Stable (07-Mar-22) 2)CARE BBB+; Stable (25-Aug-21)	-	-
8	Debentures-Non-convertible debentures	LT	243.26	CARE A-; Stable	1)CARE A-; Stable (01-Jul-22)	1)CARE BBB+; Stable (09-Mar-22)	-	-
9	Fund-based-Long term	LT	2015.00	CARE A-; Stable	1)CARE A-; Stable (07-Jul-22) 2)CARE A-; Stable (01-Jul-22)	-	-	-

10	Debentures-Non-convertible debentures	LT	300.00	CARE A-; Stable	1)CARE A-; Stable (07-Jul-22)	-	-	-
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Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

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

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Simple
2	Bank Facilities - Fund-based – Long Term	Simple

Annexure-5: Bank lender details for this company

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

Note on complexity levels of the rated instrument: 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.

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About us:

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