

## Muthoottu Mini Financiers Limited

July 07, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	515.00 (Enhanced from 15.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
<b>Total bank facilities</b>	<b>515.00</b> <b>(₹ Five hundred fifteen crore only)</b>		
Non-convertible Debentures – IX (Proposed)	300.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned
<b>Total long-term instruments</b>	<b>300.00</b> <b>(₹ Three hundred crore only)</b>		

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 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 (refers to the period April 1 to March 31). 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.

##### 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 based on the underlying gold for the loans on a regular basis.

##### Improvement in 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. Loan portfolio has grown at a

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

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 (₹ cr)	1,281	1,645	1,932	2,427
Gold loan portfolio per branch (₹ cr)	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 mark-to-market system (MTM) 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**

Muthoot Mini Financiers Ltd (MMFL) was incorporated on March 18, 1998, and operated as an investment company for other group entities until FY06. MMFL then 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 Muthoot Mini Financiers Private Limited to MMFL. MMFL also operates as an agent of several money transfer services 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)	-	-	-	-	515.00	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	166.26	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	515.00	CARE A-; Stable	1)CARE A-; Stable (01-Jul-22)	-	-	-
10	Debentures-Non convertible debentures	LT	300.00	CARE A-; Stable				

**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	Fund-based - LT-Term Loan	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](mailto:care@careedge.in) for any clarifications.

## Contact us

**Media Contact**

Name: Mradul Mishra  
 Phone: +91-22-6837 4424  
 E-mail: [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

**Analyst Contact 1**

Name: P Sudhakar  
 Phone: 044-2850 1000  
 E-mail: [p.sudhakar@careedge.in](mailto:p.sudhakar@careedge.in)

**Analyst Contact 2**

Name: Ravi Shankar R  
 Phone: 044-2850 1000  
 E-mail: [ravi.s@careedge.in](mailto:ravi.s@careedge.in)

**Relationship Contact**

Name: V Pradeep Kumar  
 Phone: 044-2850 1000  
 E-mail: [pradeep.kumar@careedge.in](mailto:pradeep.kumar@careedge.in)

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