

India Ratings Upgrades Muthoottu Mini Financiers' NCDs and Bank Loans to 'IND A-'/Stable

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India Ratings and Research (Ind-Ra) has upgraded Muthoottu Mini Financiers Limited's (MMFL) debt instruments as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Bank loans	-	-	-	INR15,000	IND A-/Stable	Upgraded
Non-convertible debentures (NCDs*)	-	-	-	INR9,346.6 (reduced from INR11,011.1)	IND A-/Stable	Upgraded

*Details in Annexure

The upgrade reflects a continued profitable growth at MMFL's franchisee, improved operational efficiency as reflected in the asset under management (AUM) per branch, tight control over asset quality and credit costs, and improving funding diversification with the strengthening of systems and processes. The ratings also factor in MMFL's extensive experience in the gold-loan financing business, and its adequate liquidity and capital buffers.

Key Rating Drivers

Franchisee Expansion Amid COVID-19-related Disruptions: MMFL has over two decades of experience in the gold finance business in the highly-competitive markets of Kerala and Tamil Nadu. The company has managed multiple cycles in this business, which has seen fluctuations in gold prices. MMFL has been expanding its franchisee in the core gold

finance business. Its AUM grew 25.3% yoy to INR25.0 billion at FYE22 (FYE21: up 17.9% yoy; FYE20: up 21.0% yoy), leading to improved operational efficiencies with the AUM per branch for gold loan increasing to INR29.8 million (INR24 million, INR21.6 million). The growth in the AUM also led to a rise in leverage to 4.8x in FY22 (FY21: 3.7x), however, the granular nature of the book and controlled asset quality provides comfort. Ind-Ra would closely monitor the leverage with the growth in the portfolio. Furthermore, MMFL's branch network has improved over the last few years (FY22: 814 branches, FY21: 807 branches, FY20: 763 branches). The company is expanding into newer geographies of western and northern states, and penetrate deeper into the southern states. The management plans to further increase the branch network in FY23 and reach around 900. MMFL has also been focusing on increasing its branch productivity and derive more business from the existing network. Ind-Ra opines that this would lead to improved branch profitability and AUM growth.

Improved Profitability, However, Scope of Improvement in Operational Efficiency: MMFL's return on assets improved to 1.66% (as per Ind-Ra's calculations) in FY22 (FY21: 1.41%) supported by the growth in AUM; improving operational efficiency and control over credit costs. MMFL's operating efficiency improved as reflected by the AUM per branch, however, there is significant room available for a further improvement in productivity. MMFL reported a healthy net interest margin of 9.17% (as per Ind-Ra's calculations) in FY22 (FY21: 9.33%), supported by lending to high yield segment. There has been a systemic rise in interest rates. Although, MMFL has increased its proportion of bank funding which would shield it from the rise in cost of funds to some extent. The net interest margin for FY23 is contingent upon MMFL's ability to pass on the rise in cost to its customers. Ind-Ra opines that the future trajectory of profitability would be contingent upon improved productivity, and the company's ability to maintain margins and manage credit cost.

Stable Asset Quality Despite Pandemic-led Challenges: The gold loan segment has displayed a considerable resilience in the face of the COVID-19-related disruptions and has reported a stable asset quality. MMFL's gross non-performing assets (NPAs) improved to 0.61% in FY22 (FY21: 0.86%, FY20: 1.89%, FY19: 2.16%). Although the borrower class is vulnerable, the ultimate credit loss is capped due to loan-to-value capping at 75% at the time of disbursement and the liquid nature of the collateral. Being in the gold loan business, MMFL's credit cost has always been modest and less volatile through the cycle, leading to better operating profit buffers. Given the softening in gold prices post December 2020, MMFL has shifted its focus towards shorter tenor loans of up-to-three months and three-to-six months in FY22. This has had an impact on the yields since MMFL cannot earn incremental yield for a longer period in cases where the interest is not serviced on a monthly basis; however, it has shielded the company from the volatility in gold prices. MMFL maintains a risk filter, wherein a resolution is initiated if the principal-plus-interest reaches 95% of the loan-to-value, leading to the closing of the loan by the borrower, or in case of a delay, conducting of auctions after providing an intimation about the same to the borrower. Gold prices have corrected in FY22, leading to an increase in auctions during the year to INR1,885.4 million (FY21: INR453.2 million). The company did not witness any losses in the auctions during the year.

Funding Mix on path of Diversification: MMFL witnessed an improvement in its banking relationships in FY22, as the total number of banks providing funding to MMFL increased to sixteen from nine in FY21. The company has been able to raise funds from a mix of both public and private sector banks. However, funds mobilised through the NCD route still form a major portion of the funding mix and stood at 71% in FY22 (FY21: 81%), while bank funding through working capital (FY22: 19%, FY21: 12%) and term loans (10%, 6%) constituted the remainder. A sustained and substantial increase in the exposure taken by banks over the medium term will be a key monitorable.

Liquidity Indicator - Adequate: As per the structural liquidity statement dated 31 March 2022, there is adequate surplus in each of the buckets, typically because of shorter tenor loans of three-to-six months on the asset side and long liability tenor of four years. At end-June 2022, MMFL had unencumbered cash of INR1,703 million, liquid investments of INR500 million and unutilised bank lines of INR1,081 million, which along with steady inflows of loan receivables provide adequate cover to the repayments of borrowings. The total amount of debt maturing during July-September 2022 stands at INR3,257 million. In addition to the surplus asset-liability mismatch, the liquid nature of the underlying collateral offers support to the liquidity profile. MMFL has also reasonable access to funding. It raised INR9.05 billion through bank borrowings and fresh NCD issuance in FY22.

Substantial Progress on Improvement in MIS & IT Systems: MMFL has substantially invested in the IT systems with

the help of its inhouse team. There has been a considerable progress achieved as per the management in equipping the MIS, which can help in generation of various reports. Better capturing of information, Ind-Ra opines, could lead to better oversight and control on the operations by the management. The strengthened IT system is also capable of handling enhanced business volumes, which would aid in MMFL's AUM growth. The company is further strengthening its technological systems continuously in phases.

Geographically Concentrated Portfolio: MMFL portfolio is concentrated in southern India with Tamil Nadu constituting around 47% of the gold loan portfolio in FY22 (FY21: 43%; FY20: 41%). Tamil Nadu, Kerala, Karnataka, Andhra Pradesh and Telangana constituted around 96% of the gold loan portfolio as on 31 March 2022. The portfolio is likely to remain concentrated in south India over the medium term as the ramp up in the newer geographies will be gradual. Also, on the funding side, funds mobilised through the NCD route remains concentrated as majority of it is raised from Kerala.

Rating Sensitivities

Positive: A material profitable growth in the franchisee while maintaining the leverage below 5.0x along with geographical diversification, further diversification and deepening of funding avenues and a substantial improvement in the operational efficiency leading to better profitability, along with maintaining of capital buffers, and further strengthening of systems and processes could lead to a positive rating action.

Negative: The inability to raise funds at competitive rates, a material depletion in the capital buffers with the leverage exceeding 6.0x on a sustained basis, and adverse regulatory actions affecting business operations, could result in a negative rating action.

ESG Issues

Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on MMFL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

Company Profile

MMFL, a Kerala-based non-deposit taking non-banking finance company, lends against high-yielding gold jewellery, which forms around 97% of the total loans. It also has around 3% portion of its AUM as micro finance loans. Incrementally, MMFL plans to grow in the western geographies of Gujarat and Maharashtra in the gold loans segment.

FINANCIAL SUMMARY

Particulars	FY22	FY21
Total assets (INR million)	32,277	25,192
Total tangible equity (INR million)	5,546.5	5,091
Net profit (INR million)	463	319
Return on assets (%)	1.66	1.41
Equity/Asset (%)	17.18	20.21
Tier 1 capital (%)	18.18	22.38
GNPA (%)	0.61	0.86
Source: MMFL; Ind-Ra analysis		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	Rated Limits (million)	Rating	26 August 2021	5 March 2021	24 December 2020	14 August 2020	7 August 2019
Bank loans	Long-term	INR15,000	IND A-/Stable	IND BBB+/Stable	IND BBB/Stable	IND BBB/Stable	IND BBB/Stable	IND BBB-/Stable
NCDs	Long-term	INR9,346.6	IND A-/Stable	IND BBB+/Stable	IND BBB/Stable	IND BBB/Stable	IND BBB/Stable	IND BBB-/Stable

Annexure

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCD	INE101Q08084	27 January 2016	10.5	27 July 2022	INR121.0	WD (paid in full)
NCD	INE101Q08092	27 January 2016	11.25*	27 July 2022	INR319.1	WD (paid in full)
NCD	INE101Q07375	24 April 2019	9.75	24 April 2022	INR153.5	WD (paid in full)
NCD	INE101Q07383	24 April 2019	10.22*	24 April 2022	INR193.4	WD (paid in full)
NCD	INE101Q07391	24 April 2019	10	24 April 2024	INR179.7	IND A-/Stable
NCD	INE101Q07409	24 April 2019	10.47*	24 April 2024	INR211.5	IND A-/Stable
NCD	INE101Q07722	30 September 2020	9.5	21 January 2022	INR336.0	WD (paid in full)
NCD	INE101Q07730	30 September 2020	9.75	29 September 2022	INR137.2	IND A-/Stable
NCD	INE101Q07748	30 September 2020	9.77*	29 September 2022	INR281.9	IND A-/Stable
NCD	INE101Q07755	30 September 2020	10	29 September 2023	INR214.7	IND A-/Stable
NCD	INE101Q07763	30 September 2020	10.22*	29 November 2024	INR75.0	IND A-/Stable
NCD	INE101Q07771	30 September 2020	10.5	29 September 2025	INR312.2	IND A-/Stable
NCD	INE101Q07789	30 September 2020	10.28*	29 October 2027	INR160.8	IND A-/Stable
NCD	INE101Q07797	24 November 2020	9.5	18 March 2022	INR242.3	WD (paid in full)
NCD	INE101Q07805	24 November 2020	9.75	23 November 2022	INR123.5	IND A-/Stable
NCD	INE101Q07813	24 November 2020	9.77*	23 November 2022	INR222.4	IND A-/Stable
NCD	INE101Q07821	24 November 2020	10	23 November 2023	INR212.3	IND A-/Stable
NCD	INE101Q07839	24 November 2020	10.22*	23 January 2025	INR86.5	IND A-/Stable
NCD	INE101Q07847	24 November 2020	10.5	21 November 2025	INR362.4	IND A-/Stable
NCD	INE101Q07854	24 November 2020	10.28*	23 December 2027	INR175.9	IND A-/Stable
NCD	INE101Q07862	15 February 2021	9.25	9 June 2022	INR319.9	WD (paid in full)
NCD	INE101Q07870	15 February 2021	9.5	14 February 2023	INR212.5	IND A-/Stable
NCD	INE101Q07888	15 February 2021	9.54*	14 February 2023	INR450.4	IND A-/Stable
NCD	INE101Q07896	15 February 2021	10	14 August 2024	INR472.7	IND A-/Stable
NCD	INE101Q07904	15 February 2021	10.71*	14 August 2026	INR218.2	IND A-/Stable
NCD	INE101Q08118	15 February 2021	10.25	13 March 2026	INR277.1	IND A-/Stable
NCD	INE101Q08126	15 February 2021	10.41*	14 February 2028	INR213.6	IND A-/Stable
NCD	INE101Q07912	3 May 2021	9.00	25 August 2022	INR226	IND A-/Stable

NCD	INE101Q07920	3 May 2021	9.25	2 May 2023	INR134.7	IND A-/Stable
NCD	INE101Q07938	3 May 2021	9.27	2 May 2023	INR224.8	IND A-/Stable
NCD	INE101Q07946	3 May 2021	9.75	2 November 2024	INR251.5	IND A-/Stable
NCD	INE101Q07953	3 May 2021	10.22	2 July 2025	INR128.1	IND A-/Stable
NCD	INE101Q08134	3 May 2021	10.25	2 June 2026	INR240.5	IND A-/Stable
NCD	INE101Q08142	3 May2021	10.41	2 May 2028	INR134.9	IND A-/Stable
Utilised limit					INR5,941.0	
Unutilised limit					INR3,405.6	
Total					INR9,346.6	

*Annualised yield

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low
Bank loans	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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