



Rating Rationale

February 05, 2014
Mumbai

Manappuram Finance Limited

Rating outlook revised to 'Stable'; rating reaffirmed

Total Bank Loan Facilities Rated	Rs.14000 Million
Long Term Rating	CRISIL A+/Stable (Outlook revised from 'Negative' and rating reaffirmed)

(Refer to Annexure 1 for Facility-wise details)

Rs. 5 Billion Non Convertible Debentures	CRISIL A+/Stable (Outlook Revised from 'Negative' and rating reaffirmed)
Rs. 4 Billion Non Convertible Debentures	CRISIL A+/Stable (Outlook Revised from 'Negative' and rating reaffirmed)
Rs. 3 Billion Non Convertible Debentures	CRISIL A+/Stable (Outlook Revised from 'Negative' and rating reaffirmed)
Rs. 3 Billion Non Convertible Debentures	CRISIL A+/Stable (Outlook Revised from 'Negative' and rating reaffirmed)
Rs. 30 Billion Short Term Debt	CRISIL A1+ (Reaffirmed)

CRISIL has revised its rating outlook on the long-term debt instruments and bank facilities of Manappuram Finance Ltd (Manappuram Finance) to 'Stable' from 'Negative' while reaffirming the rating at 'CRISIL A+'; the rating on the company's short-term debt has been reaffirmed at 'CRISIL A1+'.

The outlook revision reflects the expected structural improvement in asset quality metrics, driven by recent regulatory changes. In addition, the asset quality challenges of the past that the company was facing due to high loan-to-value (LTV) ratio loans have largely been resolved. This would also improve Manappuram Finance's profitability over the medium term. Further, a slew of favourable regulatory changes over the past month are expected to bring in better loan growth and improve the competitive dynamics for gold loan NBFCs, including Manappuram Finance, especially vis-à-vis banks.

Manappuram Finance's asset quality metrics are expected to improve structurally over the medium term driven by recent regulatory changes. The Reserve Bank of India (RBI) has set the maximum LTV ratio for lending against gold jewellery for NBFCs at 75 per cent and at the same time it has, for the first time, clearly defined the method of calculation of the value of underlying collateral. In the past, loans given by Manappuram Finance at high LTV ratios (above 75 per cent of scrap value) have witnessed perceptibly lower collection efficiencies - specifically for loans disbursed in 2011-12 (refers to financial year, April 1 to March 31), when there was no regulation on LTV ratio and in the second half of 2012-13. CRISIL, therefore, believes that the LTV ratio cap at 75 per cent is a structural positive for asset quality of gold loan NBFCs, including Manappuram Finance, and asset quality metrics would improve going forward. RBI has also applied the same 75 per cent LTV ratio cap for banks' lending against gold jewellery, which has brought in level playing field between banks and NBFCs. Improved collection efficiencies are expected to translate into better income earning capacity and hence reduced pressure on profitability. CRISIL, however, believes that material concentration of future disbursements at the highest LTV ratio of 75 per cent, could potentially trigger asset quality and profitability challenges in case gold prices decline significantly over a short period. Therefore, concentration of portfolio in the highest LTV ratio bucket will remain a key rating sensitivity factor.

The outlook revision also reflects the abatement of the immediate asset quality challenges faced by Manappuram Finance. High delinquencies in the portfolios originated by Manappuram Finance between July 2011 and March 2012 and in the second half of 2012-13, have largely been resolved. Over 99 per cent of the loans disbursed prior to September 2012 have either been repaid or auctioned. Collection efficiencies of disbursements made (largely at LTV ratios greater than 75 per cent of scrap value) during the second half of 2012-13, now estimated at around 86 per cent, have been better than CRISIL's earlier estimates of around 83 per cent. Furthermore, the collection efficiencies of disbursements made in 2013-14 are expected to be even higher as the maximum LTV ratio of these disbursements was around 72 per cent. Moreover, Manappuram Finance's interest collection initiative is also expected to aid in improvement of asset quality.

Enhanced regulatory clarity brought in by these regulations is also expected to improve the confidence of all stakeholders, particularly banks, which are major lenders to the gold loan NBFC sector. Furthermore, as the regulations have improved competitive dynamics vis-à-vis banks, NBFCs including Manappuram Finance will move from volatile phases of growth in the past two years to a regime of stable growth. Furthermore, the

For Manappuram Finance Limited

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http://companysecretary.in/Ratings/RatingList/RatingDocs/Manappuram_Finance_Limited_RR.... 2/5/2014


company has tightened its interest recognition policy since April 2013, which will reduce the risk of profit volatility in a volatile gold price environment.

Manappuram Finance's profitability will, however, remain sensitive to gold price fluctuations in the near term. About 8 per cent of loans with high LTV ratios (above 75 per cent of scrap value) disbursed during the second half of 2012-13 remain outstanding. Manappuram Finance had a return on assets (RoA) of 2.1 per cent (annualised) for the 6 months ended September 30, 2013. The RoA for 2014-15 could decline by 50 to 60 bps in case gold prices decline up to 10 per cent before the residual portfolio of 2012-13 is fully auctioned over the next 2 to 3 quarters.

CRISIL's ratings on the bank loan facilities and debt instruments of Manappuram Finance continue to reflect the track record of the company's promoters in the business of financing against gold jewellery. The ratings also factor in the company's robust capitalisation and stable funding sources. These rating strengths are partially offset by Manappuram Finance's susceptibility to changes in the regulatory and legislative framework, and to the risk of geographical and product concentration in its revenue profile.

Outlook: Stable

CRISIL believes that Manappuram Finance will continue to benefit from robust capitalisation and stable funding profile over the medium term. The outlook may be revised to positive if Manappuram Finance improves its competitive positioning and earnings significantly, while diversifying its resource profile. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in the company's asset quality, profitability or capitalisation or inability to borrow funds adequately from diverse sources to support growth.

About the Company

Manappuram Finance was incorporated in July 1992, and is the flagship company of the Manappuram group. It is a non-deposit-taking NBFC, engaged in providing finance against used household gold ornaments. The company is promoted by Mr. V P Nandakumar, whose family has been engaged in the lending-against-gold business for more than 60 years. Manappuram Finance had 3293 branches across India as on September 30, 2013. The company went public in August 1995; its shares are listed on the stock exchanges of Mumbai, Chennai, and Kochi.

Manappuram Finance had assets under management (AUM) of Rs.92.0 billion as on September 30, 2013, against Rs.106.8 billion as on September 30, 2012. The company reported a net worth of Rs.25.2 billion as on September 30, 2013, against Rs.26.5 billion as on September 30, 2012.

For 2012-13, Manappuram Finance reported a profit after tax (PAT) of Rs.2.08 billion on a total income of Rs.22.64 billion, against a PAT of Rs.5.9 billion on a total income of Rs.26.56 billion for 2011-12. For the half year ended September 30, 2013, Manappuram Finance reported a profit after tax (PAT) of Rs.1.2 billion on a total income of Rs.11.4 billion, against a PAT and total income of Rs.2.7 billion and Rs.13.5 billion, respectively, for the corresponding period of the previous year.

Annexure 1 - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Million)	Rating	Facility	Amount (Rs.Million)	Rating
Cash Credit	9750	CRISIL A+/Stable	Cash Credit	9750	CRISIL A+/Negative
Proposed Long Term Bank Loan Facility	3250	CRISIL A+/Stable	Proposed Long Term Bank Loan Facility	3250	CRISIL A+/Negative
Term Loan	200	CRISIL A+/Stable	Term Loan	200	CRISIL A+/Negative
Working Capital Demand Loan	800	CRISIL A+/Stable	Working Capital Demand Loan	800	CRISIL A+/Negative
Total	14000	--	Total	14000	--

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