MCSL/SEC/16-17/172

21st November, 2016

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai - 400 001
Scrip Code - 511766

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), Mumbai - 400 051
Trading Symbol - MUTHOOTCAP

Dear Sir,

Sub: Revision in Rating(s)

Pursuant to Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, this is to inform you that CRISIL has downgraded its rating on the debt instruments, bank facilities, fixed deposits and reaffirmed CRISIL A1 for Rs. 300 Million Short Term Debt of the Company vide communication received by us today. The credit rating letter of CRISIL is enclosed herewith for your reference.

We request you to kindly take the same on your records.

Thanking You,

Yours Faithfully,

For Muthoot Capital Services Limited

Syam Kumar R.
Company Secretary & Head - Governance

Encl: As Above.

Ratings

CRISIL
An S&P Global Company

Rating Rationale

November 18, 2016 | Mumbai

Muthoot Capital Services Limited

Ratings downgraded to 'CRISIL A-/FA-/Stable'

Total Bank Loan Facilities Rated	**Rs.8610 Million**
Long Term Rating	**CRISIL A-/Stable (Downgraded from 'CRISIL A/Stable')**

(Refer to Annexure 1 for Facility-wise details)

Rs.500 Million Non Convertible Debentures	**CRISIL A-/Stable (Downgraded from 'CRISIL A/Stable')**
Fixed Deposits	**FA-/Stable (Downgraded from 'FA/Stable')**
Rs.300 Million Short Term Debt	**CRISIL A1 (Reaffirmed)**

CRISIL has downgraded its rating on the debt instruments and bank facilities of Muthoot Capital Services Limited (MCSL; a part of Muthoot Pappachan Group) to **'CRISIL A-/FA-/Stable'** from 'CRISIL A/FA/Stable'; the rating on the short-term debt has been reaffirmed at 'CRISIL A1'. The downgrade is primarily on account of downgrade in ratings on the bank facilities and debt instruments of Muthoot Fincorp Ltd (MFL; a flagship company of the group [rated 'CRISIL A-/CRISIL BBB/Stable/CRISIL A1']).

The ratings continue to reflect the benefits that MCSL derives from its linkages with MFL and MCSL's healthy earnings profile. These strengths are partially offset by vulnerability of asset quality to the inherently weak credit risk profiles of its borrowers, and by geographic concentration in revenue profile.

MCSL is an integral part of the Muthoot Pappachan group, also derives significant benefits from its linkages with the group's flagship company, MFL. MCSL is a vehicle for the group to diversify mainly into two- wheeler financing. MCSL and MFL have common shareholders and directors. Mr John Muthoot is the chairman of both companies, and there are other directors who are on both their boards. The two companies also have strong operational linkages. Besides its own sales force, who contribute significantly for origination of new loans, MCSL also utilises the wide branch network and large customer base of MFL for origination of new loans and for collection. CRISIL believes that MCSL, being an integral part of the Muthoot Pappachan group, will continue to receive operational and managerial support from MFL on an ongoing basis, and funding support in case of any distress.

MCSL has a healthy earnings profile, with a high return on average assets of 2.4% for the fiscal 2016. CRISIL believes that despite slight moderation in earnings and increased credit costs (as the portfolio seasons), earnings will remain healthy over the medium term.

However, MCSL's asset quality is vulnerable to risks associated with financing of two-wheelers, wherein borrowers' credit risk profiles are inherently weak. Despite this, the company has maintained delinquencies in the two-wheeler segment at below the industry average. Gross non-performing assets in the two-wheeler segment was 5.7% as on September 30, 2016 compared to 6.8% as on March 2016 (Based on 120 days norm for recognition of NPA) . The absolute NPA level has dropped on account of certain measures taken by MCSL. On account of issues regarding asset quality, the company has temporarily discontinued three-wheeler financing.

Also, MCSL's operations are concentrated in Kerala, which accounted for about 50% of its advances as on September 30, 2016, though it reduced from 84% as on March 31, 2010. The proportion of disbursements in Kerala has remained at 48% over the past two years. However, MCSL has, recently, entered into northern and eastern part of India which could reduce its geographical concentration over the medium term.

Outlook: Stable

CRISIL believes that MCSL will maintain its healthy earnings profile, and will remain an integral part of the Muthoot Pappachan group and will benefit from linkages with the group's flagship company, MFL, over the medium term. The outlook may be revised to 'Positive' in case of a similar revision in CRISIL's rating outlook on MFL. Conversely, the outlook may be revised to 'Negative' if there is a similar revision in CRISIL's rating outlook on MFL, or in case of a decline in MCSL's credit and earning profile or importance of MCSL to the Muthoot Pappachan group.

About the Company

Set up in 1994, MCSL is a deposit-taking, systemically important, non-banking financial company. It started with financing two-wheelers; later, it began offering business loans. In the late 1990s, on account of intense competition, the company exited these businesses and shifted to gold loans. Subsequently, as the group scaled up its gold financing business in MFL, MCSL entered the two-wheeler financing segment once again in fiscal 2008 and

gradually exited the gold loan business. MCSL is listed on the Bombay Stock Exchange and the National Stock Exchange and is the only listed company in the group. As on September 30, 2016, its advances portfolio of Rs 11.7 billion comprised 90% two-wheeler loans and 10% other loans.

For fiscal 2016, MCSL reported a profit after tax (PAT) of Rs 229 million on a total income of Rs 2.3 billion; it had reported a PAT of Rs 223 million on a total income of Rs 1.9 billion for fiscal 2015. PAT for the first half of fiscal 2017 was Rs 125 million on a total income of Rs 1.34 billion.

MFL, set up in 1997, is a non-deposit-taking, systemically important non-banking financial company engaged in lending against gold. It is the flagship company of the Muthoot Pappachan group, which has diverse business interests, such as hospitality, real estate, and power generation. The company also distributes mutual funds, and general and life insurance products, and operates in the money-transfer segment. MFL had an advance book of Rs 92.7 billion (including microfinance advances of Rs 12.8 billion), a networth of Rs 14.2 billion, and gearing of 6.7 times as on March 31, 2016. It had 3699 branches as on March 31, 2016.

For fiscal 2016, MFL reported a PAT of Rs 874 million on a total income of Rs 20.9 billion; it had reported a PAT of Rs 838 million on a total income of Rs 19.6 billion for fiscal 2015. PAT for the first quarter of fiscal 2017 was Rs 299 million on a total income of Rs 4.7 billion.

Annexure 1 - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Million)	Rating	Facility	Amount (Rs.Million)	Rating
Cash Credit	3155	CRISIL A-/Stable	Cash Credit	3155	CRISIL A/Stable
Long Term Loan	250	CRISIL A-/Stable	Long Term Loan	250	CRISIL A/Stable
Proposed Long Term Bank Loan Facility	190	CRISIL A-/Stable	Proposed Long Term Bank Loan Facility	190	CRISIL A/Stable
Working Capital Demand Loan	4045	CRISIL A-/Stable	Working Capital Demand Loan	4045	CRISIL A/Stable
Working Capital Term Loan	970	CRISIL A-/Stable	Working Capital Term Loan	970	CRISIL A/Stable
Total	8610	--	Total	8610	--

Links to related criteria

CRISILs Bank Loan Ratings - process, scale and default recognition

Rating Criteria for Finance Companies

Criteria for Notching up Stand Alone Ratings of Companies based on Group Support

Criteria for rating Short-Term Debt (including Commercial Paper)

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