Ratings

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Rating Rationale

March 18, 2021 | Mumbai

Muthoot Capital Services Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.2500 Crore**
Long Term Rating	**CRISIL A/Stable (Reaffirmed)**

Fixed Deposits	**F A+/Stable (Reaffirmed)**
Rs.50 Crore Non Convertible Debentures	**CRISIL A/Stable (Reaffirmed)**
Rs.150 Crore Non Convertible Debentures	**CRISIL A/Stable (Reaffirmed)**
Rs.150 Crore Non Convertible Debentures	**CRISIL A/Stable (Reaffirmed)**
Rs.250 Crore Commercial Paper	**CRISIL A1 (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its ratings on the long-term bank loan facilities and debt instruments of Muthoot Capital Services Limited (MCSL) at 'CRISIL A/FA+/Stable/CRISIL A1'.

The ratings on the bank loan facilities and debt instruments continue to reflect the company's adequate capital position, sustained contribution to the overall profitability of the group and continued financial, operational, and managerial support from Muthoot Pappachan Group (MPG), considering the strong operational linkages of MCSL with the group. These strengths are partially offset by modest asset quality and the company's continued, although reducing, geographical concentration in the south Indian states.

As on March 31, 2020, assets under management (AUM) of MCSL stood at Rs 2,650 crore (including off-book of Rs 52 crore), registering a two-year compound annual growth rate (CAGR) of 16%. However, this momentum was curbed by lower disbursements in the first half of fiscal 2021 on account of the Covid-19 pandemic. As a result, AUM stood at Rs 2,224 crore as on December 31, 2020. Monthly collection efficiency (excluding overdues and prepayments) revived towards the end of the first quarter of fiscal 2021 and reached 81% in August 2020. Collection efficiency further improved to over 96% in January 2021. The company's ability, to further improve its overall collections on a steady-state basis will be closely monitored.

Given the gap between the current and pre-pandemic collection, there is a risk of increase in credit losses and its potential impact on capitalisation metrics. In the aftermath of the pandemic, the early bucket delinquencies (0-60 days) may remain elevated in the coming months. The asset quality has moderated, as reflected in pro forma 90+ days past due (dpd) of 11.4% as on December 31, 2020, compared with 6.7% as on March 31, 2020. The asset quality as a percentage looks elevated on account of some increase in the 90+ accounts as reflected in the proforma NPA but is also on account of the dropping AUM and also due to the fact that the Company has not undertaken the one-time restructuring based on the scheme announced by the Reserve Bank of India. Ability of MCSL to manage the asset quality and maintain healthy collections will remain a key monitorable. The company made provisions (including write off) of Rs 83 crore in the first nine months through fiscal 2021.

MCSL has sufficient liquidity buffer, on a standalone basis to cover the debt obligation and operating expenses in the coming months. As on January 31, 2021, MCSL had liquidity of around Rs 736 crore, comprising Rs 169 crore of cash and equivalents, Rs 380 crore of unencumbered fixed deposits and Rs 188 crore of unutilised bank lines (cash credit or working capital demand loan [CC/WCDL]). Its total debt obligation (including operating expense) was around Rs 412 crore between

February and March 2021. CC/WCDL of Rs 320 crore is due for renewal over the said period. The company has been able to roll over its CC/WCDL limit in the past and expects to be able to roll over the limit falling due during this period. The liquidity cover stands adequate at around 1.5 times, including operating expenses and 75% collection efficiency and excluding CC/WCDL limit. Besides, the timely rollover of CC/WCDL limits will be a key monitorable. Furthermore, MCSL is expected to receive timely support from MPG, if required.

Analytical Approach
For arriving at the ratings, CRISIL Ratings has taken a standalone view of MCSL and has factored in support from MPG, whose flagship company is Muthoot Fincorp Ltd (MFL; 'CRISIL A+/CRISIL A-/Stable/CRISIL A1+').

Key Rating Drivers & Detailed Description
Strengths:
***Adequate capitalisation and earnings profile**
MCSL is adequately capitalised, as reflected in networth of Rs 551 crore as on December 31, 2020. Gearing stood at 4.7 times as on March 31, 2020. However, with disbursements being temporarily stopped on account of Covid-19 the pandemic, the company’s borrowing requirements were lower in the first half of fiscal 2021, and hence, gearing weakened to 3.8 times as on December 31, 2020. Capitalisation improved significantly in the past few years, with the company raising Rs 165 crore through qualified institutional placement in November 2017. The company’s philosophy is to maintain gearing at 5-6 times on a steady-state basis.

MCSL continues to be a steady contributor to the overall profitability of the group. Profitability was healthy in fiscal 2019 but moderated in fiscal 2020 on account of higher provisions in relation to COVID 19 and toward other one-time provisions and increased cost of borrowing, leading to decline in net interest margin (NIM) during the period. However, as on December 31, 2020, MCSL continued to enjoy NIM of around 13.7%, supported by high yield of 21-22%. Although yield has moderated in the past few years, primarily on account of competition and relatively lower yield (14-16%) from the corporate loan portfolio, it is expected to stabilise at the current level. Profitability was also constrained on account of increase in delinquencies in fiscal 2020, in line with industry trends, which led to increase in credit costs for the period. Consequently, return on managed assets (RoMA) moderated to 1.8% in fiscal 2020 (3.2% in fiscal 2019). However, as on December 31, 2020, RoMA stood at 2.0% (annualised), even as the company maintained higher provisioning levels against the challenges in the economic environment.

MCSL is likely to see an increase in credit cost because of the challenges in the economic environment. Nevertheless, pre-provisioning profitability should be able to absorb the increase in credit cost in the last quarter of fiscal 2021.

***Extensive experience of the promoters and management in the vehicle finance sector**
Each of the three promoter directors have more than three decades of experience in the business of lending, beginning with gold loans, and have forayed into two-wheeler financing, microfinance and housing finance over the years. The group ventured into two-wheeler financing in 1998 and since then has expanded into financing used cars, consumer durables and small-ticket business loans. The company also has a strong management with rich experience in similar businesses. The team has strengthened the systems and processes of the company, which will support the planned scale-up. The group has established a strong reputation and brand in India, particularly in South India and has an appropriate assessment and underwriting methodology, which is being constantly refined.

***Strong support from MPG**
MCSL is an integral part of MPG, whose flagship company is MFL. MCSL derives significant benefits from its linkages with the group. The group diversified its operations into vehicle financing through MCSL. The company has common promoters and promoter directors with the other MPG companies. Mr Thomas John Muthoot is the chairman of MCSL and other Muthoot Pappachan group companies. The company also has strong operational linkages with other group companies. It has the third largest portfolio in the group and has been leveraging on the branch network of the group to grow its book at a CAGR of 32% over the three years ended March 31, 2020. Besides its own sales force, MCSL has access to the wide branch network and large clientele of MFL for origination of new loans and collection. MCSL, being an integral part of the group, will continue to receive operational and managerial support from MPG on an ongoing basis and timely financial support in case of any exigencies.

Weakness:
***Modest asset quality**
MCSL is exposed to risks inherent in the two-wheeler financing business considering the weak credit profile of customers and low resale value of used assets. However, with its robust credit underwriting process and focused collection mechanism, MCSL has historically been able to maintain delinquencies at moderate levels. In fiscal 2020, delinquencies increased primarily on account of floods in Kerala (comprising 39% of the portfolio), Karnataka and Maharashtra and industry-specific disruptions in the automobile sector, such as mandatory five-year insurance and introduction of BS VI, which also hampered the company’s growth. As per IndAS, gross stage three assets stood at 6.7% as on March 31, 2020 and gross non-performing assets (GNPAs) were 4.4% as on March 31, 2019. In the first nine months of fiscal 2021, the gross stage three assets, on a pro forma basis, increased to 11.4% on account of the nationwide lockdown imposed to contain the Covid-19 pandemic, because of which the company had to stop collections and disbursements.

Although the company, through its collection efforts, anticipates correction in the delinquent portfolio by the first half of fiscal 2022, any change in the behaviour of borrowers regarding the payment discipline can affect the delinquency levels. Thus, the asset quality will be a key monitorable.

***Geographically concentrated portfolio**
Although MCSL has sequentially reduced the concentration in its portfolio over the years, the company's operations continue to be largely concentrated in the southern states of the country. Concentration in the southern states reduced from 83% in March 2018 to 75% in March 2019 and further to 68% as on December 31, 2020. MCSL's operations are concentrated in Kerala, which accounted for 38% of hypothecation loans as on December 31, 2020, though it has declined from 42% as on March 31, 2019. However, MCSL has, over the past 2-3 years, entered the northern and eastern parts of India. The company plans to further reduce its dependence on the southern states over the medium term. CRISIL believes the portfolio will continue to remain concentrated in the southern region, primarily because of MPG group's strong foothold in the south, and hence would be susceptible to geography-specific disruptions.

Liquidity: Adequate
MCSL's asset liability maturity profile is comfortable, with cumulative positive mismatches across all buckets up to one year as on September 30, 2020. As on December 31, 2020, MCSL had liquidity of around Rs 736 crore comprising Rs 169 crore of cash and equivalents, Rs 380 crore of unencumbered fixed deposits and Rs 188 crore of unutilised bank lines (cash credit or working capital demand loan [CC/WCDL]). Its total debt obligation (including operating expense) was around Rs 412 crore between February and March 2021. CC/WCDL of Rs 320 crore was due for renewal over the same period. The company has been able to rollover its CC/WCDL limit in the past and expects to be able to rollover the limit falling due during this period. Liquidity cover for two months stands adequate at 1.5 times, including operating expenses and 75% collection efficiency and excluding CC/WCDL limit. Besides, the timely rollover of CC/WCDL limit will be a key monitorable. MCSL is expected to receive support from MPG, if required.

Outlook Stable
MCSL will maintain its healthy earnings profile and moderate capitalisation, and remain an integral part of MPG, benefitting from its linkages with the group, over the medium term.

Rating Sensitivity factors
Upward factors
- Significant scale up and geographical diversification in operations
- Substantial improvement in earnings, leading to improvement in RoMA to above 3% on a steady-state basis
- Upward revision in the rating of MPG

Downward factors
- Weakening of the asset quality with 90+ dpd steadily remaining over 8%
- Continued, significant increase in gearing to more than 7 times

About the Company
Incorporated in 1994, MCSL is a deposit-taking, systemically important non-banking financial company (NBFC). Though the company started operations in 1995, it commenced lending activities in 1998 after acquiring an NBFC license. Initially, it provided gold loans, but subsequently, as the group scaled up its gold financing business in MFL, MCSL entered the two-wheeler financing segment 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 of MPG. As on December 31, 2020, its advances portfolio of Rs 2,224 crore comprised 92% two-wheeler loans and 8% corporate loans.

Key Financial Indicators

Particulars	Unit	December - 2020	June - 2020	March - 2020
Total assets	Rs crore	2710	2652	2,913
Total income	Rs crore	419	131	587
Profit after tax	Rs crore	43	14	60
Gross NPA (90+ dpd)	%	11.4^	7.1	6.8
Adjusted gearing	Times	3.8	4.1	4.7
Return on managed assets	%	2.0*	2.0*	1.8

**annualized*
^including pro forma

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of	Date of	Coupon	Maturity	Issue	Complexity	Rating

	instrument	allotment	rate (%)	date	size (Rs.Cr)	level	
INE296G07051	Non-Convertible Debentures	19-Nov-20	9.30%	19-May-22	100	Simple	CRISIL A/Stable
INE296G07044	Non-Convertible Debentures	24-Sep-20	9.30%	24-Mar-22	50	Simple	CRISIL A/Stable
INE296G07036	Non-Convertible Debentures	22-Sep-20	9.30%	22-Mar-22	50	Simple	CRISIL A/Stable
INE296G07028	Non-Convertible Debentures	20-Aug-20	9.30%	20-Feb-22	25	Simple	CRISIL A/Stable
INE296G07010	Non-Convertible Debentures	25-Jun-20	10.07%	21-Apr-23	50	Simple	CRISIL A/Stable
NA	Non-Convertible Debentures*	NA	NA	NA	75	Simple	CRISIL A/Stable
NA	Commercial Paper	NA	NA	7-365 days	250	Simple	CRISIL A1
NA	Fixed Deposits	NA	NA	NA	0	Simple	FA+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	490	NA	CRISIL A/Stable
Na	Cash Credit and Working Capital demand loan	NA	NA	NA	1510	NA	CRISIL A/Stable
NA	Working Capital Term Loan	NA	NA	26-Sep-21	15	NA	CRISIL A/Stable
NA	Working Capital Term Loan	NA	NA	30-Aug-22	100	NA	CRISIL A/Stable
NA	Working Capital Term Loan	NA	NA	31-Mar-22	100	NA	CRISIL A/Stable
NA	Working Capital Term Loan	NA	NA	05-May-20	50	NA	CRISIL A/Stable
NA	Working Capital Term Loan	NA	NA	05-Jul-20	50	NA	CRISIL A/Stable
NA	Working Capital Term Loan	NA	NA	31-Dec-21	35	NA	CRISIL A/Stable
NA	Working Capital Term Loan	NA	NA	13-Mar-22	25	NA	CRISIL A/Stable
NA	Working Capital Term Loan	NA	NA	22-May-22	25	NA	CRISIL A/Stable
NA	Working Capital Term Loan	NA	NA	28-Sep-20	100	NA	CRISIL A/Stable

Yet to be issued

Annexure - Rating History for last 3 Years

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund Based Facilities	LT	2500.0	CRISIL A/Stable		--	06-11-20	CRISIL A/Stable	05-04-19	CRISIL A/Stable	13-07-18	CRISIL A/Stable	CRISIL A-/Stable
			--		--	24-06-20	CRISIL A/Stable		--	04-07-18	CRISIL A/Stable	--
			--		--	30-04-20	CRISIL A/Stable		--	27-06-18	CRISIL A/Stable	--
			--		--		--		--	27-04-18	CRISIL A-/Stable	--
			--		--		--		--	03-01-18	CRISIL A-/Stable	--
Commercial Paper	ST	250.0	CRISIL A1		--	06-11-20	CRISIL A1	05-04-19	CRISIL A1	13-07-18	CRISIL A1	CRISIL A1
			--		--	24-06-20	CRISIL A1		--	04-07-18	CRISIL A1	--
			--		--	30-04-20	CRISIL A1		--	27-06-18	CRISIL A1	--
			--		--		--		--	27-04-18	CRISIL A1	--

			--		--		--		--	03-01-18	CRISIL A1	--
Fixed Deposits	LT	0.0	F A+/Stable		--	06-11-20	F A+/Stable	05-04-19	F A+/Stable	13-07-18	F A+/Stable	F A-/Stable
			--		--	24-06-20	F A+/Stable		--	04-07-18	F A+/Stable	--
			--		--	30-04-20	F A+/Stable		--	27-06-18	F A+/Stable	--
			--		--		--		--	27-04-18	F A-/Stable	--
			--		--		--		--	03-01-18	F A-/Stable	--
Non Convertible Debentures	LT	350.0	CRISIL A/Stable		--	06-11-20	CRISIL A/Stable	05-04-19	CRISIL A/Stable	13-07-18	CRISIL A/Stable	CRISIL A-/Stable
			--		--	24-06-20	CRISIL A/Stable		--	04-07-18	CRISIL A/Stable	--
			--		--	30-04-20	CRISIL A/Stable		--	27-06-18	CRISIL A/Stable	--
			--		--		--		--	27-04-18	CRISIL A-/Stable	--
			--		--		--		--	03-01-18	CRISIL A-/Stable	--
Short Term Debt	ST		--		--		--		--		--	CRISIL A1

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Cash Credit & Working Capital Demand Loan	**1510**	**CRISIL A/Stable**	**Cash Credit & Working Capital Demand Loan**	**1510**	**CRISIL A/Stable**
Proposed Long Term Bank Loan Facility	**490**	**CRISIL A/Stable**	**Proposed Long Term Bank Loan Facility**	**490**	**CRISIL A/Stable**
Working Capital Term Loan	**500**	**CRISIL A/Stable**	**Working Capital Term Loan**	**500**	**CRISIL A/Stable**
Total	**2500**	**-**	**Total**	**2500**	**-**

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 Parent Support]

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CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

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For more information, visit www.crisil.com/ratings

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