

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

March 03, 2022 | Mumbai

Muthoot Capital Services Limited

Ratings reaffirmed at 'F A+/Stable, CRISIL A/Stable/CRISIL A1'

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 Ltd (MCSL) at 'CRISIL A/FA+/Stable/CRISIL A1'.

CRISIL Ratings has also withdrawn its rating on Rs 25 crore non-convertible debentures (see the annexure, 'Details of Rating Withdrawn') on receipt of independent confirmation that these instruments are fully redeemed, in line with its withdrawal policy.

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 albeit moderation in current fiscal 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 weak asset quality and the company's continued, although reducing, geographical concentration in the south Indian states.

In fiscal 2021, assets under management (AUM) stood at Rs 2088 crore, registering a year-on-year decline of 21%. The AUM further declined to Rs 2020 crore in December 2021. The decline in AUM can be attributed company's decision to reduce disbursement due to current pandemic that has led to uncertainty in the prevailing challenging environment. However, disbursements have picked up from August 2021 onwards with average monthly disbursements of around Rs 110 crore till December 2021.

Collection efficiency (including overdues but excluding prepayments) was impacted by the sharp spike in the number of cases during the second wave and various forms of lockdowns being imposed by states to curb the spread of Covid-19 – it dropped to 61% in May 2021. While it has improved thereafter, the same has been lower compared to other peers in the industry. As a result, gross stage 3 was 20.5% as of December 2021 against 11.7% as of March 2021. Furthermore, reported GNPA (gross non-performing asset) stood at 27.8% due to the impact of the Reserve Bank of India (RBI) clarification released in November 2021 with respect to single day NPA recognition and upgradation of NPA accounts only after all dues are cleared. However, the recent revised RBI clarification to defer implementation of upgradation norms till September 30, 2022, will give the company reasonable transition time to recalibrate processes, especially revamp their collection infrastructure and teams, and persuade borrowers to align with the new dispensation norms. We expect MCSL to focus on near-term overdues to reduce delinquencies in the >60 days bucket and thus curb incremental slippages. Collection efficiency has seen signs of improvement and stood at over 100% in December 2021.

CRISIL Ratings believes the deferral of upgradation provision by the RBI gives more time to MCSL to focus on recoveries, make additional provisions, or even raise equity to keep net NPAs below the PCA watermark which comes into force from October 1, 2022, for NBFCs. The overall rating continues to factor in expectation of timely financial support from MPG in case of any exigency.

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 BBB+/Stable/CRISIL A1').

Key Rating Drivers & Detailed Description

Strengths:

Adequate capitalisation and earnings profile, albeit moderation in this fiscal

MCSL is adequately capitalised, as reflected in Networth of Rs 541 crore as on December 31, 2021. 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 during fiscal 2021 and during first nine months of fiscal 2022, and hence, gearing reduced to 3.2 times as on December 31, 2021 (3.4 times as on March 31, 2021). 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 has been a steady contributor to the overall profitability of the group. Profitability was healthy until fiscal 2019 but moderated in fiscal 2020 and fiscal 2021 on account of higher provisions in relation to COVID 19 and toward other one-time provisions and increased cost of borrowing (during fiscal 2020), leading to decline in net interest margin (NIM) during the period. Consequently, return on managed assets (RoMA) moderated to 1.9% in fiscal 2021 (3.2% in fiscal 2019). For the first time in last 11 years, the company's profitability got significantly impacted and was constrained on account of lower disbursements impacting the growth and due to increase in delinquencies which led to rise in credit costs for the period. Credit costs rose to 4.8% (annualised) during 9M FY22, as compared with 3.4% during fiscal 2021. The company made Rs 88 crore of provisioning during 9M FY22. The operating expenses of the company also increased during these nine months as the company employed dedicated collection teams to improve collections from across delinquency buckets. Consequently, return on managed assets (RoMA) moderated to -1.0% (annualised) in 9M fiscal 2022 (1.9% in fiscal 2021). Consequently, it reported a net loss of Rs 18.7 crore for the nine months of fiscal 2022 while at a pre provisioning operating profit (PPoP) level it reported profit of Rs 69.7 crore compared to PPoP of Rs 137.2 crore for the same period in the previous fiscal.

The credit costs for MCSL are expected to remain elevated with the deterioration in non-performing assets. Hence, the earnings profile is expected to remain subdued in fiscal 2022.

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. 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

Amidst the challenging pandemic-induced economic environment over the past nine months, delinquencies have gone up with gross stage 3 at 20.5% as of December 2021 against 11.7% as of March 2021. The increase in delinquencies have been on account of lower collections following the Covid-19 waves. Further, the reported GNPA's stood at 27.8% due to the impact of RBI clarification released in November 2021, with respect to single day NPA recognition and upgradation of NPA accounts only post all dues being cleared. The recent revised RBI clarification to defer implementation of upgradation norms till September 30, 2022, will now give the group reasonable transition time to recalibrate processes, especially revamp their collection infrastructure and teams, and persuade borrowers to align with the new norms. We expect them to focus on near-term overdues to reduce delinquencies in the >60 days bucket and thus curb incremental slippages.

CRISIL Ratings believes the deferral of upgradation provision by the RBI gives more time to the group to focus on recoveries, make additional provisions, or even raise equity to keep net NPAs below the PCA watermark which comes into force from October 1, 2022, for NBFCs. The overall rating continues to factor in expectation of timely financial and capital support from MPG in case of any exigency.

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 70% in March 2020 and further to 67% as on December 31, 2021. MCSL's operations are concentrated in Kerala, which accounted for 39.6% of hypothecation loans as on December 31, 2021, though it has declined from 42% as on March 31, 2019. However, MCSL has, over the past 4-5 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 six months as on December 31, 2021. The cumulative mismatches were positive for the 6 months to 1 year bucket factoring in Rs 300 crore of funds under pipeline and the expected collections from the harder delinquency buckets. As on January 31, 2021, MCSL had liquidity of around Rs 547.6 crore comprising Rs 402.5 crore of cash and equivalents and Rs 145 crore of unutilised bank lines (cash credit or working capital demand loan [CC/WCDL]). Its total debt obligation (including operating expense) was around Rs 263 crore between February and March 2022. CC/WCDL of Rs 752 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 1.7 times, including operating expenses and considering nil collections. 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 adequate 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

- Sharp deterioration in asset quality significantly impacting profitability and capital adequacy level
- 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 1998 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, 2021, its AUM stood at Rs 2,020 crore. Around 97.5% of the total portfolio was two-wheeler loans.

Key Financial Indicators

Particulars	Unit	December - 2021	March - 2021	March - 2020
Total assets	Rs crore	2020	2560	2,913
Total income	Rs crore	290	505	587
Profit after tax	Rs crore	-18.7	51.5	60
Gross NPA (90+ dpd)	%	20.5	8.7	6.8
Adjusted gearing	Times	3.8	3.4	4.7
Return on managed assets	%	-1.0*	1.9	1.8

*annualized

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.cr)	Complexity level	Rating
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
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 Term Loan	NA	NA	NA	865	NA	CRISIL A/Stable
Na	Cash Credit and Working Capital demand loan	NA	NA	NA	1160	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	26-Aug-22	100	NA	CRISIL A/Stable
NA	Working Capital Term Loan	NA	NA	18-May-24	175	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	28-Aug-23	75	NA	CRISIL A/Stable
NA	Working Capital Term Loan	NA	NA	24-Mar-24	25	NA	CRISIL A/Stable
NA	Working Capital Term Loan	NA	NA	29-Jun-23	25	NA	CRISIL A/Stable
NA	Working Capital Term Loan	NA	NA	22-Apr-22	25	NA	CRISIL A/Stable

*Yet to be issued

Annexure – Details of ratings withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.cr)	Complexity level
INE296G07028	Non-Convertible Debentures	20-Aug-20	9.30%	20-Feb-22	25	Simple

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	2500.0	CRISIL A/Stable		--	30-12-21	CRISIL A/Stable	06-11-20	CRISIL A/Stable	05-04-19	CRISIL A/Stable	CRISIL A/Stable
			--		--	18-03-21	CRISIL A/Stable	24-06-20	CRISIL A/Stable		--	CRISIL A/Stable
			--		--		--	30-04-20	CRISIL A/Stable		--	--
Commercial Paper	ST	250.0	CRISIL A1		--	30-12-21	CRISIL A1	06-11-20	CRISIL A1	05-04-19	CRISIL A1	CRISIL A1
			--		--	18-03-21	CRISIL A1	24-06-20	CRISIL A1		--	--
			--		--		--	30-04-20	CRISIL A1		--	--
Fixed Deposits	LT	0.0	F A+/Stable		--	30-12-21	F A+/Stable	06-11-20	F A+/Stable	05-04-19	F A+/Stable	F A+/Stable
			--		--	18-03-21	F A+/Stable	24-06-20	F A+/Stable		--	--
			--		--		--	30-04-20	F A+/Stable		--	--
Non Convertible Debentures	LT	350.0	CRISIL A/Stable		--	30-12-21	CRISIL A/Stable	06-11-20	CRISIL A/Stable	05-04-19	CRISIL A/Stable	CRISIL A/Stable
			--		--	18-03-21	CRISIL A/Stable	24-06-20	CRISIL A/Stable		--	--
			--		--		--	30-04-20	CRISIL A/Stable		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit & Working Capital Demand Loan	180	Union Bank of India	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	35	Axis Bank Limited	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	50	Central Bank Of India	CRISIL A/Stable

Cash Credit & Working Capital Demand Loan	10	City Union Bank Limited	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	30	DCB Bank Limited	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	45	Dhanlaxmi Bank Limited	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	15	The Federal Bank Limited	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	200	HDFC Bank Limited	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	35	IDBI Bank Limited	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	50	Indian Bank	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	50	Indian Overseas Bank	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	50	IndusInd Bank Limited	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	25	The Karur Vysya Bank Limited	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	200	Punjab National Bank	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	100	State Bank of India	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	35	Tamilnad Mercantile Bank Limited	CRISIL A/Stable
Cash Credit & Working Capital Demand Loan	50	YES Bank Limited	CRISIL A/Stable
Proposed Term Loan	865	Not Applicable	CRISIL A/Stable
Working Capital Term Loan	15	Axis Bank Limited	CRISIL A/Stable
Working Capital Term Loan	100	State Bank of India	CRISIL A/Stable
Working Capital Term Loan	175	Canara Bank	CRISIL A/Stable
Working Capital Term Loan	35	ICICI Bank Limited	CRISIL A/Stable
Working Capital Term Loan	75	Bank of Baroda	CRISIL A/Stable
Working Capital Term Loan	25	CSB Bank Limited	CRISIL A/Stable
Working Capital Term Loan	25	Punjab National Bank	CRISIL A/Stable
Working Capital Term Loan	25	Tata Capital Limited	CRISIL A/Stable

This Annexure has been updated on 03-Mar-2022 in line with the lender-wise facility details as on 02-Aug-2021 received from the rated entity.

Criteria Details

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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