

Rating Rationale

March 01, 2023 | Mumbai

Muthoot Capital Services Limited

'CRISIL A+/Stable' assigned to Non Convertible Debentures

Rating Action

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

Rs.200 Crore Non Convertible Debentures	CRISIL A+/Stable (Assigned)
Rs.100 Crore Long Term Principal Protected Market Linked Debentures	CRISIL PPMLD A+/Stable (Reaffirmed)
Rs.100 Crore Long Term Principal Protected Market Linked Debentures	CRISIL PPMLD A+/Stable (Reaffirmed)
Fixed Deposits	CRISIL A+/Stable (Reaffirmed)
Rs.150 Crore Non Convertible Debentures	CRISIL A+/Stable (Reaffirmed)
Rs.250 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL A+/Stable**' rating on the Rs 200 crore non-convertible debentures of Muthoot Capital Services Limited (MCSL; part of Muthoot Pappachan Group [MPG]). It has also reaffirmed its long-term rating on the bank facilities and debt instruments at 'CRISIL A+/CRISIL PPMLD A+/Stable/CRISIL A1+'.

The ratings on the bank loan facilities and debt instruments continue to reflect the company's adequate capital position and continued financial, operational, and managerial support from Muthoot Pappachan Group (MPG) - Muthoot Fincorp Ltd (MFL; 'CRISIL AA-/CRISIL PP-MLD AA-/CRISIL A /Stable/CRISIL A1+'), considering the strong operational linkages of MCSL with the group. These strengths are partially offset by weak asset quality, moderation in earnings profile and the company's continued, although reducing, geographical concentration in the south Indian states.

MCSL's AUM improved to Rs 2,141 crore as of December 31, 2022 from Rs 2,056 crore as of March 31, 2022. Post the slowdown induced by the wave-II of the pandemic, disbursements have picked up from August 2021 onwards. During nine months of fiscal 2023, the average monthly disbursements stood at around Rs 115.4 crore.

Collection efficiency (including overdues but excluding prepayments) have increased to 99.9% collections in December 2022. Nevertheless, NPAs in terms of gross stage 3, continued to be high at 17.4% as of December 31, 2022 (18.9% as of March 31, 2022) against 11.7% as of March 2021. Furthermore, reported GNPA (gross non-performing asset) stood at 21.9% as of December 31, 2022 (25.9% as of March 31, 2022) 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. While the revised RBI clarification had allowed deferring implementation of upgradation norms till September 30, 2022, the company did not avail this relaxation and made additional provisions (including write-offs) of Rs 236 crore during Q4 of fiscal 2022, thereby reducing their NNPA to 5.7% as on March 31, 2022. The NNPA stood at 3.6% as of December 31, 2022.

MCSL also carries a high provision buffer of Rs 429.7 crore (20.1% of the total portfolio as of December 31, 2022), hence additional provision requirement is minimal. This coupled with company's improving operating profits is expected to support the company's profitability over the medium term. Nevertheless, the ability of the company to manage collections from the harder delinquency buckets will be a key monitorable.

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 AA-/CRISIL PPMLD AA-/CRISIL A/Stable/CRISIL A1+').

Key Rating Drivers & Detailed Description

Strengths:

- **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.

- **Adequate capitalisation**

Capitalisation has improved during the nine months of fiscal 2023 on account of accruals with networth improving to Rs 440 crore and gearing at 3.9 times as on December 31, 2022 as compared to Rs 388 crore and 4.2 times as on March 31, 2022. The capital position remains adequate despite no major capital infusion in the past five years. The company's philosophy is to maintain gearing at 5-6 times on a steady-state basis.

- **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.

Weaknesses:

- **Modest asset quality**

Amidst the challenging pandemic-induced economic environment during fiscal 2022, delinquencies had gone up and the company reported GNPA of 27.8% as on December 31, 2021 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. While the revised RBI clarification had allowed deferring implementation of upgradation norms till September 30, 2022, the company did not avail this relaxation and made additional provisions (including write-offs) of Rs 236 crore during Q4 of fiscal 2022, thereby reducing their NNPA to 5.7% as on March 31, 2022. During nine months of fiscal 2023, company wrote off Rs 60.7 crore (including loss on sale of repossessed assets) and there was a provision reversal of Rs 40.8 crore. As of December 31, 2022, the GNPA was at 21.9% (90+ dpd excluding the impact of IRACP norms was 17.4% as of December 31, 2022 as compared to 20.7% as of December 2021), while the NNPA stood at 3.6%. Nevertheless, the ability of the company to manage collections from the harder delinquency buckets will be a key monitorable.

- **Moderate through improving earnings profile**

MCSL has been a steady contributor to the overall profitability of the group. Profitability was healthy until fiscal 2019 but moderated from fiscal 2020 onwards 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 13.9% during fiscal 2022, as compared with 3.4% during fiscal 2021, on account of Rs 324 crore provisioning (including write-offs of Rs 28.1 crore) during fiscal 2022. The operating expenses of the company also increased during the fiscal as dedicated collection teams were deployed to improve collections from across buckets. Consequently, it reported a net loss of Rs 171.9 crore for the fiscal 2022 while at a pre provisioning operating profit (PPoP) profit of Rs 152 crore (PPoP of Rs 146 crore in fiscal 2021).

With fading of pandemic related issues, the earnings profile during fiscal 2023 showed turnaround. During the nine months of fiscal 2023, the company reported a PAT of Rs 52.7 crore which translated in RoMA of 3.3% (annualised). This was despite company carrying high provisioning buffer of Rs 429.7 crore (20.1% of the total portfolio as of December 31, 2022). Therefore, given the company's improving operating profits coupled with minimal additional provisioning requirement is expected to support overall earnings profile over the medium term.

- **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 60% as on December 31, 2022. MCSL's operations are concentrated in Kerala, which accounted for 34% of hypothecation loans as on December 31, 2022, 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 Ratings' 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 1 year as on December 31, 2022. As on January 31, 2023, MCSL had cash and equivalents of around Rs 284.6 crore comprising. Its total debt obligation (including operating expense) was around Rs 238.3 crore for the next two months through March 2023. CC/WCDL of Rs 275 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 1.19 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 improvement in overall credit risk profile of MPG
- 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

Downward factors

- Any downward revision in the rating view of MPG
- 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, 2022, its AUM stood at Rs 2,141 crore. Around 92% of the total portfolio was two-wheeler loans.

Key Financial Indicators

Particulars	Unit	Dec - 2022	Mar - 2022	March - 2021	March - 2020
Total assets	Rs crore	2231	2075	2560	2,913
Total income	Rs crore	329	398	505	587
Profit after tax	Rs crore	52.7	-171.9	51.5	60.5
Gross NPA (90+ dpd)	%	17.4	18.6	8.7	6.8
Adjusted gearing	Times	3.9	4.2	3.4	4.7
Return on managed assets	%	3.3	-7.4	1.9	1.8

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.cr)	Complexity level	Rating
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	Non-Convertible Debentures*	NA	NA	NA	200	Simple	CRISIL A+/Stable
NA	Long term principal protected market linked debentures*	NA	NA	NA	25	Highly Complex	CRISIL PPMLD A+/Stable
INE296G07093	Long term principal protected market linked debentures	07-Jan-23	G-Sec Linked	06-Jan-26	35	Highly Complex	CRISIL PPMLD A+/Stable
INE296G07077	Long term principal protected market linked debentures	07-Jan-23	G-Sec Linked	06-Jan-25	20	Highly Complex	CRISIL PPMLD A+/Stable
INE296G07085	Long term principal protected market linked debentures	07-Jan-23	G-Sec Linked	06-Apr-24	20	Highly Complex	CRISIL PPMLD A+/Stable
INE296G08018	Long term principal protected market linked debentures	06-Oct-22	G-Sec Linked	06-Oct-24	100	Highly Complex	CRISIL PPMLD A+/Stable
NA	Commercial Paper	NA	NA	7-365 days	250	Simple	CRISIL A1+
NA	Fixed Deposits	NA	NA	NA	0	Simple	CRISIL A+/Stable
NA	Proposed Term Loan	NA	NA	NA	975	NA	CRISIL A+/Stable
NA	Cash Credit and Working Capital demand loan	NA	NA	NA	1065	NA	CRISIL A+/Stable
NA	Working Capital Term Loan	NA	NA	23-Mar-24	35	NA	CRISIL A+/Stable
NA	Working Capital Term Loan	NA	NA	26-Sep-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	18-Jun-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	28-Feb-23	25	NA	CRISIL A+/Stable
NA	Working Capital Term Loan	NA	NA	21-Jun-22	25	NA	CRISIL A+/Stable

*Yet to be issued

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	2500.0	CRISIL A+/Stable	07-02-23	CRISIL A+/Stable	19-10-22	CRISIL A+/Stable	30-12-21	CRISIL A/Stable	06-11-20	CRISIL A/Stable	CRISIL A/Stable
			--		--	29-09-22	CRISIL A/Stable	18-03-21	CRISIL A/Stable	24-06-20	CRISIL A/Stable	--
			--		--	07-07-22	CRISIL A/Stable	--	--	30-04-20	CRISIL A/Stable	--
			--		--	22-06-22	CRISIL A/Stable	--	--	--	--	--
			--		--	26-04-22	CRISIL A/Stable	--	--	--	--	--
			--		--	03-03-22	CRISIL A/Stable	--	--	--	--	--

Commercial Paper	ST	250.0	CRISIL A1+	07-02-23	CRISIL A1+	19-10-22	CRISIL A1+	30-12-21	CRISIL A1	06-11-20	CRISIL A1	CRISIL A1
			--		--	29-09-22	CRISIL A1	18-03-21	CRISIL A1	24-06-20	CRISIL A1	--
			--		--	07-07-22	CRISIL A1		--	30-04-20	CRISIL A1	--
			--		--	22-06-22	CRISIL A1		--		--	--
			--		--	26-04-22	CRISIL A1		--		--	--
			--		--	03-03-22	CRISIL A1		--		--	--
Fixed Deposits	LT	0.0	CRISIL A+/Stable	07-02-23	CRISIL A+/Stable	19-10-22	CRISIL A+/Stable	30-12-21	F A+/Stable	06-11-20	F A+/Stable	F A+/Stable
			--		--	29-09-22	CRISIL A+/Stable	18-03-21	F A+/Stable	24-06-20	F A+/Stable	--
			--		--	07-07-22	CRISIL A+/Stable		--	30-04-20	F A+/Stable	--
			--		--	22-06-22	CRISIL A+/Stable		--		--	--
			--		--	26-04-22	F A+/Stable		--		--	--
			--		--	03-03-22	F A+/Stable		--		--	--
Non Convertible Debentures	LT	350.0	CRISIL A+/Stable	07-02-23	CRISIL A+/Stable	19-10-22	CRISIL A+/Stable	30-12-21	CRISIL A+/Stable	06-11-20	CRISIL A+/Stable	CRISIL A+/Stable
			--		--	29-09-22	CRISIL A+/Stable	18-03-21	CRISIL A+/Stable	24-06-20	CRISIL A+/Stable	--
			--		--	07-07-22	CRISIL A+/Stable		--	30-04-20	CRISIL A+/Stable	--
			--		--	22-06-22	CRISIL A+/Stable		--		--	--
			--		--	26-04-22	CRISIL A+/Stable		--		--	--
			--		--	03-03-22	CRISIL A+/Stable		--		--	--
Long Term Principal Protected Market Linked Debentures	LT	200.0	CRISIL PPMLD A+/Stable	07-02-23	CRISIL PPMLD A+/Stable	19-10-22	CRISIL PPMLD A+ r /Stable		--		--	--
			--		--	29-09-22	CRISIL PPMLD A r /Stable		--		--	--
			--		--	07-07-22	CRISIL PPMLD A r /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	30	DCB Bank Limited	CRISIL A+/Stable
Cash Credit & Working Capital Demand Loan	60	Dhanlaxmi Bank Limited	CRISIL A+/Stable
Cash Credit & Working Capital Demand Loan	200	HDFC 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	180	Union Bank of India	CRISIL A+/Stable

Cash Credit & Working Capital Demand Loan	15	The Federal 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	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
Proposed Term Loan	975	Not Applicable	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
Working Capital Term Loan	35	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	75	Bank of Baroda	CRISIL A+/Stable
Working Capital Term Loan	25	CSB Bank Limited	CRISIL A+/Stable

This Annexure has been updated on 01-Mar-23 in line with the lender-wise facility details as on 02-Aug-21 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
CRISILs criteria for rating fixed deposit programmes
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com	Krishnan Sitaraman Senior Director and Deputy Chief Ratings Officer CRISIL Ratings Limited D: +91 22 3342 8070 krishnan.sitaraman@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com
Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com	Ajit Velonie Director CRISIL Ratings Limited D: +91 22 4097 8209 ajit.velonie@crisil.com	

Rutuja Gaikwad
Media Relations
CRISIL Limited
B: +91 22 3342 3000
Rutuja.Gaikwad@ext-crisil.com

Amith Varghese Kurian
Senior Rating Analyst
CRISIL Ratings Limited
B: +91 22 3342 3000
amith.kurian@crisil.com

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