



MANAPPURAM FINANCE LIMITED

Make Life Easy

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28.03.2020

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai- 400001 Scrip Code: 531213	National Stock Exchange of India Limited 5th Floor, Exchange Plaza Bandra (East) Mumbai – 400 051 Scrip Code: MANAPPURAM
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Dear Madam/Sir

Sub: Change in Credit Rating

Fitch has placed the 'BB-' Long-Term Issuer Default Ratings (IDR) of Manappuram Finance Limited (MFIN) on Rating Watch Negative (RWN).

ENTITY/DEBT	RATING	PRIOR
Manappuram Finance Limited	LT IDR BB-Rating Watch On	BB-
	LC LT IDR BB-Rating Watch On	BB-
Senior secured	LT BB-Rating Watch On	BB-

Request you to kindly take the same on record.

For Manappuram Finance Limited

Sd/-

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India's First Listed and Highest Credit Rated Gold Loan Company

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Fitch Downgrades 3 Indian NBFIs, On Negative Watch; 4th on Negative Watch

Fitch Ratings - Singapore/Mumbai - 27 March 2020:



Fitch Ratings has downgraded the Long-Term Issuer Default Ratings (IDRs) of Shriram Transport Finance Company Limited (STFC) and Muthoot Finance Limited (MFL) to 'BB' from 'BB+'. It has also downgraded the Long-Term IDR of India Infoline Finance Limited (IIFL) to 'B+' from 'BB-'. All their ratings have been placed on Rating Watch Negative (RWN). Fitch has also placed the 'BB-' Long-Term IDR of Manappuram Finance Limited (MFIN) on RWN. A list of ratings is at the end of this release.

The rating actions reflect increasing macro-economic challenges for the Indian non-bank financial institution (NBFIs) sector. These include the growing effects from measures to contain the COVID-19 pandemic, which will compound the tightening in funding conditions for NBFIs in recent weeks. The RBI's recent liquidity and regulatory support measures should help to improve the funding environment in the near term, but it also underlines the severity of the situation and Fitch sees continued uncertainty in the coming months nonetheless.

Fitch also expects the constraints on business activity to lead to operational disruptions that will directly affect asset quality. This comes on top of existing weak asset quality across banks and some NBFIs, and under-capitalisation in the banking system, which are likely to continue to hamper the growth and funding of the NBFIs sector. Fitch recently revised down India's GDP growth forecast for the fiscal year ending March 2021 (FY21) to 5.1%, from 5.6% previously, and the risks are skewed to the downside as the authorities attempt to contain the virus.

RATING ACTIONS

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Muthoot Finance Ltd	LT IDR BB Downgrade		BB+
	LC LT IDR BB Downgrade		BB+
senior secured	LT BB Downgrade		BB+
Shriram Transport Finance Company Limited	LT IDR BB Downgrade		BB+

	ST IDR B Affirmed		B
	LC LT IDR BB  Downgrade		BB+ 
senior unsecured	LT BB  Downgrade		BB+
senior secured	LT BB  Downgrade		BB+
India Infoline Finance Limited	LT IDR B+  Downgrade		BB- 
senior secured	LT B+  Downgrade	RR4	BB-
Manappuram Finance Limited	LT IDR BB-  Rating Watch On		BB- 
	LC LT IDR BB-  Rating Watch On		BB- 
senior secured	LT BB-  Rating Watch On		BB-

Key Rating Drivers

IDRS

The weaker economic outlook and uncertain funding conditions negatively affect our assessment of the sector's operating environment, growth and asset-quality prospects. The support measures announced by the RBI on 27 March should help address some near-term pressures on reported asset-quality metrics and market liquidity, but will not materially change the anticipated deterioration in underlying borrower repayment capacity. We also expect debt markets to remain risk averse, while banks are likely to be selective when providing fresh funds to the NBFIs sector.

The RWN on the ratings reflects sustained uncertainty in the near term, partly stemming from the authorities' measures to contain the spread of COVID-19. All four entities have retained funding market access despite market dislocation in recent weeks, but any evidence of increased refinancing risk, weaker funding access, or an outsized deterioration in asset quality could lead to further rating downside for the four NBFIs.

IIFL

The downgrade and RWN reflect our expectation of increased pressure on IIFL's asset quality, which will weigh on its funding and liquidity. SME loans, developer financing and capital market finance, which Fitch perceives to be of higher risk in current conditions, make up 40%-45% of IIFL's loan portfolio. Another 7% of loans were extended to microfinance at end-December 2019, which may also be more vulnerable in a downturn as borrowers are typically less financially resilient.

We believe that IIFL's exposure to these riskier loan segments renders it more susceptible to shifts in market confidence, and in the current environment outweighs the relative resilience of its home loans and gold loans, which make up close to half of the loan book.

IIFL's IDR also reflects its moderate franchise in India's NBFi sector and experienced management team, as well as its appetite for high growth and tolerance for elevated leverage.

We believe IIFL's funding and liquidity access remains weaker than that of other Fitch-rated peers and more vulnerable in times of heightened risk aversion. This is despite the funding mix remaining stable and adequately balanced at present. The liquidity position and contingent liquidity coverage remained broadly stable at end-February 2020 with net positive liquidity gaps and adequate contingent liquidity coverage of upcoming liabilities. However, the company continues to be more reliant on loan assignments and securitisation to fund its portfolio, and existing liquidity buffers can be eroded if the sector's funding strains are prolonged.

MFIN

MFIN's ratings reflect its moderate franchise in the niche of gold-backed financing, and its history of low credit losses and satisfactory leverage. These are counterbalanced by elevated key-person risk, a track record of shortcomings in governance and operational management, and growing risk appetite as the company pursues higher growth in non-gold backed financing segments, which are relatively new to MFIN.

The RWN takes into account potential earnings reduction as the unfavorable operating environment slows portfolio growth, particularly in gold loans (currently 66% of the total portfolio), which amortise at a faster pace due to the product's short tenor. The asset quality of other segments is also likely to deteriorate as borrower earnings are affected by slower domestic economic activity, while collections and recoveries may also be disrupted.

MFL

The downgrade and RWN reflect the weakening operating environment and the related operational challenges. Slower economic activity will dampen MFL's business growth prospects, while its branch-led distribution model for gold-backed loans, which form 89% of MFL's total loans, will be affected by disruptions from measures to contain the pandemic. Fitch expects delinquencies to rise as borrower earnings are affected by the slower economic growth, while recoveries of the gold collateral backing the loans may be delayed as auctions may be affected in the near term.

MFL's ratings nonetheless remain at the higher end of rated peers, reflecting the strength of its established franchise in niche gold-backed financing, its history of low credit losses, satisfactory leverage and adequate liquidity coverage. These are counterbalanced by high exposure to operational risks in the business and MFL's concentration in gold loans.

STFC

The downgrade and RWN on STFC's ratings largely stems from the deterioration in the operating environment for India NBFIs. STFC's portfolio will face increased asset-quality risks as the commercial vehicle portfolio is more exposed to business activity in India that will be hampered by the measures taken to tackle the coronavirus.

Fitch expects delays in loan collections and asset recoveries if current restrictions on business activity are prolonged. This would place pressure on near-term on asset quality, credit costs and profitability. This comes as STFC already has the highest NPL ratio of Fitch's rated portfolio at 8.7% at end-December 2019, with credit costs accounting for a significant 38%-58% of pre-provision profit. However, STFC's credit costs have been much lower than NPLs and remained between 2.2%-3.8% of average loans over FY17-3QFY19.

STFC's ratings remain at the higher end of rated peers' as it has a dominant position in used commercial-vehicle financing, experienced management, and an established track record in managing collections and recoveries while maintaining satisfactory earnings through past credit cycles.

MTN PROGRAMMES, SENIOR SECURED DEBT, AND RECOVERY RATINGS

The ratings on the MTN programmes and foreign-currency senior debt of the entities are at the same level as their Long-Term Foreign-Currency IDRs, while the rupee-denominated senior debt of STFC is rated at same level as its Long-Term Local-Currency IDR in accordance with Fitch's rating criteria.

Most of India NBFIs' debt is secured and Fitch believes that non-payment of NBFIs' senior secured debt would best reflect uncured failure of the entity. NBFIs can issue unsecured debt in the overseas market, but such debt is likely to constitute a small portion of its funding and thus cannot be viewed as their primary financial obligations.

Fitch has assigned a Recovery Rating of 'RR4' to IIFL's senior secured debt rated at 'B+', in accordance with Fitch's criteria for entities with a Long-Term IDR of 'B+' or below, reflecting 'Average' recovery prospects in the event of a default.

RATING SENSITIVITIES

IDRS

Fitch will re-assess the Rating Watch Negative on the ratings when the impact of measures to contain the coronavirus in India and steps to address recent funding market constraints become clearer. A prolonged period of disruption to economic activity, signs of increased funding strain or an

excessive deterioration in asset quality could lead to lower ratings for the entities, while an improvement in funding conditions and reduced asset quality risks would ease the pressure on the ratings.

IIFL

A deterioration in asset quality, signs of more constrained funding access, narrowed or negative liquidity gaps or reduced liquidity buffers would lead to negative rating action. Leverage increasing beyond 7x (December 2019: 5.1x) would also add to pressure on the ratings.

The ratings may be upgraded when there is greater evidence that IIFL is able to maintain and improve its funding and liquidity profile without over-reliance on asset sales and securitisation, even as current market constraints continue. This is provided that the company demonstrates reasonably steady collections on its developer financing, SME and microfinance portfolios throughout the period.

MFIN

The IDR would be under pressure from business disruptions or curtailed funding access due to adverse governance or operational events or heightened risks from deterioration in the economic environment. The rating would also be sensitive to a rising risk appetite due to aggressive growth in non-gold lending segments and a rise in leverage to beyond 5x (September 2019: 3.7x).

Fitch believes that the ratings have limited upside potential in the near term. The ability of the company to address the potential regulatory and governance risks and manage the evolving business risks will be important before an upgrade can be considered.

MFL

The IDR may be downgraded if operational risk losses exceed Fitch's expectations, if asset quality or the price of gold collateral deteriorates sharply, or if liquidity coverage or funding access were to weaken. The rating may also be downgraded if leverage were to increase and debt/tangible equity were to exceed 4.5x for a prolonged period (September 2019: 2.8x), or if aggressive expansion in new lending segments leads Fitch to significantly weaken our assessment of MFL's risk appetite and future asset quality.

An upgrade of MFL's Long-Term IDR would hinge on an improvement in the operating environment - including a strengthening in the domestic financial system, which is unlikely in the near term - together with a steady record of expansion in its franchise beyond the niche gold loan market. The latter is also only likely in the medium to longer term, if at all, as the company appears focused on its core niche markets in which it performs generally well.

STFC

Negative action on the IDR may result if the funding and liquidity profile were to weaken. A rise in non-performing assets leading to higher credit costs and impaired profitability could also weigh on the rating, especially if it leads to a lower leverage tolerance, given STFC's riskier business profile. Leverage consistently greater than 5.5x (September 2019: 5.3x) would weigh on the IDR.

An upgrade of STFC's Long-Term IDR would depend on a material strengthening in the operating environment, including the domestic financial system - which is unlikely in the near term - assuming other rating factors are also expected to be sustained at levels commensurate with a higher

rating.

MTN PROGRAMMES, SENIOR SECURED DEBT, AND RECOVERY RATINGS

The ratings on the MTN programmes and senior secured debt would move in tandem with the entities' respective Long-Term IDRs. IIFL's Recovery Ratings would be sensitive to Fitch's assessment of likely recoveries on its senior secured notes.

ESG Considerations

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Additional information is available on www.fitchratings.com

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Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (pub. 28 Feb 2020)
Country-Specific Treatment of Recovery Ratings Rating Criteria (pub. 27 Feb 2020)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
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