



MANAPPURAM[®] FINANCE LIMITED



Make Life Easy

Ref: Sec/SE/310/16-17
01st July 2016

Bombay Stock Exchange Ltd.,
PhirozeJeejeebhoy Towers
Dalal Street
Mumbai- 400001

National Stock Exchange of India Limited
5th Floor, Exchange Plaza
Bandra (East),
Mumbai – 400 051

Dear Sir/Madam,

Sub: CRISIL has upgraded our Long Term Credit Rating

We are glad to inform you that CRISIL has upgraded its rating on the long-term bank facility and non-convertible debentures of the Company to 'CRISIL AA-/Stable' from 'CRISIL A+/Stable', while reaffirming the rating on short-term debt at 'CRISIL A1+'.

This is attributed to the improvement in business risk profile, stable operating environment and also factors in the company's strong earnings profile.

The detailed CRISIL rating rationale dated July 1, 2016 is attached.

Request you to kindly take the same on your record.

Thanking you

Yours Faithfully,

For Manappuram Finance Limited

Ramesh Periasamy
Company Secretary

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

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Rating Rationale

July 01, 2016 | Mumbai

Manappuram Finance Limited

Rating upgraded to 'CRISIL AA-/Stable'

Total Bank Loan Facilities Rated	Rs.2500 Million
Long Term Rating	CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Stable')

(Refer to Annexure 1 for Facility-wise details)

Rs.16.325 Billion Non Convertible Debentures	CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Stable')
Rs.20 Billion Short Term Debt (Enhanced from Rs.15 billion)	CRISIL A1+ (Reaffirmed)

CRISIL has upgraded its rating on the long-term bank facility and non-convertible debentures of Manappuram Finance Limited (Manappuram Finance) to '**CRISIL AA-/Stable**' from 'CRISIL A+/Stable', while reaffirming the rating on short-term debt at 'CRISIL A1+'.

The upgrade reflects improvement in business risk profile driven by changed business model, and stable operating environment backed by an established regulatory regime. The rating upgrade also factors in the company's strong earnings profile.

Manappuram Finance revised its business model in June 2014 by introducing short-term products with 3, 6, and 9 months' tenure and increasing focus on, monthly interest collection and getting new clients. Short-tenure products (over 80% of portfolio comprises products with 3 months' tenure) reduce risk of interest reversals on delinquent loans. On maturity, a contract is now rolled over at fresh loan to value ratio (LTV) if full interest is paid; otherwise the auction process is initiated. Since historically, extent of decline in gold prices has been lower over a shorter period than a longer one, potential for recovery is higher if auctioned within 6 months than 14 months (earlier practice). For short-term products, net interest yields remain high, at around card rates, irrespective of whether interest is collected or gold is auctioned. Though the new business model has stabilised and strengthened profitability, it runs the risk of alienating customers if not managed properly.

Furthermore, regulatory changes in the gold loan segment between fiscal 2012 and 2014 (such as withdrawal of priority sector benefit for gold loans, capping loan-to-value (LTV) ratio at 75%, restricting privately placed debentures, and stipulating stringent norms for conducting gold auctions) have brought in the much needed stability, while enhancing confidence of lenders and other stakeholders. Though development in the sector has moderated post these regulations, growth in assets under management (AUM) will be steady and stabilise in the long term.

The ratings reflect the strong track record of Manappuram Finance's promoters in financing against gold jewellery, adequate capitalisation and stable funding profile, and strong profitability. These strengths are partially offset by geographical and product concentration in revenue profile and challenges associated with other product segments.

Manappuram Finance is promoted by Mr. V P Nandakumar, whose family has been in the gold-loan business for more than 60 years. Based on the promoters' extensive industry experience, the company has designed an appropriate assessment and underwriting methodology. Assessing the purity of gold, fixing an appropriate value that can be lent against a gram of gold, and determining appropriate loan-to-value ratios are critical aspects in the assessment process. The company's strong brand value and reputation in South India (particularly Kerala and Tamil Nadu). Reputation and trust play a significant role in this financing segment as it gives the customer an assurance of getting back the personal gold ornaments once the loan is repaid.

Capitalisation is adequate, with consolidated networth of Rs 27.6 billion and gearing of 3.5 times as on March 31, 2016. Large accretion to networth and moderation in growth in the past two years resulted in a healthy capital

adequacy ratio of 24%. Lower asset-side risk (security of gold, which is liquid and is in the lender's possession) also supports capitalisation. The AUM in the gold loan segment is not expected to grow sharply over the medium term. Also, other segments (affordable housing finance, loan against property, and commercial vehicle finance) have a relatively small scale. Therefore, despite aggressive growth expected in microfinance operations through subsidiary company, Asirvad Micro Finance Ltd, consolidated gearing is not expected to exceed above 5.5 times over the medium term. Though this will remain a key rating monitorable, capitalisation will remain adequate.

Funding profile is expected to remain stable. Around 75% of borrowings is in the form of funding from over 25 banks (public and private) and financial institutions, with which the company has established relationship. Moreover, short-tenure products provide flexibility to increase the proportion of short-term debt. Standalone cost of borrowing (yearly average) declined to 10.3% during fiscal 2016 from 10.8% in fiscal 2015, partly due to increased share of short-term debt to 10% from less than 5% a year ago. Also, microfinance and commercial vehicle portfolios are eligible for securitisation.

Profitability has improved with Return on Assets (RoA) at 2.9% for fiscal 2016, which is expected to stabilise at around 3.0% over the medium term due to short-tenure products. Competitive pressure is not expected to reduce yield materially from current level. Profitability from the microfinance segment is also expected to lend stability. However, since changed business model has increased operational intensity in the form of required churn in portfolio, ability to limit operating cost will be critical for stability in profitability. Also, restricting credit costs in the non-gold finance segments as they grow will remain a key rating monitorable. Any significant deterioration in asset quality or profitability in the non-gold financing business will put pressure on capitalisation.

Manappuram Finance's operations have significant regional concentration compared with large asset-financing non-banking financial companies (NBFCs). South India accounted for about 65% of total AUM as on March 31, 2016 reduced from 82% as on March 31, 2012. Manappuram Finance is also susceptible to risks related to revenue concentration in a single asset class (gold-loan financing). Though the company has ventured into the vehicle finance, affordable housing finance, and micro finance segments, these account for less than 12% of total portfolio. Growth, asset quality, and profitability in these businesses are yet to stabilise.

Around 7% of gold loan portfolio and 15% of the company's branches are in Kerala. Hence, impact of the Kerala Money Lenders Act, 1958, for NBFCs (applicability of which depends on the decision of the Supreme Court) could affect Manappuram Finance's lending rates and operational expenditure. This too will remain a key rating monitorable.

Outlook: Stable

CRISIL believes Manappuram Finance will continue to benefit over the medium term from its adequate capitalisation and strong earnings profile. The outlook may be revised to 'Positive' in case of significant improvement in competitive positioning and diversification of resource profile, while maintaining profitability. The outlook may be revised to 'Negative' in case of a steep decline in interest collection, asset quality, profitability, or capitalisation; or inability to borrow funds adequately from diverse sources to support growth.

About the Company

Incorporated in July 1992 and promoted by Mr. V P Nandakumar, Manappuram Finance is the flagship company of the Manappuram group. It is a non-deposit-taking NBFC that provides finance against personal gold ornaments. It had 3293 branches across India as on March 31, 2016. The company went public in August 1995, with shares listed on the stock exchanges of Chennai, Kochi, and Mumbai (Bombay Stock Exchange and National Stock Exchange). Over the past three years, the Manappuram group has diversified into other fund-based businesses such as microfinance, vehicle finance, loan against property, and affordable housing finance. It has also entered into the insurance broking business.

Manappuram Finance had a consolidated AUM of Rs 114.3 billion and networth of Rs 27.6 billion as on March 31, 2016, against Rs 95.9 billion and Rs 26.3 billion, respectively, as on March 31, 2015.

For fiscal 2016, consolidated profit after tax (PAT) was Rs 3.6 billion on a total income of Rs 23.6 billion, against a PAT of Rs 2.7 billion on a total income of Rs 19.9 billion for fiscal 2015.

For fiscal 2016, on a standalone basis, the company had a PAT of Rs 3.4 billion on total income of Rs 22.2 billion, against a PAT of Rs 2.7 billion on total income of Rs 19.8 billion for fiscal 2015.

Annexure 1 - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Million)	Rating	Facility	Amount (Rs.Million)	Rating
Term Loan	2500	CRISIL AA- /Stable	Cash Credit	8750	Withdrawal
--	0	--	Term Loan	2500	CRISIL A+/Stable
--	0	--	Working Capital Demand Loan	1000	Withdrawal
Total	2500	--	Total	12250	--

Links to related criteria

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Banks and Financial Institutions](#)

[Rating Criteria for Finance Companies](#)

[Criteria for rating Short-Term Debt \(including Commercial Paper\)](#)

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