



MANAPPURAM FINANCE LIMITED

Make Life Easy

Ref: Sec/SE/14/2020-21
17.04.2020

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

Pursuant to Regulation 30 and other applicable provisions of the Listing Regulations, we wish to inform you that international credit rating agency **S&P Global Ratings** has revised the outlook Manappuram Finance Ltd to negative and affirmed the 'BB-/B' ratings.

Ratings Affirmed; Outlook Action

	To	FROM
Issuer Credit Rating	BB-/Negative/B	BB-/Stable/B
Senior Secured	BB-	

Request you to kindly take the same on record.

For Manappuram Finance Limited

Sd/-

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Various Rating Actions Taken On Indian NBFCs On Weakening Economic Conditions Due To COVID-19

April 17, 2020

- Indian financial institutions face increasing risks from challenging operating conditions stemming from the COVID-19 outbreak. We expect a flattish U-shape economic recovery. Risks remain on the downside.
- Operating conditions for the country's financial institutions are likely to deteriorate with rising credit costs and NPLs and lower profitability.
- We see the economic risk trend for India's financial sector as negative.
- We are lowering our ratings on STFC. At the same time, we are revising our outlooks to negative on Bajaj Finance, Mannapuram, Muthoot, and PFC and affirming the ratings.

SINGAPORE (S&P Global Ratings) April 17, 2020--S&P Global Ratings today said it has taken the following rating actions on Indian nonbank financial companies (NBFCs):

- We lowered the rating on Shriram Transport Finance Co. Ltd. (STFC) to 'BB' from 'BB+'. The outlook is negative.
- We revised the outlook on Bajaj Finance Ltd. (BFL) to negative and affirmed the 'BBB-/A-3' ratings.
- We revised the outlook Manappuram Finance Ltd. to negative and affirmed the 'BB-/B' ratings.
- We revised the outlook Muthoot Finance Ltd. to negative and affirmed the 'BB/B' ratings.
- We revised the outlook Power Finance Corp. Ltd. (PFC) to negative and affirmed the 'BBB-' rating.

Our rating actions reflect Indian NBFCs face increasing risks from challenging operating conditions stemming from the COVID-19 outbreak.

In our view, the economic risk for Indian financial institutions is rising. Economic conditions have turned adverse due to the COVID-19 pandemic. Drastic efforts to curtail the spread of the coronavirus has resulted in a sudden stoppage in economic activity. We have therefore revised our economic risk trend for the financial sector to negative from stable.

S&P Global Ratings has further revised downward its fiscal 2021 GDP growth projections for India to 1.8%, compared with our earlier expectation of 3.5%. We believe this decline is a cyclical event and India's structural growth story is intact. Economic growth should return to 7% levels in the medium term. We are projecting 7.5% growth in fiscal 2022, albeit from a small base. However, a prolonged slowdown, particularly if the recovery in fiscal 2022 is significantly slower or delayed, could adversely affect the financial institutions sector.

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Credit risk remains very high and continues to pose risks. The deterioration in NBFCs' asset quality may intensify as the economy slows amid the outbreak. We expect the microfinance segment to be the most affected during the lockdown as it relies primarily on cash collections and its borrowers, many with weak credit profiles, would have faced disruptions to income generation. Home loans are likely to be less affected because the majority of borrowers are salaried and collections are through auto debit instructions. Affordable housing loans, which cater to weaker economic strata, could witness challenges, however. Other pockets of stress include loans to real estate developers, loans against property, loans against shares, and loans to telecom, aviation, restaurant, or tourism-related sectors. Small and midsize enterprises are likely to be more affected in this scenario.

The three-month moratorium on principal and interest repayments allowed by the Reserve Bank of India will help borrowers with temporary liquidity problems. In any case, it will also result in delayed recognition of weaker loans.

In our base case, we expect the overall impact on the NBFC sector to be more pronounced than on the banking sector, given some of them lend to weaker customers. Also, NBFCs were already reeling under trust deficit in the system since the 2018 default of Infrastructure Leasing & Financial Services.

Finance companies also face accentuated liquidity risks. As a large proportion of borrowers opt for the moratorium, cash inflows for finance companies may be limited, making them dependent on their liquid assets and refinancing to service their upcoming debt maturities. Currently, NBFCs that we rate have sufficient liquidity, comprising liquid assets, undrawn lines from banks, and in some cases funding lines from group companies.

In our opinion, we could see more differentiation in the liquidity available to finance companies, with strong NBFCs benefitting from a flight to quality. Liquidity stress could be high for wholesale lenders with large exposure to property developers or those without a strong parent, or companies with perceived weak governance.

Shriram Transport Finance Co. Ltd.

Primary analyst: Nikita Anand

We lowered the ratings on STFC to 'BB' from 'BB+' due to our expectation that funding conditions for the company could tighten amid challenging operating conditions and weakness in asset quality. We have therefore revised our funding assessment to moderate from adequate. STFC's dominant market position as India's largest commercial vehicle financier and its strong capitalization continue to support the ratings.

In our opinion, the used commercial vehicle segment is vulnerable in the current slowdown. The company's borrower profile is less resilient to the lockdown and weak economic activity. Also, collections will be more difficult for the company as it has a high reliance on collecting cash repayments.

We expect STFC's asset quality to deteriorate, which is likely to lower the availability of funding to the company. Although the company has access to multiple funding sources, it has had to curtail growth and increase dependence on securitization to navigate tight funding conditions over the past 18 months. The company operates in a confidence-sensitive sector with reliance on wholesale funding sources especially bank lines in the current environment. With rising risk aversion and pressure on asset quality, STFC faces higher refinancing risk than peers with stronger credit profiles and corporate or government backing. The company has regularly tapped overseas markets for funding in past quarters, which will be a challenge in the current market

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conditions.

Weak economic activity in India from strict lockdown measures is likely to keep vehicle utilization low, hurting the cash flows of road transport operators. STFC's stage 2 loans were sizable at the end of 2019 at 20% of total loans. We believe tough operating conditions could result in a higher transition rate from stage 2 to stage 3 loans, increasing STFC's nonperforming loans (NPLs) and credit costs. The company is holding about 34% of provisions against stage 3 loans and 6% against stage 2 loans. Stage 2 loans are loans with a significant increase in credit risk and that are 30-89 days overdue, and stage 3 loans are loans that are 90 days overdue. In our opinion, STFC may have to step up this provisioning in a weaker environment.

The negative outlook on STFC reflects a one-in-three chance that we will lower the rating over the next 12 months due to rising economic risks in the Indian financial sector.

We will downgrade STFC if economic risks rise or if deteriorating operating conditions result in a sharp increase in the company's NPLs and credit costs or if STFC's liquidity dwindles possibly due to refinancing issues and a decline in collections.

We will likely revise the outlook to stable if the operating environment improves, alleviating the pressure on STFC's asset quality, funding, and liquidity.

Bajaj Finance Ltd.

Primary analyst: Nikita Anand

We affirmed our 'BBB-' rating on BFL due to its strong market position and comfortable capital levels. BFL has a strong market position in consumer durables and two- and three-wheeler financing, which supports its reach in the Indian retail market. The company has adequate liquidity, in our view. Tempering these strengths are its relatively high credit costs and its reliance on wholesale sources for funding.

The negative outlook on BFL reflects our view that there is a one-in-three chance that we will lower the rating over the next 12 months due to rising economic risks in the Indian financial sector.

We do not factor any extraordinary support from the group given that the group entities are regulated or listed entities, which restricts their ability to provide support to BFL in the case of an extraordinary event.

We may downgrade BFL if we believe that the current economic crisis is sharper and longer than we envisage such that it substantially weakens the company's asset quality and sharply increases its credit costs beyond our expectations.

We believe stress in the wider group could spill over to BFL given the benefits to its market position and funding access from the common brand name. We would therefore also lower the rating on BFL if the group credit profile weakens. This may happen if there is a deterioration in the credit profile of either its sister company Bajaj Auto Ltd. or the ultimate parent, Bajaj Holdings and Investments Ltd. (BHIL).

We may revise the outlook to stable if economic risks reduce and the credit profiles of both BFL and group companies don't deteriorate materially.

Manappuram Finance Ltd.

Primary analyst: Michael Puli

We affirmed the ratings on Manappuram as it maintains very high capitalization and earnings capacity, and holds gold as collateral backing most of its loans. Offsetting these strengths is the company's modest business franchise, collateral-based underwriting standards for gold-backed loans, material exposure to unsecured microfinance customers, and reliance on short-term funding that faces continual rollover risk.

Our negative outlook reflects our view that Manappuram is not immune to heightened economic risks affecting India's financial system over the next 12-18 months. Particularly at risk, in our view, is the company's exposure to the micro finance sector at 20% of total loans, which we believe has customers who are relatively more vulnerable to economic conditions.

We would lower the ratings on Manappuram if economic risks sufficiently increase across India's banking and financial system to affect the company's operating environment. We could also lower the ratings if Manappuram's credit costs increase substantially relative to peers, or the company's ability to roll over its short-term funding suffers.

We would revise our outlook back to stable if economic risks to Indian finance companies reduce. A structural improvement to the stability of Manappuram's funding profile would result in a stable outlook, as longer-term funding would reduce the rollover risk associated with short-term wholesale funding, in our view.

Muthoot Finance Ltd.

Primary analyst: Michael Puli

We affirmed the ratings on Muthoot as it remains the market leader in gold-backed loans, maintains very high capitalization and earnings capacity, and holds gold as collateral for most of its loans. Offsetting these strengths is the company's exposures to operating risks and reliance on short-term funding, which faces continual rollover risk.

Our negative outlook reflects our view that Muthoot is not immune to heightened economic risks affecting India's financial system over the next 12-18 months.

We would lower the ratings on Muthoot if economic risks sufficiently increase across India's banking and financial system to affect the company's operating environment. We could also lower the ratings if Muthoot's credit costs increase substantially relative to peers, or the company's ability to roll over its short-term funding suffers.

We would change our outlook back to stable if we saw a reduction in economic risks to Indian finance companies. A structural improvement to the stability of Muthoot's funding profile would also result in a stable outlook, as longer-term funding would reduce the rollover risk associated with short-term wholesale funding, in our view.

Power Finance Corp. Ltd.

Primary analyst: Michael Puli

We affirmed the ratings on PFC given its ongoing dominant market position in financing India's power sector, the benefits it receives from linkages with central and state governments, and

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beneficial access to funding (e.g., tax free bonds). Further, the company maintains good capitalization and earnings capacity, although it remains highly concentrated to large scale and lumpy assets in a structurally poor performing power sector. Majority government ownership and backing support its relatively good market access to funding. Its policy role and linkages to the government of India result in one notch of uplift for the current rating.

Our negative outlook on PFC reflects our view that heightened economic risks may sufficiently increase across India's banking and financial system such that we lower the starting point for finance company ratings. This would result us lowering the rating on PFC to 'BB+'. This is because we believe that government supportiveness for PFC is not sufficient to offset these headwinds to the company's stand-alone creditworthiness. We see a one-in-three chance of this occurring over the next 12 months.

We would downgrade PFC if economic risks rise across the banking system. Although now less likely, we would also lower the rating on the company if the government of India reduces its shareholding to a degree that we believe materially lowers its linkage to the company and government supportiveness.

We would revise our outlook back to stable if economic risks in India reduce.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded

	To	From
Shriram Transport Finance Co. Ltd.		
Issuer Credit Rating	BB/Negative/B	BB+/Negative/B
Senior Secured	BB	BB+

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Ratings Affirmed; Outlook Action

	To	From
Bajaj Finance Ltd.		
Issuer Credit Rating	BBB-/Negative/A-3	BBB-/Stable/A-3
Manappuram Finance Ltd.		
Issuer Credit Rating	BB-/Negative/B	BB-/Stable/B
Senior Secured	BB-	
Muthoot Finance Ltd.		
Issuer Credit Rating	BB/Negative/B	BB/Stable/B
Senior Secured	BB	
Power Finance Corp. Ltd.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Senior Unsecured	BBB-	

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