

Rating Rationale

February 28, 2024 | Mumbai

Muthoot Capital Services Limited

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

Rating Action

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

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.75 Crore (Reduced from Rs.150 Crore) Non Convertible Debentures	CRISIL A+/Stable (Reaffirmed)
Rs.200 Crore Non Convertible Debentures	CRISIL A+/Stable (Reaffirmed)
Rs.250 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A+/CRISIL PPMLD A+/Stable/CRISIL A1+' ratings on the bank facilities and debt instruments of Muthoot Capital Services Limited (MCSL; part of the Muthoot Pappachan Group [MPG]).

CRISIL Ratings has also **withdrawn** its rating on the Rs 50 crore non-convertible debentures (see the Annexure - Details of Rating Withdrawn' for details) on receipt of independent confirmation that these instruments are fully redeemed, in line with its withdrawal policy.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 and continued financial, operational and managerial support from the group whose flagship company is 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 modest, though improving, asset quality, moderation in earnings profile and the company's continued, but reducing, geographical concentration in the southern Indian states.

After facing several challenges during the Covid-19 pandemic, the company underwent few changes and cleaned up its non-performing portfolio. The company sold its portfolio (which was affected due to the pandemic) worth Rs 235 crore to ARC. As a result, its assets under management (AUM) degrew around 7.5% to Rs 1,944 crore as on December 31, 2023, from Rs 2,102 crore as on March 31, 2023. Nevertheless, the company steadily came back on its growth trajectory with average monthly disbursements of Rs 112 crore during the first nine months of fiscal 2024 against Rs 110 crore during fiscal 2023 (Rs 96 crore during fiscal 2022).

In terms of asset quality, the company also made significant changes in its collections mechanism by enforcing strong follow-up right from softer delinquency buckets. While overall asset quality has remained modest, it has substantially improved with gross non-performing assets (NPAs) falling to 10.7% (owing to sale of portfolio to ARC) from 20.6% in fiscal 2023. The overall 90+ dpd stood at 9.4% as on December 31, 2023, as compared to 16.4% as on March 31, 2023. The average monthly collection efficiency (including overdues but excluding prepayments) has remained above 99% during the first nine months of fiscal 2024. Nevertheless, the ability of the company to manage collections from the harder delinquency buckets will be a key rating sensitivity factor.

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 MFL.

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 also holds directorships in several companies belonging to Muthoot Pappachan Group. The company also has strong operational linkages with other group companies. It has the third largest portfolio in the group and has been leveraging 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 collections. 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 2024 on account of accruals. MCSL's networth has improved to Rs 601 crore and gearing was 2.9 times as on December 31, 2023, as compared to Rs 489 crore and 3.9 times, respectively, as on March 31, 2023. The capital position has remained adequate despite no major capital infusion in the past five years. The company's philosophy is to maintain gearing at around 5 times on 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 strengthened its management by onboarding Mr Mathews Markose, a banking professional with 26 years of experience, as Chief Executive Officer; Mr Ramandeep Singh Gill, chartered accountant with over 11 years of experience, as Chief Financial Officer; and Ms Umadevi as Chief Risk Officer, along with others. The team has reinforced the systems and processes of the company, which will support the planned scale-up while maintaining the asset quality. 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, though improving, asset quality**

Amid 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 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 the fourth quarter of fiscal 2022, thereby reducing their NNPA to 5.7% as on March 31, 2022. The asset quality has improved thereafter during fiscal 2024, with 10.7% GNPA as on December 31, 2023, from 20.6% in fiscal 2023 (90+ dpd excluding the impact of IRACP norms was 9.4% as on December 31, 2023, as compared to 16.4% as on March 31, 2023), while the NNPA stood at 3.3%. The average monthly collection efficiency (including overdues but excluding prepayments) has remained above 99% during the first nine months of fiscal 2024. Nevertheless, the ability of the company to manage collections from the harder delinquency buckets will be a key monitorable.

- **Moderate, though 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 made to account for the impact of the pandemic. The credit cost rose to 13.9% during fiscal 2022 as compared to 3.4% during the previous fiscal, leading to loss of Rs 161.9 crore. With fading of pandemic-related issues, the earnings profile during fiscal 2023 showed improvement. During fiscal 2023, the company reported profit after tax (PAT) of Rs 78.7 crore which translated into return on managed assets (RoMA) of 3.5%. This was despite the company carrying high provisioning buffer of 19.8% of the total portfolio as on March 31, 2023. Furthermore, during fiscal 2024, MCSL sold portfolio worth Rs 235 crore to an ARC and revised its provisioning norms (PCR capping to 75%). Thus, it wrote back the provisions amounting to Rs 139 crore during the second quarter of fiscal 2024 and reported PAT of Rs 111 crore during the first nine months of fiscal 2024. For the same time, the PBT (excluding exception items) was Rs 54 crore and RoMA (before tax and exception items) was 3% (annualised) as compared to Rs 109 crore and 4.8%, respectively, during fiscal 2023. This coupled with company's improving operating profits is expected to support the company's profitability over the medium term.

- **Geographically concentrated portfolio**

Although MCSL has sequentially reduced the concentration in its portfolio over the years, its 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 45% as on December 31, 2023. MCSL's operations are concentrated in Kerala, which accounted for 25% of hypothecation loans as on December 31, 2023, though it has declined from 42% as on March 31, 2019. However, over the past 4-5 years, MCSL has 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'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, 2023. As on December 31, 2023, MCSL had cash and equivalent of Rs 313.7 crore. Its total debt obligation (including operating expense) was around Rs 90.7 crore for the next two months through February 2024. CC/WCDL of Rs 215 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 5.8 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 is expected to 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 the overall credit risk profile of MPG
- Substantial improvement in asset quality with 90+ dpd remaining below 3% on steady-state basis
- Substantial improvement in earnings, leading to improvement in RoMA to above 3% on 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 and 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 one of the listed companies of MPG. As on December 31, 2023, its AUM was Rs 1,944 crore. Around 88% of the total portfolio was two-wheeler loans.

Key Financial Indicators

Particulars	Unit	Dec-23	Mar-23	Mar-22	Mar-21
Total assets	Rs crore	2399	2435	2099	2560
Total income	Rs crore	304	445	411	505
Profit after tax	Rs crore	111	79	-162	52
90+ dpd	%	9.4	16.4	18.9	8.7
Adjusted gearing	Times	2.9	3.9	4.2	3.4
Return on managed assets	%	6.1*	3.5	-6.9	1.9

*annualised

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
NA	Non-Convertible Debentures*	NA	NA	NA	91	Simple	CRISIL A+/Stable
NA	Long term principal protected market linked debentures*	NA	NA	NA	25	Highly Complex	CRISIL PPMLD A+/Stable
INE296G07101	Non-Convertible Debentures	08-Mar-2023	10.40%	31-May-2024	35	Complex	CRISIL A+/Stable
INE296G07127	Non-Convertible Debentures	19-Jun-2023	10.30%	31-May-2025	49	Simple	CRISIL A+/Stable
INE296G07135	Non-Convertible Debentures	28-Dec-2023	10.00%	28-Dec-2026	100	Complex	CRISIL A+/Stable
INE296G07093	Long term principal protected market linked debentures	07-Jan-2023	G-Sec Linked	06-Jan-2026	35	Highly Complex	CRISIL PPMLD A+/Stable
INE296G07077	Long term principal protected market linked debentures	07-Jan-2023	G-Sec Linked	06-Jan-2025	20	Highly Complex	CRISIL PPMLD A+/Stable
INE296G07085	Long term principal protected market linked debentures	07-Jan-2023	G-Sec Linked	06-Apr-2024	20	Highly Complex	CRISIL PPMLD A+/Stable
INE296G07119#	Long term principal protected market linked debentures	06-Oct-2022	G-Sec Linked	06-Oct-2024	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	Cash Credit & Working Capital Demand Loan	NA	NA	NA	995	NA	CRISIL A+/Stable
NA	Proposed Term Loan	NA	NA	NA	1020	NA	CRISIL A+/Stable
NA	Working Capital Term Loan	NA	NA	24-Feb-2024	25	NA	CRISIL A+/Stable
NA	Working Capital Term Loan	NA	NA	11-May-2025	50	NA	CRISIL A+/Stable
NA	Working Capital Term Loan	NA	NA	30-Jun-2024	175	NA	CRISIL A+/Stable
NA	Working Capital Term Loan	NA	NA	31-Mar-2024	35	NA	CRISIL A+/Stable
NA	Working Capital Term Loan	NA	NA	21-Dec-2026	45	NA	CRISIL A+/Stable
NA	Working Capital Term Loan	NA	NA	29-Dec-2025	60	NA	CRISIL A+/Stable
NA	Working Capital Term Loan	NA	NA	30-Apr-2025	20	NA	CRISIL A+/Stable
NA	Working Capital Term Loan	NA	NA	05-Mar-2024	45	NA	CRISIL A+/Stable
NA	Working Capital Term Loan	NA	NA	05-Jan-2026	30	NA	CRISIL A+/Stable

*Yet to be issued

#There has been a change in the terms of instruments and new ISIN has been allotted against old ISIN (New ISIN INE296G07119 against Old ISIN INE296G08018). CRISIL Ratings has replaced old ISIN (INE296G08018) in the rating rationale with new ISINs (INE296G07119) on the basis of confirmation received from the issuer/ depository portal.

Annexure - Details of Rating Withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.cr)	Complexity level	Rating
INE296G07010	Non-Convertible Debentures	25-Jun-2020	10.07%	21-Apr-2023	50	Simple	Withdrawn

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	2500.0	CRISIL A+/Stable		--	17-08-23	CRISIL A+/Stable	19-10-22	CRISIL A+/Stable	30-12-21	CRISIL A/Stable	CRISIL A/Stable
			--		--	01-03-23	CRISIL A+/Stable	29-09-22	CRISIL A/Stable	18-03-21	CRISIL A/Stable	--
			--		--	07-02-23	CRISIL A+/Stable	07-07-22	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+		--	17-08-23	CRISIL A1+	19-10-22	CRISIL A1+	30-12-21	CRISIL A1	CRISIL A1
			--		--	01-03-23	CRISIL A1+	29-09-22	CRISIL A1	18-03-21	CRISIL A1	--
			--		--	07-02-23	CRISIL A1+	07-07-22	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		--	17-08-23	CRISIL A+/Stable	19-10-22	CRISIL A+/Stable	30-12-21	F A+/Stable	F A+/Stable
			--		--	01-03-23	CRISIL A+/Stable	29-09-22	CRISIL A/Stable	18-03-21	F A+/Stable	--
			--		--	07-02-23	CRISIL A+/Stable	07-07-22	CRISIL A/Stable		--	--
			--		--		--	22-06-22	CRISIL A/Stable		--	--

			--	--		--	26-04-22	F A+/Stable		--	--
			--	--		--	03-03-22	F A+/Stable		--	--
Non Convertible Debentures	LT	275.0	CRISIL A+/Stable	--	17-08-23	CRISIL A+/Stable	19-10-22	CRISIL A+/Stable	30-12-21	CRISIL A+/Stable	CRISIL A+/Stable
			--	--	01-03-23	CRISIL A+/Stable	29-09-22	CRISIL A+/Stable	18-03-21	CRISIL A+/Stable	--
			--	--	07-02-23	CRISIL A+/Stable	07-07-22	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	--	17-08-23	CRISIL PPMLD A+/Stable	19-10-22	CRISIL PPMLD A+ r /Stable		--	--
			--	--	01-03-23	CRISIL PPMLD A+/Stable	29-09-22	CRISIL PPMLD A r /Stable		--	--
			--	--	07-02-23	CRISIL PPMLD A+/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	10	City Union Bank Limited	CRISIL A+/Stable
Cash Credit & Working Capital Demand Loan	20	IDBI Bank Limited	CRISIL A+/Stable
Cash Credit & Working Capital Demand Loan	50	Indian Bank	CRISIL A+/Stable
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	35	Tamilnad Mercantile Bank Limited	CRISIL A+/Stable
Cash Credit & Working Capital Demand Loan	200	HDFC 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	50	Central Bank Of India	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	50	State Bank of India	CRISIL A+/Stable
Cash Credit & Working Capital Demand Loan	10	IDFC FIRST Bank Limited	CRISIL A+/Stable
Proposed Term Loan	1020	Not Applicable	CRISIL A+/Stable
Working Capital Term Loan	25	CSB Bank Limited	CRISIL A+/Stable
Working Capital Term Loan	50	State Bank of India	CRISIL A+/Stable
Working Capital Term Loan	175	Canara Bank	CRISIL A+/Stable

Working Capital Term Loan	35	Axis Bank Limited	CRISIL A+/Stable
Working Capital Term Loan	45	The Federal Bank Limited	CRISIL A+/Stable
Working Capital Term Loan	60	IDFC FIRST Bank Limited	CRISIL A+/Stable
Working Capital Term Loan	20	ESAF Small Finance Bank Limited	CRISIL A+/Stable
Working Capital Term Loan	45	Oxyzo Financial Services Private Limited	CRISIL A+/Stable
Working Capital Term Loan	30	Poonawalla Fincorp Limited	CRISIL A+/Stable

Criteria Details

Links to related criteria
Rating Criteria for Finance Companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs criteria for rating fixed deposit programmes
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Group Support

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