

CARE/CRO/RL/2019-20/1596

Ms. Ann Mary George,
Chief Financial Officer
Muthoottu Mini Financiers Limited,
Mini Muthootu Tech Towers,
Kaloor, Ernakulam - 682017

January 01, 2020

Confidential

Dear Madam,

Credit rating for outstanding Non-Convertible Debenture issues

On a review of recent developments including operational and financial performance of your company for FY19 (audited) and H1FY20 (provisional), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Non-convertible Debenture Issues	187.89 (Rupees One Hundred Eighty Seven crore and Eighty Nine Lakh only)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Non-convertible Debenture issue (Proposed)	200.00 (Rupees Two Hundred crore only)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed

2. Refer **Annexure I** for details of rated instruments.
3. Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Instrument type	ISIN	Issue Size (Rs cr)	Coupon Rate	Coupon Payment Dates	Terms of Redemption	Redemption date	Name and contact details of Debenture Trustee	Details of top 10 investors
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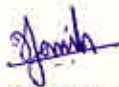
4. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as Annexure. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by January 02, 2020, we will proceed on the basis that you have no any comments to offer.
5. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
6. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the debt instrument, CARE shall carry out the review on the basis of best available information throughout the life time of such instrument. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
7. CARE's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

8. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
9. CARE ratings are **not** recommendations to buy, sell, or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,



Hareesh H
Analyst
hareesh.h@careratings.com



Ravi Shankar R
Manager
ravi.s@careratings.com

Encl.: As above

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

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Annexure-I

Instruments	Date of Issue	ISIN No	Coupon Rate (%)	Maturity Date	Amount Rated (Rs.crore)
NCD-II	Aug 25, 2015	INE101Q07284	11.00	Aug 25, 2021	4.46
	Aug 25, 2015	INE101Q07292	12.25	Aug 25, 2021	51.40
NCD-III	Sep 12, 2019	INE101Q07474	9.89	Jan 04, 2021	34.16
	Sep 12, 2019	INE101Q07482	10.00	Sep 12, 2021	18.72
	Sep 12, 2019	INE101Q07490	10.25	Sep 12, 2022	18.28
	Sep 12, 2019	INE101Q07508	10.50	Sep 12, 2022	3.39
	Sep 12, 2019	INE101Q07516	10.25	Sep 12, 2022	18.70
	Sep 12, 2019	INE101Q07524	10.35	Sep 12, 2024	13.44
	Sep 12, 2019	INE101Q07532	10.65	Sep 12, 2024	2.67
	Sep 12, 2019	INE101Q07540	10.35	Sep 12, 2024	22.67
	NCD (Proposed)	-	-	-	-

Annexure
Press Release

Muthoottu Mini Financiers Limited (MMFL)

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Non-convertible Debenture Issue-II	55.86	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Non-convertible Debenture Issue-III	132.03	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Non-convertible Debenture issue (Proposed)	200.00	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Non-convertible Debenture Issue-I	-	-	Withdrawn
Total Facilities	387.89 (Rupees Three Hundred and Eighty Seven crore Eighty Nine Lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the Non-Convertible Debenture issues of Muthoottu Mini Financiers Limited (MMFL) continues to factor in the strong brand recognition of the group and the long track record of the promoters in the gold loan business, comfortable capitalization levels, stable asset quality levels and adequate liquidity position.

The rating is constrained by geographical concentration of loan portfolio, moderate profitability, concentrated resource profile, significant investment in fixed assets, concentration in a single asset class which is exposed to market risk related to gold and intense competition in the gold loan business.

Going forward, the ability of the company to maintain asset quality and improve profitability levels while increasing the scale of operations, improve regulatory compliance and any change in the regulatory scenario are the key rating sensitivities.

Rating Sensitivities

Positive Factors:

- Improvement in the scale of operations with improvement in geographical concentration
- Improvement in profitability on a sustained basis

Negative Factors:

- Further moderation in profitability
- Deterioration in asset quality
- Deterioration in capital adequacy levels

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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Credit Risk Assessment

Key Rating Strengths

Strong brand value and experienced promoters

The 'Mini Muthoot' group has been in the gold loan business for more than six decades and has consequently established strong brand value in the market. Over the years, the company has expanded its branch network across South India. The promoters of the group have rich experience in gold loan business and day-to-day operations are looked after by a team of professionals who have extensive experience in banking and finance.

Adequate risk management systems

MMFL has put in place the strong appraisal systems including the evaluation of gold. Several tests for checking spurious gold including touchstone test and nitric acid test are conducted by the branches. The company has implemented systems for ensuring the gold security and reducing the custodial risks, including highly secured vaults with dual control and insurance. Furthermore, surveillance cameras have been installed in all its branches. It also has an internal audit system wherein the gold auditors inspect the branches every 30 days where the auditor verifies all the gold ornaments. All the branches of the company are subject to regular accounts internal audit once in three months.

Comfortable capital adequacy levels

The total CAR and Tier I CAR stood at 34.85% (PY: 33.90%) and 25.11% (PY: 22.33%) as on March 31, 2019 and 27.16% and 22.51% as on September 30, 2019 respectively. Overall gearing was around 2.53x times as on March 31, 2019 and 2.69x as on September 30, 2019 as against 3.00x as on March 31, 2018.

Stable Asset Quality

The loans are backed by the gold jewelry that is a liquid and safe security. The loans are for a period of up to 9 months. In order to improve asset quality the company started collecting interest on monthly basis. In case the borrowers fail to repay the loans within the stipulated time period, the company reserves the right to auction the gold jewelry kept as security. Collecting interest payments monthly helps in reducing losses on auctions as the gap between scrap values of gold kept as collateral and obligation of the borrower is minimized.

GNPA and NNPA stood at 2.16% and 1.39% as on March 31, 2019 as against 2.09% and 1.58% as on March 31, 2018. GNPA and NNPA as on September 30, 2019 stood at 1.84% and 1.08% respectively. The ability of the company to maintain asset quality and reduce under-recovery on auctions remains a key rating sensitivity

Key Rating Weaknesses

High product and geographical concentration

The loan portfolio is concentrated towards South India. As on March 31, 2019, Tamil Nadu constituted around 42% (PY: 45%) of the Gold loan portfolio, followed by Karnataka with 22% (PY: 18%) and Kerala with 11% (PY: 10%). The 5 south Indian states constituted around 95% of the gold loan portfolio as on March 31, 2019 and September 30, 2019.

The company has been making consistent efforts to increase the loan portfolio by way of expanding the branch network and addition of new branches in the new geographies. However, the portfolio is expected to remain concentrated in South India over the medium term

The company earns a major portion of the income from the lending of loans against the gold jewelry. Though the risk is mitigated to an extent as the loans are backed by gold jewelry which is highly liquid in nature, the company is exposed to a price risk associated with the gold which could have a bearing on the full recoverability of principal and interest portion. However, offering lower LTV loans and of total loan tenure of 9 months will help in reducing under-recovery to an extent. As on March 31, 2019, gold loans accounted for 97% of the loan portfolio and rest are Micro Finance Loans. The proportion of gold loans to the total loan portfolio expected to remain higher in the medium term.

Moderate profitability

NIM has marginally improved from 6.30% in FY18 to 6.85% in FY19 with improvement in the capital structure. Operating expenses to average total assets remained stable at 5.53% in FY19 (PY:5.41%). ROTA improved to 1.10% during FY19 from 0.67% during FY18. With decrease in yield on account of monthly collection of interest and increase in the operational expenses on account of opening new branches and zonal offices, ROTA declined to 0.50% during H1FY20. During H1FY20, the company reported a PAT of Rs.5 crore on a total income of Rs.146 crore.

Concentrated resource profile

The resource profile is concentrated towards retail debentures which constitutes around 54% of the total borrowings as on March 31, 2019 as against 69% as on March 31, 2018. Share of bank borrowings has increased from 31% as on March 31, 2018 to 46% as on March 31, 2019. During H1FY20, the company has again started raising retail NCDs. As on September 30, 2019 the debentures and bank borrowings constituted around 62% and 38% of the borrowings respectively.

The company has a limit of Rs.150 crore via securitization route since Q3FY19. The company has been rolling over the securitization portfolio as it gets run down.

Significant exposure to fixed assets

MMFL made significant investments in fixed assets during FY16 from related parties. However, with equity infusion post that and revaluation in the value of fixed assets purchased, Fixed assets to net worth has reduced and stood at 44% as on September 30, 2019.

Intense competition in the gold loan business

Geographically, the gold loan financing industry is predominantly placed in southern India with active interest of both the South India-based banks and the large NBFCs operating out of this region. MMFL faces increasing competition from large players including banks and other NBFCs offering gold loans in the regions where the company operates.

Industry Prospects

The NBFC sector has witnessed superior growth rates in the three years ended FY18, mainly driven by slowdown in credit flow from the banks as they grapple with asset quality challenges and capital constraints. The NBFC sector has demonstrated asset-class specific expertise with sophisticated credit underwriting methods, increased use of data analytics, multi-channel origination, and faster turnaround times helping them gain market share in both retail and wholesale asset classes. Comfortable capitalization levels and liquidity management continue to provide

comfort to the credit profile of NBFCs. The same, however, is being put to test under the prevailing liquidity tightness and changed sentiment towards NBFCs since September 2018.

The sector witnessed a liability-side disruption post September 2018, leading to sharp increase in spreads and drying up of the short-term commercial paper (CP) market. NBFCs running a negative asset-liability gap in the shorter time buckets had to react to the situation by dipping into their liquidity reserves and/or resorting to portfolio sales to banks to generate liquidity. The changed scenario on the liability front is likely to impact the portfolio growth as well as profitability of the NBFCs in the medium term. NBFCs having presence in the wholesale and real-estate lending space are likely to be impacted more vis-à-vis their retail counterparts. Asset quality, liquidity and profitability will be the key monitorables for the sector going forward.

Liquidity: Adequate

ALM as on September 30, 2019 remains comfortable as there are no cumulative mismatches in any of the buckets upto 1 year. This is due to longer tenure of the borrowings as compared to that of loans disbursed which is of short term in nature. MMFL also has cash and cash equivalents of around Rs.60 crore as on September 30, 2019.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit watch to Credit Ratings

CARE's Policy on Default Recognition

Financial Ratios-Financial Sector

CARE's Rating Methodology for Non Banking Finance Companies (NBFCs)

Policy on withdrawal of ratings

About the Company

Muthoottu Mini Financiers Ltd (MMFL) was incorporated on March 18, 1998 and was operating as an investment company for other group entities till FY06. MMFL started gold loan advances from FY07 and undertook rapid branch expansion from FY09 onwards. The company has been converted into a public limited company on November 27, 2013 and consequently the name has been changed from Muthoottu Mini Financiers Private Limited to MMFL. MMFL also operates as an agent of several Money Transfer Services set-ups, realizing agency commission for these services. As on September 30, 2019, the company had a loan portfolio of Rs.1,660 crore and operates through 772 branches across India.

Brief Financials

(Rs. Crore)

Year ended/As on March 31	2018 (A)	2019 (A)
Total Operating Income	335	298
PAT	14	21
Total Assets	1,972	1,823
Net NPA Ratio	1.58	1.39
ROTA (PAT / Average Total Assets)	0.67	1.10

Note: A – Audited;

(a) NIM has been calculated as net interest income/average annual total assets;

(b) Ratios have been computed based on average of annual opening and closing balances

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact

Mr P Sudhakar

Contact no. - 044-28501000

Email: p.sudhakar@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. CARE's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures – I	-	-	-	-	0.00	Withdrawn
Debentures-Non Convertible Debentures – II	INE101Q07284	Aug 25,2015	11.00%	Aug 25,2021	4.46	CARE BBB-; Stable
	INE101Q07292	Aug 25,2015	12.25%	Aug 25,2021	51.40	
Debentures-Non Convertible Debentures - III	INE101Q07474	Sep 12, 2019	9.89%	Jan 04, 2021	34.16	CARE BBB-; Stable
	INE101Q07482	Sep 12, 2019	10.00%	Sep 12, 2021	18.72	
	INE101Q07490	Sep 12, 2019	10.25%	Sep 12, 2022	18.28	
	INE101Q07508	Sep 12, 2019	10.50%	Sep 12, 2022	3.39	
	INE101Q07516	Sep 12, 2019	10.25%	Sep 12, 2022	18.70	
	INE101Q07524	Sep 12, 2019	10.35%	Sep 12, 2024	13.44	
	INE101Q07532	Sep 12, 2019	10.65%	Sep 12, 2024	2.67	
INE101Q07540	Sep 12, 2019	10.35%	Sep 12, 2024	22.67		
Debentures-Non Convertible Debentures (proposed)	-	-	-	-	200.00	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	1)Withdrawn (19-Feb-18)	1)CARE BB+ (09-Nov-16)
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (21-May-18)	1)CARE BB+; Stable (19-Feb-18)	1)CARE BB+ (09-Nov-16)
3.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (21-May-18)	1)CARE BB+; Stable (19-Feb-18)	1)CARE BB+ (09-Nov-16)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE BBB-; Stable (18-Feb-19)	1)CARE BB+; Stable (19-Feb-18)	1)CARE BB+ (09-Nov-16)
5.	Debentures-Non Convertible Debentures	LT	55.86	CARE BBB-; Stable	-	1)CARE BBB-; Stable (18-Feb-19)	1)CARE BB+; Stable (19-Feb-18)	1)CARE BB+ (09-Nov-16)
6.	Debentures-Non Convertible	LT	132.03	CARE BBB-;	1)CARE BBB-;	-	-	-

	Convertible Debentures			BBB-; Stable	BBB-; Stable (03-Jul-19)			
7.	Debentures-Non Convertible Debentures	LT	200.00	CARE BBB-; Stable	1)CARE BBB-; Stable (20-Dec-19)	-	-	-

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