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## Rating Rationale for Manappuram General Finance and Leasing Limited's Non-Convertible Debentures Issue of ₹ 100 crore with a tenor of 3 - 5 years

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**NCD Issue Rating: BWR AA-**

**Outlook : Stable**

Brickwork Ratings has assigned **BWR AA- (Pronounced BWR Double A minus)** for Manappuram General Finance and Leasing Limited's (MAGFIL) proposed Non Convertible Debentures (NCD) Issue of ₹ 100 Crore. 'BWR AA-' stands for an instrument that is considered to offer **High** credit quality/safety in terms of timely servicing of debt obligations.

The rating has, inter alia, factored MAGFIL's rich experience in gold loan business, recognized brand name in the niche gold loan segment, asset quality, profitability and management quality. The rating is, however, constrained by exposure to marginal borrower profile and volatility in the price of gold.

### **Background**

Manappuram group was founded in 1949 by late Mr. V.C.Padmanabhan. The company commenced its operations at Valapad, mainly with money lending activity. In 1986, Mr. V.P. Nandakumar, son of late Mr. V.C.Padmanabhan, took over the reins of the group.

MAGFIL, presently the group's flagship Company, was established in 1992 in Thrissur (Kerala) as a deposit taking Non Banking Finance Company (NBFC). However, since January 15, 2007 the Company decided to phase out the public deposits.

In 1993, this Group set up Manappuram Benefit Fund Limited, a NIDHI Company to provide specialized services to its members. Today, it is one of the top Nidhi Companies in South India. Manappuram Chits (I) Limited, a registered chit fund company, was set up in the year 2000.

MAGFIL provides a range of services such as gold loan, vehicle finance, insurance, forex business, distribution of mutual fund and other financial products. The company started forex business as a full-fledged money changer in 2002 and provides instant money transfer facility, in collaboration with Xpress Money, Coinstar, Instant Cash, Zoha, Ezremit and MoneyGram.

MAGFIL is mainly engaged in providing retail advances against bullion asset collaterals, in the form of Household Used Jewellery. It is estimated that there are 15000 tonnes of privately held gold in the country. The company's vision is to impart liquidity to at least 10% of such privately held gold.

While the company's core activity continues to be Gold loan, it has entered very aggressively into fee-based activities especially in insurance sector. The Group has promoted a separate company called Manappuram Insurance Brokers Private Limited.

Another group company Manappuram Finance Tamilnadu Limited (MAFIT), a non deposit taking NBFC, involved in similar business has been merged into MAGFIL. The merger came into force on January 11, 2010 giving effect from April 1, 2008.

MAGFIL had 6940 people and 1005 branches across 14 states and 1 union territory in India at the end of FY 10. MAGFIL is having a strong presence in South India, ~ 85% of total branches are in southern states of Kerala, Tamil Nadu, Karnataka, Andhra Pradesh. All branches are connected to the Head office by appropriate IT system which provides real time information to the HO. IT system adopted and in use by the Company has been appreciated in the recent issue of P C QUEST.

### **Objectives of the NCD Issue**

MAGFIL proposes to utilize the proceeds from the proposed NCD issue essentially for expansion of its core business. The proposed NCD issue will be secured by an appropriate charge on the Gold loan receivables of the company. The Company would appoint a SEBI registered Debenture Trustee to complete all requirements concerning obtaining/creation of securities and monitoring the same for the benefit of and protection of the interests of the investors in the proposed NCD issue.

### **Management**

Manappuram group was founded by late Mr. V.C.Padmanabhan and is currently managed by his son Mr. V.P. Nandakumar, Chairman and managing Director. He is a post graduate in science with additional qualifications in Banking & Foreign Trade and was in the Banking Industry for nearly 10 years. He is also the Chairman of Equipment Leasing Association and Chairman of KNBFC Association. Mr. I Unnikrishnan is the Managing Director of the company. He is an FCA and has expertise in financial services Industry especially in NBFC's. The company's Board

is broad based and consists of highly qualified and well experienced professionals from the Industry, Accounting, Legal and Academic fields and very senior retired Government/RBI officials to guide the Company.

### **Loan Profile**

MAGFIL, as a matter of policy, has a concentrated focus on the borrowing segment which is serviced by money lenders. Essentially the Company confines to gold loans of small ticket size- 55% of total outstanding loans are below ₹ 50,000 ticket size. MAGFIL is primarily involved in providing retail advances against bullion asset collaterals, in the form of Household Used Jewellery. The Company has developed systems and skills which enables a branch to disburse a normal ticket loan in about 15 minutes. Occasionally loans are made for higher amounts of Rs 5 lakh to Rs 10 lakh. Profiling of beneficiaries is done in depth as the amount of the loan increases. Average tenor of a loan is about 110 days (51% of the outstanding loans are for less than 3 months). Price of gold for arriving at the loan value is fixed by the Head office based on quarterly average price and incorporated in the IT system at the Head office. At branches, the system generates the loan value automatically based on the gold content and stipulated margin thereon.

On an average a branch daily processes about 15 requests for gold loans and thus the Company finances about 15000 beneficiaries every day. Total loan disbursement has increased by 50% in FY10. Total loan disbursements amounts to ₹ 7123 crore in FY10 as against ₹ 4737 crore in FY09 and ₹ 2744 crore in FY08. The company has a strong presence in South comprising 90% of total loan outstanding.

Table No.1 below shows the growth in loan disbursements in the last three years.

<b>Disbursements</b>		<b>₹ in crore</b>		
<b>Segments</b>	<b>Mar-10</b>	<b>Mar-09</b>	<b>Mar-08</b>	
Gold and other loans	7123.48	4737.15	2744.29	
Asset Financing	1.95	6.70	48.92	

## Financial Performance

The company has been consistently making profit and paying dividends from the first full year of its operations. The company has continued to perform well during 2009-10. Gold loan income forms the largest part of its total income. MAGFIL's total income has substantially increased by 187% to ₹ 478 crore in FY 10 from ₹ 166 crore in FY 09. Due to appropriate Training and skill development of its employees and consequent increased operating efficiency, profit before tax increased by 292% to ₹ 181 crore in FY10 from ₹ 46 crore in FY09. The company's Net Profit as of March 2010 stood at ₹ 119 crore as against ₹ 30 crore as of March 2009, a substantial increase of around 295%. The growth in income as well as the net profit reflects the strides made by the Company and immense potential offered by small gold loan business.

MAGFIL has a capital adequacy ratio of 28.01% as on March 31, 2010. Leverage was 4.13 as on March 31, 2010 as compared to 5.36 as on March 31, 2009. The Return on Assets stood at 7.46% during FY10 while ROE was 30.76% in FY 10 as compared to 23.23% in FY 09.

Table No. 2 below shows the summary of operational performance of MAGFIL during last three years:

(₹ crore)	Mar-10*	Mar-09	Mar-08
Income from Operations	469.97	160.53	77.95
Other Income	8.22	5.57	1.70
<b>Total Income</b>	<b>478.19</b>	<b>166.10</b>	<b>79.65</b>
Salaries & Allowances	53.64	27.70	11.48
Administrative Expenses	100.08	50.17	20.04
Financing Charges	136.92	38.59	14.35
Depreciation	5.70	3.37	1.83
<b>Total Expenditure</b>	<b>296.40</b>	<b>119.83</b>	<b>47.70</b>
PBT	181.79	46.27	31.95
<b>PAT</b>	<b>119.72</b>	<b>30.29</b>	<b>20.98</b>
<b>CRAR %</b>	<b>28.01%</b>	<b>30.06%</b>	<b>34.21%</b>

(₹ crore)	Mar-10*	Mar-09	Mar-08
<b>Leverage</b>	4.13	5.36	6.06
<b>Cost of Borrowings</b>	9.79%	12.45%	12.15%
<b>Return on Funds</b>	29.18%	29.11%	26.35%
<b>Net Interest Margin</b>	19.39%	16.66%	14.20%
<b>Return on Assets</b>	7.46%	6.36%	9.57%
<b>Return on Equity</b>	30.76%	23.23%	34.66%

### Asset Quality

The Company has an efficient system for monitoring and tracking defaults and remedial action has resulted in practically no NPA. MAGFIL has continuously achieved collection efficiency of more than 90%. NPAs on account of Gold loans are negligible. NPAs of the Company were almost entirely due to loans for three wheelers all of which have been provided for and disbursement of such loans have been stopped since the last year. MAGFIL's gross NPA decreased to 1.29% and net NPA decreased to 0.56% in FY10.

Table No. 3 below shows the asset quality and provision coverage made for non performing loans during the last three years.

	Mar-10*	Mar-09	Mar-08
Gross NPA (₹ in crore)	33.66	23.59	16.70
Net NPA (₹ in crore)	14.45	13.92	10.84
Gross NPA %	1.29%	2.37%	2.93%
Net NPA %	0.56%	1.45%	1.97%
Gross NPA to Gold Loan	0.39%	0.27%	0.21%
Net NPA to Gold Loan	0.17%	0.19%	0.13%
Provision Coverage Ratio %	57.06%	40.98%	20.50%

### Funding Mix

Nearly 55% of the funding comes from cash credit and working capital demand loans. 28% of the funding comes from securitization transactions and the rest from retail borrowings and

commercial paper. Total borrowings for the year ended March 31, 2010 was ₹ 2543 crore. MAGFIL has kept its cost of funds low.

Table No.4 below shows the total borrowings as on March 31, 2010:

Particulars	₹ In crore
<b>Securitisation/Assignment</b>	708
<b>OD, WCDL, STL</b>	1385
<b>Retail Borrowings</b>	380
<b>Commercial Paper</b>	70
<b>Total</b>	<b>2543</b>

### Management of Risk:

MAGFIL has put in place Risk Management Committees, duly approved by its board which meets at regular intervals to take care of credit, market, and operational risks. The Board periodically reviews the same. All the Branches are connected to the Head office on line and critical information is available on real time basis. IT system adopted and in use by the Company has been appreciated in the recent issue of P C QUEST. Operational risk management occupies a very important role keeping in view the nature of the Company's business. The trigger points for appropriate actions have been identified, defined and also reviewed constantly. The system, inter-alia, provides for surprise inspections and specific audit of new loans. Top management of the Company meets at frequent intervals to review various aspects of the company's business including risk management.

### Industry Outlook

India is the largest gold market with an annual demand of around 700 tonnes. As of 2010, Gold stock in India is estimated at around 20,000 tonnes which translates into 10% of total global gold stock. Organised gold loans market in India is estimated at around ₹ 220-270 bn with a CAGR of 38% from FY 02-09.

Organised segment has registered a growth of 35-40% and is expected to continue growing at the same rate and reach a portfolio size of Rs 500-530 bn by FY11. Un-organised gold loans market is believed to be several times the size of organised gold loans market in India. Lenders

are active in rural areas and provide loans against jewellery at interest rates which are pretty stiff. South India continues to account for 85-90% of the gold loans market in India. Going forward, as organised lenders, particularly NBFCs become more aggressive in the gold loans market, a significant part of the gold loans may shift from the un-organised lenders to the organised lenders. However, companies are wary of volatility in gold prices, since a sharp correction will erode the value of their collateral.

## Rating Outlook

MAGFIL has a well established presence in the niche gold loan segment. The company has been performing well, maintained good asset quality, has strong risk management practices, has maintained adequate liquidity and kept its cost of funds low. The gold loan business is always exposed to the risk of steep price movements and calls for constant vigil and immediate appropriate action to mitigate any loss. The Company's track record has shown its ability to quickly respond to manage its business well and it is expected that it will continue to demonstrate such abilities to further improve its performance.

*\*Manappuram Finance Tamilnadu Limited was merged with Manappuram General Finance and Leasing Limited with effect from January 11, 2010.*

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<b>Manappuram General Finance and Leasing Limited</b>			
<b>Annexure I: Balance sheet</b>			
(₹ In Crore)	2010*	2009	2008
<b>Sources of Funds</b>			
Share Capital	34.03	21.25	61.80
Share Warrants		2.99	
Reserves and Surplus	576.52	143.61	31.18
<b>Deferred Tax Liability</b>			<b>0.03</b>
<b>Loan Funds</b>			
Secured Loans	1650.05	371.24	135.10
Unsecured Loans	185.61	79.33	39.39
<b>TOTAL</b>	<b>2446.22</b>	<b>618.44</b>	<b>267.50</b>
<b>Application of Funds</b>			
Fixed Assets			
Gross Block	70.32	34.96	20.81
Less : Depreciation	13.56	7.18	4.49
Net Block	<b>56.76</b>	<b>27.78</b>	<b>16.32</b>
Capital Work in Progress	0.12	0.26	
<b>Deferred Tax Assets</b>	3.35	1.35	
<b>Investments</b>	140.67	1.07	2.92
<b>Current Assets, Loans and Advances</b>			
Cash and Bank Balance	268.20	113.39	67.22
Other Current Assets	187.88	67.59	20.27
Loans and Advances	1890.71	448.60	185.30
	<b>2346.79</b>	<b>629.58</b>	<b>272.79</b>
Less: Current Liabilities and Provisions			
Current Liabilities	81.02	34.79	22.05
Provisions	20.45	6.81	2.47
	<b>101.47</b>	<b>41.60</b>	<b>24.52</b>
Net Current Assets	2245.32	587.98	248.27
<b>TOTAL</b>	<b>2446.22</b>	<b>618.44</b>	<b>267.50</b>

<b>Manappuram General Finance and Leasing Limited</b>			
<b>Annexure II: Profit and Loss Account</b>			
(₹ In Crore)	2010*	2009	2008
<b>Income</b>			
Income from Services	469.97	160.53	77.95
Other Income	8.22	5.57	1.70
<b>Total</b>	<b>478.19</b>	<b>166.11</b>	<b>79.65</b>
<b>Expenditure</b>			
Personnel Expenses	53.64	28.39	11.48
Operating and Other Expenses	100.07	49.47	20.03
Depreciation/amortization	5.73	3.37	1.82
Finance Expenses	136.92	38.59	14.35
<b>Total</b>	<b>296.37</b>	<b>119.82</b>	<b>47.69</b>
Profit before tax	181.82	46.28	31.96
<b>Profit for the year after tax</b>	<b>119.72</b>	<b>30.29</b>	<b>20.98</b>
Profit brought forward from previous year	18.87	3.90	0.61
Amounts adjusted on amalgamation of MAFIT	8.81		
<b>Profit available for appropriation</b>	<b>147.40</b>	<b>34.19</b>	<b>21.60</b>

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