CRISIL Ratings

Rating Rationale

March 03, 2022 | Mumbai

Muthoot Vehicle and Asset Finance Limited

Ratings reaffirmed at 'F A+/Stable, CRISIL A/Stable'

Rating Action

Total Bank Loan Facilities Rated	**Rs.150 Crore**
Long Term Rating	**CRISIL A/Stable (Reaffirmed)**

Rs.152 Crore Fixed Deposits	**F A+/Stable (Reaffirmed)**
Rs.200 Crore Non Convertible Debentures	**CRISIL A/Stable (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its **'CRISIL A/Stable'** rating on the long-term bank facilities and non-convertible debentures (NCDs) of Muthoot Vehicle and Asset Finance Ltd (MVAFL), and its **'FA+/Stable'** rating on the fixed deposits programme.

The ratings continue to factor in the linkage of MVAFL to, and expectation of continued managerial and financial support from, the Muthoot group and its promoters. The flagship company, Muthoot Finance Ltd, is rated 'CRISIL AA+/Stable/CRISIL A1+'. The ratings also factor in adequate capitalisation of MVAFL. These strengths are partially offset by the modest asset quality, average earning profile, moderate resource profile and small scale of operations with high geographic concentration.

Assets under management stood at Rs 320 crore in fiscal 2021, posting year-on-year decline of 20%, and further dropped to Rs 248 crore in December 2021, as the management has decided to reduce disbursements amidst the pandemic, given the uncertainty in the operating scenario. However, disbursements have picked up from the third quarter of fiscal 2022, in the two-wheeler, used four-wheeler and gold loan segments, which will be key focus areas going forward.

Collection efficiency (including overdues, but excluding prepayments) was impacted by the sharp spike in the number of cases during the second wave, and various forms of lockdowns imposed by states to curb the spread of Covid-19 – it dropped to 68% in May 2021. However, efficiency improved steadily thereafter and stood at over 100% in November and December 2021. Gross stage 3 was 16.7% as of December 2021, against 11.0% as of March 2021. Furthermore, reported GNPA (gross non-performing assets) stood at 25.2% after the Reserve Bank of India (RBI) released a clarification in November 2021 with respect to single day NPA recognition and upgradation of NPA accounts only after all dues are cleared. However, the recent clarification to defer implementation of upgradation norms till September 30, 2022, will give the company reasonable transition time to recalibrate processes, especially revamp collection infrastructure and teams, and persuade borrowers to align with new dispensation norms. Ability to increase collections across delinquency buckets and improve asset quality while scaling up operations in the coming quarters, given the challenging environment, will remain a key rating sensitivity factor

Analytical Approach

For arriving at its ratings, CRISIL Ratings has assessed the standalone business, financial, and management risk profiles of MVAFL. The ratings further factor in the group's support from stakeholders, that is, the Muthoot group (whose flagship company is Muthoot Finance Ltd) and its promoters.

Key Rating Drivers & Detailed Description

Strengths:

Strategic importance to, and expectation of financial support from, the Muthoot group, and promoters

MVAFL is held entirely by promoters of the Muthoot group, who are also major shareholders in other group companies. They also hold 73.4% stake in Muthoot Finance Ltd, the flagship company. The shareholding structure may remain unchanged, with current promoters continuing as majority shareholders. MVAFL is strategically important to the group as it is the only deposit-taking entity and serves as its vehicle to grow asset/vehicle finance portfolio in Kerala.

Though few directors had extended interest-bearing unsecured loans to the company in the past, due to excess liquidity and lower disbursement during the pandemic, the company has repaid these loans and inter-corporate deposits from group companies in fiscal 2021.

CRISIL Ratings notes that the company is focusing on diversifying its resource mix and increasing the share of capital market and bank borrowing. Nevertheless, the promoters are likely to step in and provide timely financial support during any exigency.

MVAFL also has strong representation of common directors of the group on the board and other important committees such as audit and risk management. In addition, the managing director (MD) of Muthoot Finance Ltd Mr George Alexander Muthoot is on board as non-executive director of the MVAFL. The other promoters on the board include Mr George M Jacob and Ms Anna Alexander. The group and the company have shared name and logo as well. Therefore, CRISIL Ratings believes that the Muthoot group has a strong moral obligation to support MVAFL, going forward.

Adequate capitalisation
MVAFL is well-capitalised with sizeable networth of Rs 91 crore, similar to the level as on March 31, 2021. Tier I and overall capital adequacy ratios stood at 31.6% and 34.3%, respectively, as on December 31, 2021. Gearing too was comfortable at 2.4 times as on December 31, 2021 (2.4% as on March 31, 2021). Capitalisation metrics have been supported by healthy internal accrual over the years. CRISIL Ratings notes that the company is focusing on diversifying its resource mix and increasing share of the capital market. However, due to excess liquidity and lower disbursements, promoter loans have been repaid in the nine months through fiscal 2021. Nevertheless, capitalisation should be adequate over the medium term, supported by strong financial flexibility of the promoters, the Muthoot group, to infuse equity both, on an ongoing basis, for growth as well as during distress.

Weakness:
Modest asset quality
Amidst the challenging economic environment induced by the pandemic over April-December 2021, delinquencies have gone up with reported gross NPAs and net NPAs at 25.2% and 15.8%, respectively, as on December 31, 2021. Gross stage 3 of MVAFL rose to 16.7% as on December 31, 2021, from 11.0% as on March 31, 2021. Increase in delinquencies have been on account of lower collections following the subsequent Covid-19 waves. Further, reported GNPAs were impacted by a clarification released by the RBI in November 2021, with respect to single-day NPA recognition and upgradation of NPA accounts only post clearance of all dues. The recent revised RBI clarification to defer implementation of upgradation norms till September 30, 2022, will give the group enough transition time to recalibrate processes, especially revamp their collection infrastructure and teams, and persuade borrowers to align with the new norms. CRISIL Ratings expects the group to focus on near-term overdues to reduce delinquencies in the >60 days bucket and thus, curb incremental slippages.

Deferral of upgradation provision by the RBI gives more time to focus on recoveries, make additional provisions, or even raise equity to keep net NPAs below the prompt corrective action (PCA) watermark, which comes into force for non-banking finance companies from October 1, 2022. CRISIL Ratings understands that the company is committed to bring down its net NPA along and maintain capitalisation metrics well within regulatory thresholds. The overall rating continues to factor in expectation of timely financial and capital support from the promoters in case of any exigency.

Moderation in earnings profile due to higher provisioning to combat the pandemic
Earning profile has moderated over the last two years owing to higher provisioning requirement amidst the pandemic. MVAFL reported loss of Rs 8.7 crore in fiscal 2021 as compared to profit after tax of Rs 3.2 crore in fiscal 2020, owing to higher provisioning cost. Credit cost rose to 4.6% in fiscal 2021 from 1.5% in fiscal 2020. However, the company reported pre-provisioning profit (PPoP) of Rs 14.3 crore in fiscal 2021 as compared to Rs 12.6 crore in fiscal 2020. Similarly, for the first nine months of fiscal 2022, PPoP and net loss are projected at Rs 7.5 crore and Rs 15 lakh, respectively, and credit cost at 2.4%(annualised).

However, with rising NPAs, the earning profiles may remain subdued in fiscal 2022 as well. Nevertheless, ability to manage the earnings profile would be a key rating sensitivity factor in the near term.

Moderate resource profile
Resource profile mix has moderated with NCDs (68%) and fixed deposits (32%) forming 100% of borrowing as of December 2021. MVAFL has repaid its entire bank debt in fiscal 2021, as disbursements were low and excess liquidity was available. Also, the company stopped taking deposits since March 2020 and did not renew fixed deposits post July 2021. it also has unutilised bank limit of Rs 35 crore in terms of a cash credit/working capital demand loan (CC/WCDL) and term loan as of December 2021.

CRISIL Ratings notes that in the past, the promoters have provided funding support at competitive rates. Going forward, as disbursements are picking up, the company will focus on diversification of its resource mix and raising funds from capital market and longer tenure bank debt. In the long run, its ability to increase its external funding routes and display stability in banking relationships will be a key monitorable.

Small scale of operations with limited geographical presence

Scale remains small, with AUM around Rs 248.4 crore as on December 31, 2021, (vis-à-vis Rs 406 crore in March 2020). The AUM has been on a declining trend since March 2020, owing to economic challenges and spread of the pandemic. Furthermore, as presence is largely restricted within Kerala, there is high geographic concentration, and asset quality remains susceptible to slippages.

As of December 2021, the portfolio comprised of new and used cars (84%), two-wheelers (7%), commercial vehicles (2.4%), business development loans (2.8%), machinery and equipment loans (1.6%) and personal loans and trade advance (0.8%). The company has recently ventured into gold loans which formed 1.7% of the overall AUM. Going forward, with sourcing channels gaining hold, the company intends to focus on gold loans, used car financing and two-wheeler segments. Nevertheless, it will remain a small player in the vehicle financing segment overall.

Liquidity: Strong
Liquidity is driven by expectation of funding support from the promoters and the Muthoot group, both on an ongoing basis and in case of exigencies. CRISIL Ratings notes that, on a standalone basis, as on December 31, 2021, there are cumulative positive gaps in the up to six months bucket. In term of cash and equivalents, including liquid investments, the company had Rs 142 crore and undrawn bank lines (CC/WCDL) of Rs 25 crore as on December 31, 2021. As against this, debt obligation due for servicing over the three months through March 2022, aggregated to Rs 82.1 crore. This represents a liquidity cover (assuming nil collections) of 2.0 times for three months. Liquidity is also supported by steady collections over the past 2-3 months, standing at over Rs 9 crore (excluding pre-payments) per month. Nevertheless, CRISIL Ratings understands that promoters will provide need-based funding support to ensure timely servicing of debt.

Outlook : Stable
MVAFL will continue to receive strong operational, financial and managerial support from the promoters and the Muthoot group (Muthoot Finance Ltd) and maintain adequate capitalisation.

Rating Sensitivity factors

Upward factors
- Sustainable improvement in asset quality, with adjusted 90+ dpd remaining under 5% as the portfolio scales up
- Increase in scale of operations and a stable earnings profile

Downward factors
- Downgrade in the rating of Muthoot group or Muthoot Finance Ltd by one notch or higher
- Sharp deterioration in the asset quality, impacting the profitability and capital level of the company

About the Company
MVAFL is a part of the Muthoot group, which was founded in 1887, and started as a small trading business enterprise in a remote village in Kerala. Over the years, the group has become a diversified business house with presence across financial services, plantations and estates, education and leisure, with Muthoot Finance Ltd being its flagship company.

In 1992, the group started its vehicle finance division as Muthoot Leasing and Finance Ltd and renamed it as MVAFL in 2008, so as to offer a wide range of financial solutions. MVAFL is an NBFC, classified as a deposit accepting asset finance company, and headquartered in Kochi. It is primarily engaged in new and used vehicle financing. The company currently has 23 branches in Kerala and three branches outside Kerala i.e. Coimbatore, Bengaluru and New Delhi.

Key Financial Indicators

As on / for the quarter/for the year ended		December 31, 2021	March 31, 2021	March 31, 2020	March 31, 2019	March 31, 2018
Total assets	Rs crore	413	443	644	482	429
Total income	Rs crore	41	68	69	68	50
Profit after tax	Rs crore	(0.015)	(8.7)	3.2	11	10
Gross stage 3	%	16.7	11.0	4.9	1.5	0.9
Overall capital adequacy ratio	%	34.3	25,6	24.3	22.5	22.6
Gearing	Times	2.4	2.4	5.3	3.7	3.6
Return on managed assets	%	(-0.02)^	(1.6)	0.6	2.5	3.0

^Annualised

Any other information: Not applicable

Note on complexity levels of the rated instrument:
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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size	Complexity Level	Rating Outstanding

					(Rs crore)		with Outlook
INE00XE07093	Non-convertible debenture	17-Mar-20	9.25%	17-Mar-22	14.93	Simple	CRISIL A/Stable
INE00XE07101	Non-convertible debenture	17-Mar-20	9.50%	17-May-23	25.61	Simple	CRISIL A/Stable
INE00XE07119	Non-convertible debenture	17-Mar-20	9.75%	17-Mar-25	29.48	Simple	CRISIL A/Stable
INE00XE07127	Non-convertible debenture	17-Mar-20	9.50%	17-Mar-22	17.94	Simple	CRISIL A/Stable
INE00XE07135	Non-convertible debenture	17-Mar-20	9.75%	17-May-23	11.29	Simple	CRISIL A/Stable
INE00XE07143	Non-convertible debenture	17-Mar-20	10.00%	17-Mar-25	26.21	Simple	CRISIL A/Stable
INE00XE07150	Non-convertible debenture	17-Mar-20	NA	17-Mar-22	16.42	Simple	CRISIL A/Stable
INE00XE07168	Non-convertible debenture	17-Mar-20	NA	17-May-23	25.77	Simple	CRISIL A/Stable
INE00XE07176	Non-convertible debenture	17-Mar-20	NA	17-Mar-25	8.31	Simple	CRISIL A/Stable
INE00XE07184	Non-convertible debenture	17-Mar-20	NA	17-Sep-27	24.03	Simple	CRISIL A/Stable
NA	Fixed deposits	NA	NA	NA	152	Simple	FA+/Stable
NA	Cash credit & working capital demand loan	NA	NA	NA	90	NA	CRISIL A/Stable
NA	Term loan	11-Jan-19	9.90%	01-Feb-22	25	NA	CRISIL A/Stable
NA	Proposed long-term bank loan facility	NA	NA	NA	35	NA	CRISIL A/Stable

Annexure - Rating History for last 3 Years

	Current				2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	150.0	CRISIL A/Stable		--	09-09-21	CRISIL A/Stable	06-02-20	CRISIL A/Stable		--	--
			--		--	15-03-21	CRISIL A/Stable	22-01-20	CRISIL A/Stable		--	--
			--		--	26-02-21	CRISIL A/Stable	16-01-20	CRISIL A/Stable		--	--
Fixed Deposits	LT	152.0	F A+/Stable		--	09-09-21	F A+/Stable	06-02-20	F A+/Stable		--	--
			--		--	15-03-21	F A+/Stable		--		--	--
			--		--	26-02-21	F A+/Stable		--		--	--
Non Convertible Debentures	LT	200.0	CRISIL A/Stable		--	09-09-21	CRISIL A/Stable	06-02-20	CRISIL A/Stable		--	--
			--		--	15-03-21	CRISIL A/Stable	22-01-20	CRISIL A/Stable		--	--
			--		--	26-02-21	CRISIL A/Stable	16-01-20	CRISIL A/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	**25**	**Axis Bank Limited**	**CRISIL A/Stable**
Cash Credit & Working Capital Demand Loan	**35**	**YES Bank Limited**	**CRISIL A/Stable**
Cash Credit & Working Capital Demand Loan	**15**	**IDBI Bank Limited**	**CRISIL A/Stable**

Cash Credit & Working Capital Demand Loan	**15**	**HDFC Bank Limited**	**CRISIL A/Stable**
Proposed Long Term Bank Loan Facility	**35**	**Not Applicable**	**CRISIL A/Stable**
Term Loan	**25**	**CSB Bank Limited**	**CRISIL A/Stable**

This Annexure has been updated on 03-Mar-2022 in line with the lender-wise facility details as on 02-Aug-2021 received from the rated entity.

Criteria Details

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

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