

Muthoot Finance Ltd NCD Issue

Summary:

Muthoot Finance Ltd has come up with the 2nd tranche of public issue of secured, redeemable non-convertible debentures of face value of Rs 1,000 each for an amount of Rs 100 Crore ("Base Issue Size") with an option to retain oversubscription up to Rs 900 Crore (totaling Rs. 1000 Crore) within the Shelf limit of Rs. 4,000 Crore.

The issue is open for subscription from **May 10, 2019 to June 10, 2019**. The Issue shall remain open for subscription during the period indicated above except that the issue may close on such earlier date or extended date as may be decided by Board of Directors of the Company ("Board") or the NCD Committee. The company will be paying an interest ranging between **9.25% and 10.00 % p.a.** on these bonds.

The proposed NCDs issue has been rated "**CRISIL AA/Stable' and [ICRA] AA (Stable)**. Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.

Objects of the Issue: The Company proposes to utilise the funds which are being raised through the Issue, after deducting the Issue related expenses to the extent payable by the Company ("Net Proceeds), towards funding the following objects.

1. For the purpose of lending; (upto 75%) and
2. General Corporate Purposes (upto 25%)

Issue Details

Series	I	II	III	IV	V	VI	VII	VIII	IX	X
Nature	Secured redeemable non-convertible									
Frequency of Interest Payment	Monthly	Monthly	Monthly	Annual	Annual	Annual	Cumulative	Cumulative	Cumulative	Cumulative
Tenor	24 months	38 months	60 months	24 months	38 months	60 months	24 months	38 months	60 months	90 months
Coupon (per annum) for NCD Holders in Category I, II, III & IIV	9.25%	9.50%	9.75%	9.50%	9.75%	10.00%	NA	NA	NA	NA
Effective Yield (per annum) for NCD holders in Category I, II III & IV	9.25%	9.50%	9.75%	9.50%	9.75%	10.00%	9.25%	9.50%	9.75%	9.67%
Call and Put Option	NA									
Redemption amount (Rs per NCD) on Maturity for NCD Holders in Category I, II, III and IV	1000	1000	1000	1000	1000	1000	1193.56	1333.72	1592.29	2000.00
Redemption Date(Years from the Deemed Date of Allotment)	24 months	38 months	60 months	24 months	38 months	60 months	24 months	38 months	60 months	90 months
Minimum Application	Rs 10,000 (10 NCDs) across all Series collectively									
In Multiples of thereafter	Rs 1,000 (1 NCD)									
Face Value / Issue Price (Rs Per NCD)	Rs 1,000									
Mode of Interest Payment	Through various options available									

MFL would allot the Option IV NCDs, as specified in this Tranche II Prospectus to all valid Applications, wherein the Applicants have not indicated their choice of the relevant option of NCDs

Issuer	Muthoot Finance Limited
Type of instrument/ Name of the security/ Seniority	Secured redeemable non-convertible debentures of face value of Rs 1,000 each
Issue Size	Public issue of secured, redeemable non-convertible debentures of face value of Rs 1,000 each for an amount of Rs 100 Crore (“Base Issue Size”) with an option to retain oversubscription up to Rs 900 Crore (totaling Rs. 1000 Crore) within the Shelf limit of Rs. 4,000 Crore.
Issue opens	Friday , 10th May 2019
Issue closes	Monday, 10th June 2019
Allotment	First Come First Serve Basis, Compulsory in demat form
Face Value	Rs 1000 per NCD
Issue Price	Rs 1000 per NCD
Minimum Application	Rs 10,000 (10 NCDs) (for all options of NCDs, namely Option I, II, III, IV, V, VI, VII, VIII, IX and Option X).
Listing	NCDs are proposed to be listed on BSE
Rating	‘[ICRA] AA (Stable) by ICRA and CRISIL AA/Stable by CRISIL
Security and Asset Cover	Senior (to clarify, the claims of the Secured NCD Holders shall be superior to the claims of any unsecured creditors, subject to applicable statutory and/or regulatory requirements). The Secured NCDs would constitute secured obligations of Muthoot Finance Ltd and shall rank pari passu inter se, present and future and subject to any obligations under applicable statutory and/or regulatory requirements, shall also, with regard to the amount invested, be secured by way of first pari passu charge on the identified immovable property and a first pari passu charge on current assets, book debts, loans and advances, and receivables including gold loan receivables, both present and future, of the Company.

*Although MFL will create appropriate security in favour of the Debenture Trustee for the Secured NCD holders on the assets adequate to ensure 100.00% asset cover for the Secured NCDs, which shall be free from any encumbrances, the realisable value of the assets charged as security, when liquidated, may be lower than the outstanding principal and/or interest accrued thereon in connection with the Secured NCDs. A failure or delay to recover the expected value from a sale or disposition of the assets charged as security in connection with the Secured NCDs could expose you to a potential loss.

Who Can Apply?

Category I (Institutional Investors)	Category II (Non Institutional Investors)	Category III (High Net-worth Individual, (“HNIs”), Investors)	Category IV (Retail Individual Investors)
<ol style="list-style-type: none"> Public financial institutions, statutory corporations, commercial banks, co-operative banks and RRBs and multilateral and bilateral development financial institutions which are authorised to invest in the NCDs; Provident funds, pension funds, superannuation funds and gratuity funds, which are authorised to invest in the NCDs; Alternative Investment Funds, subject to investment conditions applicable to them under the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012; Resident Venture Capital Funds registered with SEBI; Insurance Companies registered with the IRDA; State industrial development corporations; Insurance funds set up and managed by the army, navy, or 	<ol style="list-style-type: none"> Companies; bodies corporate and societies registered under the applicable laws in India and authorised to invest in the NCDs; Public/private charitable/religious trusts which are authorised to invest in the NCDs; Scientific and/or industrial research organisations, which are authorised to invest in the NCDs; Partnership firms in the name of the partners; Limited liability partnerships formed and registered under the provisions of the 	<p>High Net-worth Individual Investors (“HNIs”) - Resident Indian individuals and Hindu Undivided Families through the Karta applying for an amount aggregating to above Rs 1,000,000 across all options of NCDs in the Tranche II Issue</p>	<p>Retail Individual Investors - Resident Indian individuals and Hindu Undivided Families through the Karta applying for an amount aggregating up to and including Rs 1,000,000 across all options of NCDs in the Tranche II Issue</p>

<p>air force of the Union of India;</p> <p>8. Insurance funds set up and managed by the Department of Posts, the Union of India;</p> <p>9. Systemically Important Non- Banking Financial Company, a nonbanking financial company registered with the Reserve Bank of India and having a net-worth of more than five hundred crore rupees as per the last audited financial statements;</p> <p>10. National Investment Fund set up by resolution no. F. No. 2/3/2005 –DDII dated November 23,2005 of the Government of India published in the Gazette of India; and</p> <p>11. Mutual Funds registered with SEBI.</p>	<p>Limited Liability Partnership Act, 2008 (No. 6 of 2009);</p> <p>6. Association of Persons; and</p> <p>7. Any other incorporated and/ or unincorporated body of persons.</p>		
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All categories of persons who are individuals or natural persons (including Hindu Undivided Families acting through their Karta) including without limitation HNIs and Retail Individual Investors who are eligible under applicable laws to hold the NCDs are collectively referred to as “Individuals”.

Who are not eligible to apply for NCDs?

The following categories of persons, and entities, shall not be eligible to participate in the Issue and any Applications from such persons and entities are liable to be rejected:

- Minors without a guardian name (A guardian may apply on behalf of a minor. However, the name of the guardian will need to be mentioned on the Application Form);
- Foreign nationals;
- Persons resident outside India;
- Foreign Institutional Investors;
- Non Resident Indians;
- Qualified Foreign Investors;
- Overseas Corporate Bodies;
- Foreign Venture Capital Funds; and
- Persons ineligible to contract under applicable statutory/ regulatory requirements.

*=Applicant shall ensure that guardian is competent to contract under Indian Contract Act, 1872

Allocation Ratio

QIB Portion	Corporate Portion	High Net Worth Individual Portion	Retail Individual Investor Portion
10% of the Overall Issue Size	10% of the Overall Issue Size	30% of the Overall Issue Size	50% of the Overall Issue Size

Credit Rating:

The Secured NCDs proposed to be issued under this Tranche II Issue have been rated ‘CRISIL AA/Stable’ (pronounced as CRISIL double A rating with Stable outlook) for an amount of Rs 40,000 million, by CRISIL vide their letter dated January 18, 2019 and further revalidated by letters dated January 31, 2019 and April 22, 2019 and ‘[ICRA]AA(Stable)’ (pronounced as ICRA double A) for an amount of Rs 40,000 million by ICRA Limited vide their letter dated December 31, 2018 and further revalidated

by letters dated January 30, 2019 and April 24, 2019. The rating of 'CRISIL AA/Stable' by CRISIL Limited and '[ICRA]AA' by ICRA Limited indicate that instruments with these ratings are considered to have a high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.

Liquidity and Exit Options: The Bonds are proposed to be listed on the BSE.

Allotments in case of oversubscription: In case of an oversubscription, allotments to the maximum extent, as possible, will be made on a first-come first-serve basis and thereafter on proportionate basis, i.e. full allotment of NCDs to the Applicants on a first come first basis up to the date falling 1 (one) day prior to the date of oversubscription and proportionate allotment of NCDs to the Applicants on the date of oversubscription (based on the date of upload of each Application into the Electronic Book with Stock Exchange, in each Portion).

Company Background:

Muthoot Finance Ltd is the largest gold loan NBFC in India in terms of loan portfolio. MFL was ranked the largest gold loan company in India in terms of loan portfolio as of March 31, 2018. It provides personal loans and business loans secured by gold jewelry, or Gold Loans, primarily to individuals who possess gold jewelry but are not able to access formal credit within a reasonable time, or to whom credit may not be available at all, to meet unanticipated or other short-term liquidity requirements. Its Gold Loan portfolio as of September 30, 2018 comprised approximately 8.15 million loan accounts in India that it serviced through 4,370 branches across 23 states, the national capital territory of Delhi and five union territories in India. As of September 30, 2018 it employed 23,888 persons in its operations.

MFL is a "Systemically Important Non-Deposit Taking NBFC" (NBFC-ND-SI) headquartered in the south Indian state of Kerala. Since its formation, it has broadened the scale and geographic scope of its gold loan operations so that, as of March 31, 2012, it was India's largest provider of Gold Loans. For the years ended March 31 2014 2015, 2016 ,2017 and 2018 revenues from its Gold Loan business constituted 98.07% 98.19%, 98.49% ,97.95% and 96.66% respectively, of its total income. In addition to its Gold Loans business, MFL provide money transfer services through its branches as sub-agents of various registered money transfer agencies and also provide collection agency services. It also operates three windmills in the state of Tamil Nadu. It has started providing unsecured loans to salaried individuals, loans to traders and self-employed and also provide micro-finance, housing finance, vehicle and equipment finance and insurance broking services through its subsidiaries.

MFL relies on bank loans and subordinated debt instruments as its sources of funds. As of March 31, 2018, it had 8,769.48 million in outstanding Muthoot Gold Bonds and Rs 203,910.27 million in other borrowings. It also raises capital by issuing commercial paper and listed and credit rated non-convertible debentures under private placement mode or through public issues to various institutional corporate, high net worth and retail investors. MFL's customers are typically small businessmen, vendors, traders, farmers and salaried individuals, who for reasons of convenience, accessibility or necessity, avail of its credit facilities by pledging their gold jewelry with the company rather than by taking loans from banks and other financial institutions. It provides retail loan products, primarily comprising Gold Loans. MFL's Gold Loans have a maximum 12-month term. Its average disbursed Gold Loan amount outstanding was 37,994 per loan account as of March 31, 2018. For the year ended March 31, 2018 its loan portfolio earned, on an average, interest of 1.83% per month, or 21.97% per annum.

Financial Performance- Consolidated:

(Rs in million)

Particulars	9MFY19	Fiscal 2018	Fiscal 2017	Fiscal 2016
Networth	92,782.28 *	78,423.29	65,380.40	56,222.87
Total Debt of which				
- Non Current Maturities of Long Term Borrowings		58,134.57	48,451.33	54,265.57
- Short Term Borrowings		1,43,370.23	1,27,658.66	83,708.09

- Current Maturities of Long Term Borrowing		34,354.96	45,656.76	50,568.27
Net Fixed Assets		2,378.17	2,462.10	2,423.45
Non Current Assets		25,759.32	11,882.02	5,560.58
Cash and Cash Balance		7,237.42	16,446.68	7,138.39
Current Investments		1,206.98	806.25	343.87
Current Assets		3,17,291.93	3,09,959.40	2,68,386.94
Current Liabilities		2,02,303.31	2,00,473.56	1,51,804.91
Loan Assets under Management		310,560.49	285,711.49	244,103.97
Off Balance Sheet Assets				
Interest Income	49,251.27*	64,513.91	58,159.90	48,727.60
Interest Expense	16,257.94*	21,323.76	23,685.92	22,856.23
Provisioning & Write-offs		2711.72	2966.50	1,664.05
PAT	14,606.42*	17,840.79	11,997.85	8,145.00
Gross NPA (%)*		6.98%	2.06%	2.88%
Net NPA (%)*		6.16%	1.69%	2.46%
Tier I Capital Adequacy Ratio (%)*	25.22%*	24.75%	21.78%	20.92%
Tier II Capital Adequacy Ratio (%)*	0.52%*	1.84%	3.10%	3.56%

* = Standalone numbers

Debt Equity Ratio of the Company (Standalone):

Before the issue of debt securities as at December 31, 2018	2.71
After the issue of debt securities as at December 31, 2018	3.14

Competitive Strengths of the company

- Market leading position in the Gold Loan business in India with Pan-India reach and branch network
- Strong brand name, track record, management expertise and Promoter support
- High-quality customer service and robust operating systems
- Strong capital raising ability to fund a high profitability business model
- In-house training capabilities to meet its branch expansion requirements

Strategy

- Expand branch network and visibility to maintain market leadership position
- Continue to target new customer segments
- Access to low-cost and diversified sources of funds
- Strengthen operating processes and risk management systems

Key Risk and Concerns:

- General economic and business conditions in India and globally;

- Ability to successfully sustain growth strategy;
- Ability to compete effectively and access funds at competitive cost;
- Unanticipated turbulence in interest rates, equity prices or other rates or prices; the performance of the financial and capital markets in India and globally;
- The outcome of any legal or regulatory proceedings MFL is or may become a party to;
- Any disruption or downturn in the economy of southern India;
- Ability to control or reduce the level of non-performing assets in portfolio;
- General political and economic conditions in India;
- Change in government regulations;
- Competition from existing as well as new competitors;
- Ability to compete with and adapt to technological advances; and
- Occurrence of natural calamities or natural disasters affecting the areas in which MFL has operations.

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