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Ref: SEC/MFL/SE/2020/3583

September 22, 2020

National Stock Exchange of India Ltd.
Exchange Plaza
Plot no. C/1, Block G,
Bandra- Kurla Complex,
Bandra (E), Mumbai - 400 051
Symbol: MUTHOOTFIN

BSE Limited,
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001
Scrip Code: 533398

Dear Sir/Madam,

Sub: Intimation under Regulation 30, 51(2), 56(1)(c), 62 (1)(h)(iii), and other applicable regulations, if any, of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, and Framework for listing of Commercial Paper, as amended.

Re: **Ratings Action by Fitch Ratings**

This is to inform you that Fitch Ratings has affirmed Muthoot Finance Limited's 'BB' Long Term Issuer Default Ratings. Fitch Ratings has removed the Rating Watch Negative on the Issuer Default Rating and revised the Outlook to "Stable".

Enclosing herewith the Press Release made by Fitch Ratings in this regard.

We request you to take the same on record.

Thanking You,

For Muthoot Finance Limited

Rajesh A
Company Secretary

FitchRatings

RATING ACTION COMMENTARY

Fitch Takes Rating Action on Four Indian NBFIs Following Pandemic-Impact Review

Mon 21 Sep, 2020 - 8:05 AM ET

Fitch Ratings - Singapore/Mumbai - 21 Sep 2020: Fitch Ratings has taken rating action on the Long-Term Issuer Default Ratings (IDR) of four Indian non-bank financial institutions (NBFI) in light of the companies' performance amid the coronavirus pandemic. The rating actions are as follows:

- IIFL Finance Limited 'B+' rating maintained on Rating Watch Negative (RWN)

- Manappuram Finance Limited (MFIN), affirmed at 'BB-'; RWN removed; Outlook Stable

- Muthoot Finance Ltd (MFL), affirmed at 'BB'; RWN removed; Outlook Stable

- Shriram Transport Finance Company Limited (STFC), affirmed at 'BB'; RWN removed; Outlook Negative

The RWNs on the bond ratings of MFIN, MFL and STFC have also been removed.

The companies' Long-Term IDRs were placed on RWN in March this year, as Fitch expected the pandemic to present further macroeconomic and funding challenges for the entities, heightening downside risk to their credit profiles.

IIFL Finance's rating remains on RWN due to continued uncertainty on its funding and liquidity, with trends potentially becoming more evident within the next six months. This is despite a steady improvement in collections over the past few months and easing funding conditions, which have partly benefited from government support measures for NBFIs and other parts of the economy.

The removal of the RWN and Stable Outlooks on MFIN and MFL's ratings reflect the entities' generally resilient performance in the face of significant economic disruption amid local measures to contain the pandemic.

The RWN on STFC's ratings has been removed, as we believe near-term operational uncertainty is easing for the entity. However, the Negative Outlook highlights the ongoing downside risk to asset quality and the implication for the company's funding and liquidity, which we expect will only become apparent in the medium term.

KEY RATING DRIVERS

IDRS

The ratings of the entities continue to reflect the considerable economic and financial challenges arising from the pandemic. We have revised down India's (BBB-/Negative) GDP growth forecast for the financial year ending March 2021 (FY21) by 5pp to -10.5%, one of the sharpest negative revisions across the major economies in our coverage. We expect economic activity to remain below pre-pandemic levels for at least the next year, pressuring system asset quality and funding and liquidity conditions. This is likely to be partly offset by government measures to support the economy and boost funding access.

IIFL Finance

IIFL Finance's rating reflects its moderate domestic franchise and diversified loan mix, satisfactory, though short, operating record, greater exposure to higher-risk segments, such as business loans, microfinance and developer and construction finance, and a more confidence-sensitive funding profile relative to rated peers.

We expect credit quality to deteriorate in the near-term as a six-month regulatory loan moratorium expires. The reported non-performing asset ratio eased to 2.0% in June 2020 (end-March 2020: 2.3%), but a significant 31% of assets under management were under moratorium at the time. Collections have improved, but we believe the loans remain susceptible to impairment or restructuring. We expect asset-quality deterioration to pressure earnings and capital generation in FY21, although lower loan growth may help alleviate pressure on capitalisation and leverage.

We regard IIFL Finance's funding profile as more sensitive to market conditions relative to rated peers. The company has maintained sufficient funding access, despite challenging markets, partly benefiting from government support schemes, including partial and full guarantee schemes on NBFI debt. However, liquidity coverage of near-term debt maturities has fluctuated, with refinancing risk remaining elevated relative to the rating.

MFIN

MFIN's ratings reflect its moderate franchise in niche gold-backed financing, which constitutes 70% of its consolidated portfolio at end-June 2020. The niche underpins the company's typically steady asset quality due to the security of liquid gold collateral, its liquid balance sheet due to the short-tenor nature of gold loans, and its satisfactory funding access, even during the recent market dislocation, due to lender confidence in its gold-lending portfolio.

The ratings also reflect the company's increased exposure to non-gold segments, which we consider to be higher-risk, namely microfinance, affordable housing and vehicle finance, key-person risk due to significant involvement by the founder, and a history of compliance lapses, including on customer-related matters, which suggests weaker governance standards relative to higher-rated peers - although MFIN has improved its compliance in recent quarters. This is reflected in the ESG relevance score for Governance Structure moving to '4', from '5'.

The company's operation was disrupted by measures to contain the pandemic, but the disruption was shorter and less significant for MFIN than for non-gold-loan peers. Its operation has recovered substantially in recent months and we expect any asset-quality deterioration to be manageable in light of MFIN's portfolio composition, which should help to maintain the stability of the company's near-term earnings, capital and funding and liquidity. This underpins the Stable Outlook. Our view on asset quality is supported by the security of gold collateral on the bulk of MFIN's portfolio - where a regulatory loan/value limit of 75% should help preserve some buffer against a sharp correction in gold prices.

MFL

MFL's ratings reflect its established franchise in the niche segment of gold-backed lending, with roughly an 18% market share of the formal market. Its loan exposure is largely secured against gold collateral, which constitutes 88% of its consolidated loans and underpins its lower asset-quality risk relative to peers, high profitability, healthy capital generation and liquid balance sheet.

Operational constraints due to pandemic-related containment measures were short lived. MFL has demonstrated a significant improvement in operating metrics after the initial disruption, along with broadly resilient funding access. We expect asset quality, profitability and funding and liquidity to remain adequate for the rating and for the company to avoid significant spill-over effects from ongoing pressure in the operating environment. This drives the Stable Outlook.

Our view on asset quality is partly premised on recoverability due to the gold collateral backing MFL's loans. Rising gold prices have built a large collateral buffer in its gold-loan portfolio against credit and collateral value risk. A sharp correction in gold prices could diminish this buffer, but the loan/value ratio on its gold-backed lending was a moderate 54% in August 2020, suggesting some cushion against price falls. We expect MFL to remain sufficiently disciplined in its lending standards amid the significant appreciation in the gold price.

STFC

STFC's ratings remain at the higher-end of rated peers', driven by its long operating history and large franchise in used commercial-vehicle financing, steady, experienced management team, established underwriting processes and risk controls and longstanding relationships with a diversified range of funding providers. STFC raised INR15 billion in equity capital in August 2020, with board approval to raise another INR25 billion. This has strengthened its loss-absorption buffers against unexpected losses and supports its ratings.

The ratings and Negative Outlook also reflect STFC's exposure to a higher-risk borrower segment, which tends to have more variable income and less financial resilience, and sustained risks to its credit profile from the economic fallout of the pandemic.

Loan collection inflows were significantly curtailed during the moratorium period till August, although they continue to rise steadily from the April 2020 trough. High-frequency indicators suggest that economic activity remains well-below pre-pandemic levels. This will directly affect STFC's borrower base of commercial-vehicle owners and operators, and we expect asset quality to deteriorate in the coming months as the pandemic continues to take a toll on the economy.

Reduced loan collections have hurt liquidity inflows. Meanwhile, new securitisation funding, which comprises around 23% of STFC's funding, has slowed. Liquidity buffers remain acceptable relative to near-term debt maturities, supported by lower loan disbursals and adequate access to new funding. However, we believe that loan collections recovering and remaining at close to pre-pandemic levels is key for STFC to maintain its funding and liquidity profile and current rating level.

MTN PROGRAMMES, SENIOR SECURED DEBT AND RECOVERY RATING

The ratings on the entities' medium-term note (MTN) programmes and foreign-currency senior debt are at the same level as the Long-Term Foreign-Currency IDRs, while STFC's rupee-denominated senior debt is rated at same level as its Long-Term Local-Currency IDR in accordance with Fitch's rating criteria.

Indian NBFI borrowings are typically secured and Fitch believes non-payment of senior secured debt would best reflect uncured failure of the entities. NBFIs can issue unsecured debt in the overseas market, but such debt is likely to constitute a small portion of their funding and thus cannot be viewed as their primary financial obligation.

Fitch has assigned a Recovery Rating of 'RR4' to IIFL Finance's senior secured debt in accordance with Fitch's criteria for entities with a Long-Term IDR of 'B+' or below. The Recovery Rating reflects Fitch's expectation for 'Average' recovery prospects for noteholders in the event of a default.

ESG Relevance factor that is a Key Rating Driver

MFIN has ESG Relevance Scores of 4 for Customer Welfare and Governance Structure, due to a record of business practices including customer-related activity that did not fully comply with regulatory norms in the past. The scores reflect our assessment that governance and customer-related practices that are weaker than rated peers' raises regulatory and reputational risk for MFIN, and would have a material influence on MFIN's IDRs in conjunction with other factors. MFIN has taken steps to improve governance and compliance in the past year, and therefore Fitch has revised the score for Governance Structure to 4 from 5.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

IIFL Finance

Over-reliance on government-support programmes may be viewed as an indication of weaker funding access, which would be negative for IIFL Finance's Long-Term IDR. Any usage of short-tenor government-guaranteed borrowings may also elevate near-term refinancing risk. The ratings may be downgraded if short-term liquidity indicators weaken, in particular, if the liquidity buffer - including approved but undrawn bank facilities - falls to and remains below three months' debt repayments for a sustained period.

Fitch may also take negative rating action in the event of an outsized deterioration in asset quality, particularly given the company's higher-risk exposures. We expect the reported impaired-loan ratio to remain below 5%, but downside risk remains in light of IIFL Finance's concentration risks and unknowns around loan restructuring. Fitch would also consider loan collection shortfalls or significant loan restructuring as indications of weak asset quality, which could pressure the credit profile.

Increased leverage beyond 7.0x (March 2020: 5.7x) would also pressure the ratings - although we do not foresee leverage rising to that level in the near-term unless asset quality deteriorates by more than we expect and results in significant capital impairment.

MFIN

Fitch may take negative rating action on MFIN in the event of aggressive growth in non-gold segments, which could indicate a rise in risk appetite, or an increase in debt/tangible equity to beyond 4.5x (end-June 2020: 4.0x). The rating will also see downward pressure if any regulatory action creates funding challenges or if higher-than-expected losses stemming from operational risk affect earnings and capital buffers.

MFL

MFL's ratings will face downward pressure if losses due to operational risk exceed Fitch's expectations; if asset quality or the price of gold collateral deteriorates sharply and weakens the company's profitability and capitalisation; or if liquidity coverage or funding access deteriorates. The rating may also be downgraded on higher leverage, with debt/tangible equity exceeding 4.5x for a prolonged period, or if aggressive expansion in new lending segments leads Fitch to revise down its assessment of MFL's risk appetite and asset quality.

STFC

STFC's rating could be downgraded in the event of a greater-than-expected rise in impairments and restructured loans, or if the recovery in loan collections is weaker than we expect. The rating could also face negative action if the funding and liquidity profile were to weaken; this may be indicated by a reduced liquid asset buffer or sustained, narrowing liquidity coverage of near-term liabilities.

Greater than expected credit costs and weaker profitability relative to Fitch's expectations would also place downward pressure on the ratings. Leverage consistently greater than 5.5x (March 2020: 5.3x) would weaken the IDR.

MTN PROGRAMMES, SENIOR SECURED DEBT AND RECOVERY RATING

Negative action on the entities' Long-Term IDRs would drive similar action on their MTN programme and senior secured debt ratings. Significantly weakened recovery prospects on IIFL Finance's senior secured notes - such that investors were expected to recoup no more than 30% on the notes in a hypothetical liquidation - would lead to negative action on the Recovery Rating.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

IIFL Finance

Fitch will resolve the RWN on IIFL Finance's ratings once there is greater clarity on its asset quality, funding and liquidity trends post-moratorium. A recovery in collections to close to pre-pandemic levels and sustained stable funding and liquidity, with low reliance on government support schemes, would ease rating pressure for the company.

A near-term rating upgrade is not probable in light of the RWN and significant operating environment challenges for Indian NBFIs. However, over the longer term, Fitch may take positive rating action if IIFL Finance demonstrates a strengthened funding and liquidity profile without an over-reliance on asset sales or specific asset encumbrance, along with an improvement in the economic environment, a lower-risk loan mix and steady asset quality, capitalisation and leverage metrics.

MFIN

The rating is unlikely to be upgraded in the near-term in light of the challenging operating environment. Fitch would look for improved branch efficiency in the gold-loan business, indicating a strengthened business profile, controlled credit costs in non-gold segments, and sustained improvement in regulatory compliance, before considering an upgrade in the medium to long term.

MFL

An upgrade of MFL's Long-Term IDR is less probable in the near-term in light of India's significant operating environment challenges. Positive rating action would hinge on an improvement in the operating environment, including strengthening of the domestic financial system, and a steady record of expansion in MFL's franchise beyond the gold-loan market niche, both of which Fitch views as longer-term possibilities.

STFC

An upgrade of STFC's Long-Term IDR is not probable in the near-term given the still-challenging operating environment for Indian NBFIs. Positive rating action in the longer-term would depend on a strengthened operating environment, including the domestic financial system - which is only more likely in the medium to longer-term - assuming other rating factors are also at levels commensurate with a higher rating.

MTN PROGRAMMES, SENIOR SECURED DEBT AND RECOVERY RATING

Fitch may take positive action on the ratings on the MTN programmes and senior secured debt should there be positive action on the entities' Long-Term IDRs. There is no upside to the Recovery Rating on IIFL Finance's senior secured notes, as it is already at the highest level possible for an Indian issuer under Fitch's criteria.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

MFIN has ESG Relevance Scores of 4 for Customer Welfare and Governance Structure, for reasons discussed above.

IIFL Finance, MFL and STFC have ESG Relevance Scores of 3 for Customer Welfare, compared with the standard score of 2 for the finance company sector. This reflects their retail-oriented operations, which expose them to risks around fair lending practices, pricing transparency and repossession, foreclosure, and collection practices, whereby aggressive practices in these areas may subject the companies to legal, regulatory and reputational risk that may negatively affect their credit profiles. The relevance scores of '3' for this factor reflects Fitch's view that such risks are adequately managed and have a low impact on the companies' credit profiles at present.

Other than the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING	RECOVERY	PRIOR

ENTITY/DEBT	RATING			RECOVERY	PRIOR
IIFL Finance Limited	LT IDR	B+ Rating Watch Negative	Rating Watch Maintained		B+ Rating Watch Negative
• senior secured	LT	B+ Rating Watch Negative	Rating Watch Maintained	RR4	B+ Rating Watch Negative
Manappuram Finance	LT IDR	BB- Rating Outlook Stable	Affirmed		BB- Rating Watch

VIEW ADDITIONAL RATING DETAILS

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Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Country-Specific Treatment of Recovery Ratings Rating Criteria (pub. 27 Feb 2020)

Non-Bank Financial Institutions Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

IIFL Finance Limited	EU Endorsed
Manappuram Finance Limited	EU Endorsed
Muthoot Finance Ltd	EU Endorsed
Shriram Transport Finance Company Limited	EU Endorsed

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Non-Bank Financial Institutions Asia-Pacific India