

SEC/MFL/SE/2020/3428

April 18, 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), and other applicable regulations, if any, of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended.

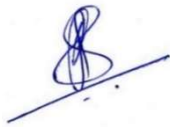
This is to inform you that S&P Global Ratings has affirmed Muthoot Finance Limited's 'BB/B' Corporate Family Rating and its outlook changed to negative from stable.

Enclosing herewith the Press Release made by S&P Global Ratings in this regard.

We request you to take the same on record.

Thanking You,

For Muthoot Finance Limited



Rajesh A
Company Secretary

Economic Research:

COVID-19 Deals A Larger, Longer Hit To Global GDP

April 16, 2020

Key Takeaways

- The economic impact of COVID-19 is longer and more intense than thought, and we have again lowered our macro forecasts. We now see global GDP falling 2.4% this year, with the U.S. and eurozone contracting 5.2% and 7.3%, respectively. We expect global growth to rebound to 5.9% in 2021.
- While the very near term looks bleak, infection curves are flattening and the focus has turned to the recovery. Its length and pace will depend on the combination of health and economic policy, the response of people and firms, and the condition of the labor market and small and medium enterprises.
- The balance of risks remains on the downside, as much can go wrong with our baseline path on the health, economic, and policy fronts.

The Data Has Gone From Bad To Worse

The data flow reflecting the economic impact of measures to curb the spread of COVID-19 has gone from bad to worse. We outlined some of the extraordinary data movements in our previous global macro report on March 30 (1). Since then, our downside fears on the data have played out. On the broad themes:

- Services will be hit harder than manufacturing;
- Discretionary consumer spending will be hit harder than spending on necessities; and
- Smaller business will be hit harder than larger ones.

Moreover, lockdowns and social distancing constraints now look to be in place longer than expected, which will cause a much sharper decline in activity than previously thought. In light of these developments, we have further lowered our 2020 growth outlook and raised our 2021 forecasts to partially compensate. More on the recovery path appears below.

More recent and broader-based high-frequency indicators now confirm an imminent very sharp decline in activity. Purchasing manager indices (PMIs) for March show post-global financial crisis

GLOBAL CHIEF ECONOMIST

Paul F Gruenwald
New York
(1) 212-438-1710
paul.gruenwald
@spglobal.com

U.S. CHIEF ECONOMIST

Beth Ann Bovino
New York
(1) 212-438-1652
bethann.bovino
@spglobal.com

EMEA CHIEF ECONOMIST

Sylvain Broyer
Frankfurt
(49) 69-33-999-156
sylvain.broyer
@spglobal.com

EMERGING MARKETS LEAD ECONOMIST

Tatiana Lysenko
Paris
(33) 1-4420-6748
tatiana.lysenko
@spglobal.com

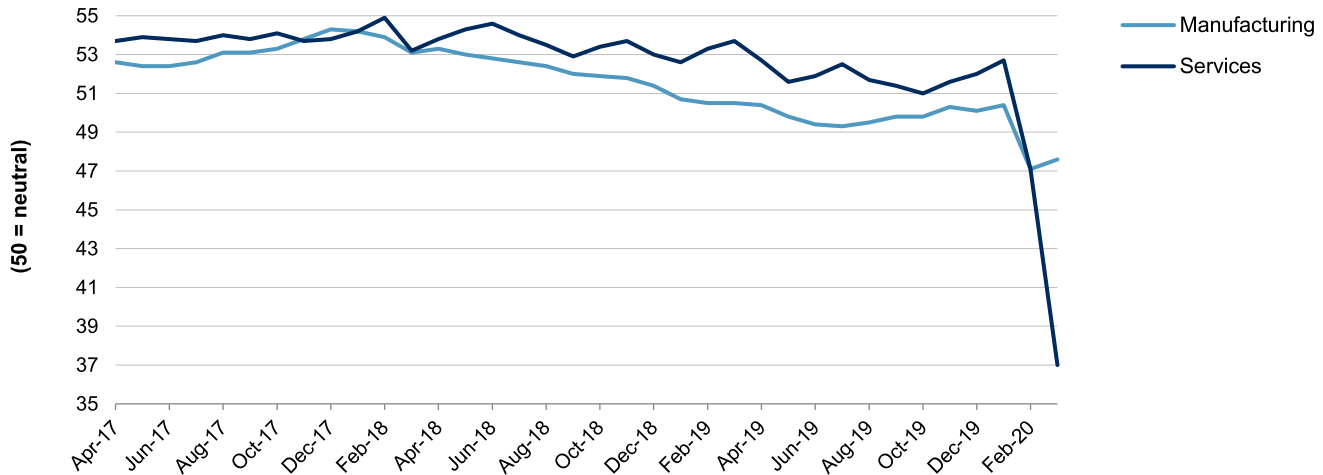
APAC CHIEF ECONOMIST

Shaun Roache
Singapore
(65) 6597-6137
shaun.roache
@spglobal.com

(GFC) lows (see chart 1). Social mobility restrictions have had an outside effect on airlines, restaurants, hotels, and cinemas. The resulting decline in the global services PMI was the largest ever recorded. Surveys from individual countries and regions tell similar stories.

Chart 1

Global Purchasing Manager Indices



Source: IHS Markit.

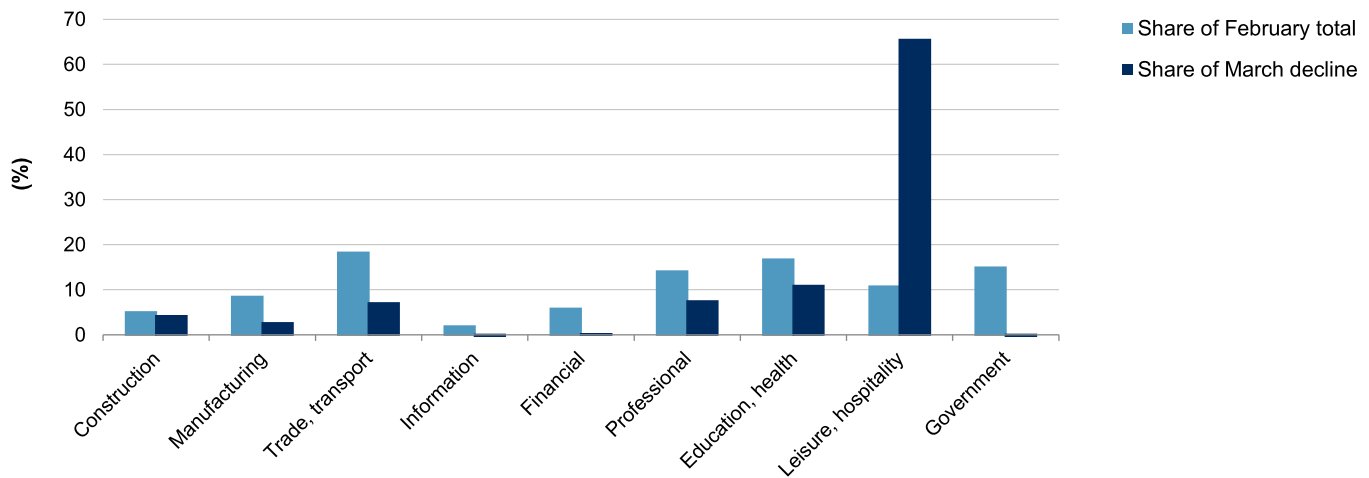
Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Manufacturing PMIs have also declined sharply, albeit less than in the GFC. This reflects slumping demand, personnel shortages, supply constraints, and forced closures of nonessential businesses--all limiting production capacity. The global decline in March was less severe than in February, reflecting signs of stabilizing output in China after a record slump. Elsewhere, manufacturing PMIs are following services PMIs lower. Separate indices showing falling orders suggest that more weakness lies ahead.

Within the services sector, the response to measures to contain the spread of COVID-19 has been highly uneven. The U.S. labor market provides a clear example (see chart 2). The drop in nonfarm payrolls in March (which captured only the partial, first-month effects of social distancing) fell disproportionately on the leisure and hospitality sectors. Although this sector accounts for 11% of total nonfarm employment, it saw 65% of the drop in payrolls in March, suggesting a "beta" of around six (65%/11%). No other major sector of the economy saw a beta higher than unity.

Chart 2

U.S. Nonfarm Payrolls, Selected Sectors



Sources: Bureau of Labor Statistics and S&P Global Economics.
 Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Policymakers have launched a fresh round of measures in the past few weeks as the data confirms a sharper than previously expected downturn:

- In the U.S., the Federal Reserve announced it will help bolster credit creation to small and medium businesses as well as state and municipal governments, through coordination with the Treasury (2). This will be achieved by purchasing loans and establishing liquidity facilities.
- In Europe, governments agreed to a three-prong approach, including European Commission support for short-term national working schemes, European Investment Bank lending guarantees for small and medium enterprises (SMEs), and European Stability Mechanism credit lines with reduced conditionality (structural reforms).
- In China, a range of targeting measures have been rolled out, but the broad stimulus can be quantified by looking at financial conditions, which have swung one standard deviation looser than year-end 2019. Also, the flow of credit to the nonfinancial sector has risen 4 percentage points of GDP in the past three months.

The results of these policy interventions have been broadly positive. Volatility is down, risk appetite has stabilized, equity indices have begun to recover, and market conditions remain relatively orderly compared with just a few weeks ago.

A key policy area, in our view, is the nexus between the SME sector and the labor market, which will be important for the recovery. If SMEs remain in business and employees retain their jobs, this will support a faster rebound once health conditions allow. Here, Europe and Asia appear to be more successful in keeping firms in business and workers on payrolls, albeit with reduced hours. In the U.S., jobless claims have skyrocketed, reaching more than 16 million in the past three weeks alone, and we see the U.S. unemployment rate heading well into the teens in the coming months.

Our 2020 Global GDP Forecast Goes Negative

As a result of the sharp deterioration in macroeconomic prospects, we have significantly lowered our GDP forecasts for the year (see table 1). We now see a global contraction of 2.4% before a rebound to growth of 5.9% next year.

Global GDP Growth Forecasts

(%)	--Q1 CCC--		--New--		
	2019	2020	2020	2021	2022
U.S.	2.3	(1.3)	(5.2)	6.2	2.5
Eurozone	1.2	(2.0)	(7.3)	5.6	3.7
Germany	0.6	(1.9)	(6.0)	4.3	3.3
France	1.3	(1.7)	(8.0)	6.1	4.5
Spain	2.0	(2.1)	(8.8)	5.1	4.3
Italy	0.2	(2.6)	(9.9)	6.4	3.2
U.K.	1.4	(2.0)	(6.5)	6.0	3.2
China	6.1	2.9	1.2	7.4	4.7
India*	5.3	3.6	1.8	7.5	6.5
World	2.9	0.4	(2.4)	5.9	3.9

*Fiscal year ending March. CCC--Credit Conditions Committee. Sources: S&P Global Economics and Oxford Economics.

The bulk of the lower forecast stems from changes to the advanced economies, and their spillovers--to each other and the rest of the world. The forecasts for the U.S. and eurozone were lowered by about 4 and 5 percentage points, respectively. This sharp downward revision stems from the following factors.

First, most countries have extended their social distancing restrictions (or their more extreme version: lockdowns). As we noted in our previous global update, a downside risk was that these restrictions would be extended, and that the effects on activity would be nonlinear. This risk has now materialized.

Second, exit strategies appear to be more gradual than expected. We see evidence of this in China, as well as some re-intensification of restrictions in countries where the infected rate has begun to rise again after appearing to be under control. The gradual lifting of restrictions implies a more gradual recovery.

Third, sharper slowdowns in each region or bloc interact with each other through the traditional trade and financial spillover channels, as well as health channels. These second-round effects pull economic activity down further.

U.S. The longest U.S. economic expansion on record has ended with another record, the sharpest contraction in economic activity since World War II. COVID-19 has quarantined more than 90% of the U.S. population. Beyond the demand shock from social distancing, other developments are also dragging growth, including Boeing's suspension of 737 MAX production over safety concerns and the oil-price plunge tied to oversupply and the standoff between Saudi Arabia and Russia.

We now see the toll on GDP will be far more severe than we once thought--with the contraction

Economic Research: COVID-19 Deals A Larger, Longer Hit To Global GDP

showing up in the first-quarter figure and worsening substantially in the April-June period. We forecast a decline in real annualized GDP of 7.6% in the first three months of the year and 35% (annualized) in the second quarter, translating to a decline of 11.7% peak to trough.

While the recovery will kick into gear during the second half of the year, it won't be enough to offset overall economic losses caused by COVID-19. With businesses shuttered, we expect the unemployment rate to peak at 19% in May, likely the biggest jump in unemployment on record, going back to 1948. Now at the lower bound, the federal funds rate will remain near zero until sometime in 2023.

Europe. Large European countries have extended their lockdowns--for instance, France and Italy prolonged them by three weeks to an eight-week scenario. This makes our previous assumption of six to eight weeks of lockdown look like a best case rather than a baseline. In addition, exit strategies from lockdowns appear to be much more gradual than thought initially. The EU recommends its members to have a stepwise approach at a one-month pace.

Economic activity is therefore unlikely to stabilize by the end of the second quarter, and external EU borders might not fully reopen in time for the summer tourist season. Moreover, the lockdowns don't affect the economy in a linear way: the longer they are, the more they affect investment decisions, bring the economic fabric at risk, and lower GDP prospects.

Finally, the external environment has worsened. We expect a deeper recession in the U.S., which is the main destination for European exports. Also, a lastingly lower oil price might affect demand in OPEC and Russia, which together account for more than 7% of European goods exports--half as much as the U.S. This will undermine some of the benefits that Europe derives from lower inflation associated with lower oil prices.

We expect 2020 unemployment to be higher (8.3% for the eurozone and 5.8% for the U.K.) than previously assumed. A longer contraction in activity might end in lower employment, once governments have removed the short-time working schemes. This might also come from difficulties of the short-time working schemes to cushion less well-protected workers dependent on temporary and seasonal contracts in the hardest-hit sectors like tourism, restaurants, and hotels.

Asia-Pacific. The climb back from the COVID-19 hit has already begun in some parts of Asia-Pacific, but the progress is likely to be slow with sporadic setbacks. China has passed the first-wave COVID-19 peak and has gone some way to restarting its economy. Industrial sector operating capacity is around 90% of normal levels as workers steadily return from their home provinces. The service sector is opening at a slower pace, hampered by social distancing rules that look set to remain at least for now. Policy stimulus has been building and should provide a tailwind for ongoing recovery through the second half.

Elsewhere, no economy has been spared the large cost of at least one month of stringent social distancing, which means large hits to growth and, in some economies, deflation. Together with the spillovers from weak demand in the U.S., Europe, and China, relative to our pre-COVID-19 forecast we now expect a hit to 2020 growth of 4-6 percentage points, bringing Australia to -5.7% and Japan to -3.6%. Among emerging markets, we now expect both India and Indonesia to grow by 1.8% this year, previously unthinkable numbers for two high-speed economies. Still, the downside risks of an imminent balance-of-payments crisis have reduced as the squeeze in the U.S. dollar subsides.

Emerging markets (EMs). Our more pessimistic view on the U.S. and the eurozone will translate into a larger shock to external demand for EMs. This is particularly true for Mexico, which is exposed to the U.S., and Poland and Turkey, which are exposed to the eurozone. For Turkey, the hit to international travel is also relevant. In addition, we now expect a much deeper downturn in EMs owing to more stringent containment measures and their effects on domestic demand as the virus has spread widely across key EMs, and most countries. Even those where the number of infections is still not very large have implemented widespread containment measures.

The weakest quarter for most EMs in EMEA (Europe, the Middle East, and Africa) and Latin America will likely be April-June. Thereafter, we expect an uneven recovery, depending crucially on the policy response. Economies that have been quick to implement social distancing policies, and have complemented those with robust economic stimulus, should see stronger recoveries (for example, Chile). Generally, countries with delayed public health responses and limited stimulus programs will see weaker recoveries (Mexico). Brazil is somewhere in the middle, while Russia has been hit by two shocks--falling oil prices and COVID-19.

Our Assumptions

S&P Global Ratings acknowledges a high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak. Some government authorities estimate the pandemic will peak about midyear, and we are using this assumption in assessing the economic and credit implications. We believe the measures adopted to contain COVID-19 have pushed the global economy into recession (see our macroeconomic and credit updates here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

The Contours Of The Recovery

While the near-term data flow will be bleak, infection curves are flattening and there is now some light at the end of the tunnel. As a result, the attention of policymakers and markets has turned to the recovery path. How quickly will growth rebound? Will we get back to the pre-COVID-19 output path, or move to a lower one? Will potential growth take a hit?

In our view, the answers to the recovery path question begin at the end of the process. The potential growth path of the economy--to which it must ultimately return--is determined solely by the supply side (3). Deviations from that path come from the demand side of the economy or from transitory supply factors. It might also take into account sectoral changes, say more resources for health security, fewer for casinos. Once we determine the post-COVID-19 potential GDP path, we then derive the recovery path by connecting the nadir to the new potential path.

What determines the new, post-COVID potential output path relative to the pre-COVID path? We consider three possibilities (see chart 3).

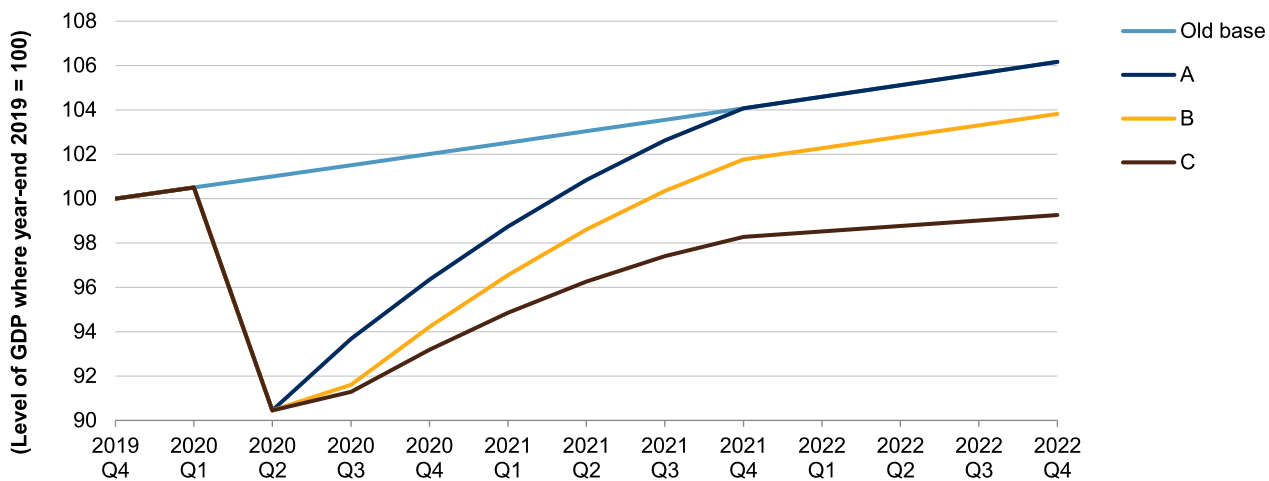
Path A: Back to the original path--demand shock only. The components of potential growth, and therefore the supply side of the economy, are unchanged by the COVID-19 episode. This means the economy will return to the pre-COVID path after the adjustment period ends (that is, when the output gap closes). The loss in output can be measured by the area between the path A scenario and the old baseline path.

Path B: Shift to a lower, parallel path--demand shock with loss in the level of output. The growth of labor, capital, and productivity remain unchanged from the pre-COVID period, but the level of one or more of these factors is lower. Examples include lower human or physical capital due to obsolescence as a result of the changing composition of growth, or a step-down in productivity. The implication is that while the potential rate of growth post-COVID is the same as pre-COVID, the level of potential output is permanently lower. As an example, this happened after the 1990 U.S. recession.

Path C: Shift to a lower, shallower path--demand shock with loss in level and rate of output growth. Along this path there is both a lower level of potential GDP as in path B, and a reduction in potential GDP growth. The latter would likely be the result of slower productivity growth, as happened in the U.S. following the GFC. Path C diverges from the old baseline owing to new, lower potential growth as well as partial, proportional convergence. Note that this path does not recover the year-end 2019 level of GDP in the forecast period.

Chart 3

Stylized COVID-19 Recovery Scenarios



Source: S&P Global Economics.
 Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

We can put some numbers around these scenarios to give a sense of the likely volatile growth ahead. Let us consider a U.S.-style economy with a 2% annual potential growth rate, or 0.5% per quarter. Output is indexed to 100 at the end of 2019, when the economy was at full capacity so the output gap was zero. Thus, the economy in the pre-COVID quarter is at its textbook "steady state."

Assume the COVID shock happens in the second quarter only and results in a 10% drop in activity in that quarter (or 34% annualized) (4). If the recovery period is six quarters (for simplicity), then we reach post-COVID-19 at the end of 2021. Along the recovery path, growth rebounds to over 13% in the second half of 2020 in scenario A, and over 10% in scenarios B and C (5). The point here is not precision; rather, we will see wild swings in growth in both directions over the next year or more as the economies bounce back from the COVID-19 shock, even if the recoveries are, in some sense, incomplete.

Still Lots Of Risks To Consider

The balance of risks to our baseline remains on the downside. The recovery trajectory in our baseline is unidirectional, albeit at various speeds and duration, and with differing levels of completeness relative to the pre-COVID path. While there is a range of possible recovery paths, implicit in these paths is the assumption that the return to normal of the health situation, the return to normal of household and firm behavior, and the return to normal of policy stances are relatively smooth, with no backtracking (6). That need not be the case. There are both health and economic events to consider in looking at alternative, downside scenarios.

Uneven health recovery. The health situation could improve more slowly than assumed, or move in an oscillating pattern. This would have direct effects on social distancing policies and, therefore, activity (recall that some pandemics unfold in waves). The result could be a "W" pattern for the recovery and a slower and choppier path to normalization with more lost output relative to the original baseline. More ominously, we may not get a vaccine or treatment in the forecast period, meaning a return to normal might be impossible.

Premature austerity. Another risk is that, in light of the large rise in gross public debt (7) in response to the COVID-19 recession, fiscal austerity is implemented before private demand has sufficiently recovered. This is precisely what happened following the GFC once output started to recover. This will delay the return to potential growth and employment and result in lower-than-desired inflation and additional lost output.

Mismeasuring output gaps. As noted above, in some scenarios the economy won't return to its pre-crisis path of potential output. This path is unobservable and difficult to gauge, at least in the short run after a major downturn. Therefore, policymakers may have the wrong estimate for the path and, therefore, the wrong policy settings.

For example, if the path of potential GDP has shifted downward as a result of the COVID-19 shock, the economy may actually be on the new path, but the authorities may think the old path is their target. In this instance, they may be running more stimulatory policies than necessary, raising inflation and issuing more debt than necessary, which would require future tightening, and the possible associated rise in volatility and a slowdown in activity.

Exit path for extraordinary measures. As the recovery matures and potential output is regained, the monetary and fiscal authorities will need to exit the extraordinary stances put in place to combat the crisis. As post-GFC experience has shown, normalizing central balance sheets requires clear communication of objectives and timing. Similarly, the fiscal authorities will need to be clear on their exit from extraordinary labor market and SME policies in order to let the market, rather than the government, determine economic outcomes. Both of these could affect the path of the economy beyond the recovery period.

All told, while not precluding a faster-than-expected recovery, in light of the factors above, we would place the balance of risks on the downside.

Endnotes

(1) "The Escalating Coronavirus Shock Is Pushing 2020 Global Growth Toward Zero," March 30, 2020.

https://www.spglobal.com/ratings/en/research/articles/200330-economic-research-the-escalating-coronavirus-shock-is-pushing-2020-global-growth-toward-zero-11413969?utm_source=

(2) See <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm>.

(3) Three components determine this path: the labor force or human capital, physical capital, and total factor productivity. The economy can deviate from this potential path--even by large amounts--owing to changes in demand (or temporary changes in supply), but the potential output path cannot change unless one of the three components changes. Thus, the economy will eventually return to its potential path once the COVID-19 shock passes (assuming no other shocks), although the effects of the crisis may alter that path.

(4) $100 \times 0.9^4 = 65.6$, implying a 34.4% annualized decline.

(5) A research note on these various scenarios is forthcoming.

(6) As noted by health experts, the return to normal on health requires a vaccine or effective treatment.

(7) As a reminder, net debt is always zero since for every debtor there is a creditor.

This report does not constitute a rating action.

The views expressed here are the independent opinions of S&P Global's economics group, which is separate from, but provides forecasts and other input to, S&P Global Ratings' analysts. The economic views herein may be incorporated into S&P Global Ratings' credit ratings; however, credit ratings are determined and assigned by ratings committees, exercising analytical judgment in accordance with S&P Global Ratings' publicly available methodologies.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

Various Rating Actions Taken On Indian NBFCs On Weakening Economic Conditions Due To COVID-19

April 17, 2020

- Indian financial institutions face increasing risks from challenging operating conditions stemming from the COVID-19 outbreak. We expect a flattish U-shape economic recovery. Risks remain on the downside.
- Operating conditions for the country's financial institutions are likely to deteriorate with rising credit costs and NPLs and lower profitability.
- We see the economic risk trend for India's financial sector as negative.
- We are lowering our ratings on STFC. At the same time, we are revising our outlooks to negative on Bajaj Finance, Mannapuram, Muthoot, and PFC and affirming the ratings.

SINGAPORE (S&P Global Ratings) April 17, 2020--S&P Global Ratings today said it has taken the following rating actions on Indian nonbank financial companies (NBFCs):

- We lowered the rating on Shriram Transport Finance Co. Ltd. (STFC) to 'BB' from 'BB+'. The outlook is negative.
- We revised the outlook on Bajaj Finance Ltd. (BFL) to negative and affirmed the 'BBB-/A-3' ratings.
- We revised the outlook Manappuram Finance Ltd. to negative and affirmed the 'BB-/B' ratings.
- We revised the outlook Muthoot Finance Ltd. to negative and affirmed the 'BB/B' ratings.
- We revised the outlook Power Finance Corp. Ltd. (PFC) to negative and affirmed the 'BBB-' rating.

Our rating actions reflect Indian NBFCs face increasing risks from challenging operating conditions stemming from the COVID-19 outbreak.

In our view, the economic risk for Indian financial institutions is rising. Economic conditions have turned adverse due to the COVID-19 pandemic. Drastic efforts to curtail the spread of the coronavirus has resulted in a sudden stoppage in economic activity. We have therefore revised our economic risk trend for the financial sector to negative from stable.

S&P Global Ratings has further revised downward its fiscal 2021 GDP growth projections for India to 1.8%, compared with our earlier expectation of 3.5%. We believe this decline is a cyclical event and India's structural growth story is intact. Economic growth should return to 7% levels in the medium term. We are projecting 7.5% growth in fiscal 2022, albeit from a small base. However, a prolonged slowdown, particularly if the recovery in fiscal 2022 is significantly slower or delayed, could adversely affect the financial institutions sector.

PRIMARY CREDIT ANALYSTS

Nikita Anand
Singapore
+ 65 6216 1050
nikita.anand
@spglobal.com

Michael D Puli
Singapore
(65) 6239-6324
michael.puli
@spglobal.com

Deepali V Seth Chhabria
Mumbai
(91) 22-3342-4186
deepali.seth
@spglobal.com

SECONDARY CONTACTS

Geeta Chugh
Mumbai
(91) 22-3342-1910
geeta.chugh
@spglobal.com

Amit Pandey
Singapore
(65) 6239-6344
amit.pandey
@spglobal.com

Various Rating Actions Taken On Indian NBFCs On Weakening Economic Conditions Due To COVID-19

Credit risk remains very high and continues to pose risks. The deterioration in NBFCs' asset quality may intensify as the economy slows amid the outbreak. We expect the microfinance segment to be the most affected during the lockdown as it relies primarily on cash collections and its borrowers, many with weak credit profiles, would have faced disruptions to income generation. Home loans are likely to be less affected because the majority of borrowers are salaried and collections are through auto debit instructions. Affordable housing loans, which cater to weaker economic strata, could witness challenges, however. Other pockets of stress include loans to real estate developers, loans against property, loans against shares, and loans to telecom, aviation, restaurant, or tourism-related sectors. Small and midsize enterprises are likely to be more affected in this scenario.

The three-month moratorium on principal and interest repayments allowed by the Reserve Bank of India will help borrowers with temporary liquidity problems. In any case, it will also result in delayed recognition of weaker loans.

In our base case, we expect the overall impact on the NBFC sector to be more pronounced than on the banking sector, given some of them lend to weaker customers. Also, NBFCs were already reeling under trust deficit in the system since the 2018 default of Infrastructure Leasing & Financial Services.

Finance companies also face accentuated liquidity risks. As a large proportion of borrowers opt for the moratorium, cash inflows for finance companies may be limited, making them dependent on their liquid assets and refinancing to service their upcoming debt maturities. Currently, NBFCs that we rate have sufficient liquidity, comprising liquid assets, undrawn lines from banks, and in some cases funding lines from group companies.

In our opinion, we could see more differentiation in the liquidity available to finance companies, with strong NBFCs benefitting from a flight to quality. Liquidity stress could be high for wholesale lenders with large exposure to property developers or those without a strong parent, or companies with perceived weak governance.

Shriram Transport Finance Co. Ltd.

Primary analyst: Nikita Anand

We lowered the ratings on STFC to 'BB' from 'BB+' due to our expectation that funding conditions for the company could tighten amid challenging operating conditions and weakness in asset quality. We have therefore revised our funding assessment to moderate from adequate. STFC's dominant market position as India's largest commercial vehicle financier and its strong capitalization continue to support the ratings.

In our opinion, the used commercial vehicle segment is vulnerable in the current slowdown. The company's borrower profile is less resilient to the lockdown and weak economic activity. Also, collections will be more difficult for the company as it has a high reliance on collecting cash repayments.

We expect STFC's asset quality to deteriorate, which is likely to lower the availability of funding to the company. Although the company has access to multiple funding sources, it has had to curtail growth and increase dependence on securitization to navigate tight funding conditions over the past 18 months. The company operates in a confidence-sensitive sector with reliance on wholesale funding sources especially bank lines in the current environment. With rising risk aversion and pressure on asset quality, STFC faces higher refinancing risk than peers with stronger credit profiles and corporate or government backing. The company has regularly tapped overseas markets for funding in past quarters, which will be a challenge in the current market

Various Rating Actions Taken On Indian NBFCs On Weakening Economic Conditions Due To COVID-19

conditions.

Weak economic activity in India from strict lockdown measures is likely to keep vehicle utilization low, hurting the cash flows of road transport operators. STFC's stage 2 loans were sizable at the end of 2019 at 20% of total loans. We believe tough operating conditions could result in a higher transition rate from stage 2 to stage 3 loans, increasing STFC's nonperforming loans (NPLs) and credit costs. The company is holding about 34% of provisions against stage 3 loans and 6% against stage 2 loans. Stage 2 loans are loans with a significant increase in credit risk and that are 30-89 days overdue, and stage 3 loans are loans that are 90 days overdue. In our opinion, STFC may have to step up this provisioning in a weaker environment.

The negative outlook on STFC reflects a one-in-three chance that we will lower the rating over the next 12 months due to rising economic risks in the Indian financial sector.

We will downgrade STFC if economic risks rise or if deteriorating operating conditions result in a sharp increase in the company's NPLs and credit costs or if STFC's liquidity dwindles possibly due to refinancing issues and a decline in collections.

We will likely revise the outlook to stable if the operating environment improves, alleviating the pressure on STFC's asset quality, funding, and liquidity.

Bajaj Finance Ltd.

Primary analyst: Nikita Anand

We affirmed our 'BBB-' rating on BFL due to its strong market position and comfortable capital levels. BFL has a strong market position in consumer durables and two- and three-wheeler financing, which supports its reach in the Indian retail market. The company has adequate liquidity, in our view. Tempering these strengths are its relatively high credit costs and its reliance on wholesale sources for funding.

The negative outlook on BFL reflects our view that there is a one-in-three chance that we will lower the rating over the next 12 months due to rising economic risks in the Indian financial sector.

We do not factor any extraordinary support from the group given that the group entities are regulated or listed entities, which restricts their ability to provide support to BFL in the case of an extraordinary event.

We may downgrade BFL if we believe that the current economic crisis is sharper and longer than we envisage such that it substantially weakens the company's asset quality and sharply increases its credit costs beyond our expectations.

We believe stress in the wider group could spill over to BFL given the benefits to its market position and funding access from the common brand name. We would therefore also lower the rating on BFL if the group credit profile weakens. This may happen if there is a deterioration in the credit profile of either its sister company Bajaj Auto Ltd. or the ultimate parent, Bajaj Holdings and Investments Ltd. (BHIL).

We may revise the outlook to stable if economic risks reduce and the credit profiles of both BFL and group companies don't deteriorate materially.

Manappuram Finance Ltd.

Primary analyst: Michael Puli

We affirmed the ratings on Manappuram as it maintains very high capitalization and earnings capacity, and holds gold as collateral backing most of its loans. Offsetting these strengths is the company's modest business franchise, collateral-based underwriting standards for gold-backed loans, material exposure to unsecured microfinance customers, and reliance on short-term funding that faces continual rollover risk.

Our negative outlook reflects our view that Manappuram is not immune to heightened economic risks affecting India's financial system over the next 12-18 months. Particularly at risk, in our view, is the company's exposure to the micro finance sector at 20% of total loans, which we believe has customers who are relatively more vulnerable to economic conditions.

We would lower the ratings on Manappuram if economic risks sufficiently increase across India's banking and financial system to affect the company's operating environment. We could also lower the ratings if Manappuram's credit costs increase substantially relative to peers, or the company's ability to roll over its short-term funding suffers.

We would revise our outlook back to stable if economic risks to Indian finance companies reduce. A structural improvement to the stability of Manappuram's funding profile would result in a stable outlook, as longer-term funding would reduce the rollover risk associated with short-term wholesale funding, in our view.

Muthoot Finance Ltd.

Primary analyst: Michael Puli

We affirmed the ratings on Muthoot as it remains the market leader in gold-backed loans, maintains very high capitalization and earnings capacity, and holds gold as collateral for most of its loans. Offsetting these strengths is the company's exposures to operating risks and reliance on short-term funding, which faces continual rollover risk.

Our negative outlook reflects our view that Muthoot is not immune to heightened economic risks affecting India's financial system over the next 12-18 months.

We would lower the ratings on Muthoot if economic risks sufficiently increase across India's banking and financial system to affect the company's operating environment. We could also lower the ratings if Muthoot's credit costs increase substantially relative to peers, or the company's ability to roll over its short-term funding suffers.

We would change our outlook back to stable if we saw a reduction in economic risks to Indian finance companies. A structural improvement to the stability of Muthoot's funding profile would also result in a stable outlook, as longer-term funding would reduce the rollover risk associated with short-term wholesale funding, in our view.

Power Finance Corp. Ltd.

Primary analyst: Michael Puli

We affirmed the ratings on PFC given its ongoing dominant market position in financing India's power sector, the benefits it receives from linkages with central and state governments, and

Various Rating Actions Taken On Indian NBFCs On Weakening Economic Conditions Due To COVID-19

beneficial access to funding (e.g., tax free bonds). Further, the company maintains good capitalization and earnings capacity, although it remains highly concentrated to large scale and lumpy assets in a structurally poor performing power sector. Majority government ownership and backing support its relatively good market access to funding. Its policy role and linkages to the government of India result in one notch of uplift for the current rating.

Our negative outlook on PFC reflects our view that heightened economic risks may sufficiently increase across India's banking and financial system such that we lower the starting point for finance company ratings. This would result us lowering the rating on PFC to 'BB+'. This is because we believe that government supportiveness for PFC is not sufficient to offset these headwinds to the company's stand-alone creditworthiness. We see a one-in-three chance of this occurring over the next 12 months.

We would downgrade PFC if economic risks rise across the banking system. Although now less likely, we would also lower the rating on the company if the government of India reduces its shareholding to a degree that we believe materially lowers its linkage to the company and government supportiveness.

We would revise our outlook back to stable if economic risks in India reduce.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded

	To	From
Shriram Transport Finance Co. Ltd.		
Issuer Credit Rating	BB/Negative/B	BB+/Negative/B
Senior Secured	BB	BB+

Various Rating Actions Taken On Indian NBFCs On Weakening Economic Conditions Due To COVID-19

Ratings Affirmed; Outlook Action

	To	From
Bajaj Finance Ltd.		
Issuer Credit Rating	BBB-/Negative/A-3	BBB-/Stable/A-3
Manappuram Finance Ltd.		
Issuer Credit Rating	BB-/Negative/B	BB-/Stable/B
Senior Secured	BB-	
Muthoot Finance Ltd.		
Issuer Credit Rating	BB/Negative/B	BB/Stable/B
Senior Secured	BB	
Power Finance Corp. Ltd.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Senior Unsecured	BBB-	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.