Press Release

Subhlakshmi Finance Private Limited (SFPL)

February 28, 2024

Ratings

Facilities	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facility – Term Loan	51.94 (Enhanced from 44.56)	IVR BBB-/Stable outlook (IVR Triple B Minus with Stable outlook)	Reaffirmed	Simple
Proposed Long Term Fund Based Bank Facility – Term Loan	48.06 (Reduced from 55.44)	IVR BBB-/Stable outlook (IVR Triple B Minus with Stable outlook)	Reaffirmed	Simple
Total	**100.00 (Rupees Hundred crore only)**			

Details of facilities are in Annexure 1

Detailed Rationale

The rating reaffirmation to the bank facilities of Subhlakshmi Finance Private Limited (SFPL) continues to derive comfort from its experienced management team, consistent growth in AUM with established network, comfortable capital structure backed by regular equity infusions, Stable Debt protection metrics and Resilient Credit Underwriting Framework for Sustainable Lending. However, the rating strengths are partially offset by moderate profitability albeit increasing revenues, average asset quality and risk inherent in unsecured lending to SMEs/MSMEs, competitive nature of industry and regulatory and socio-political risks inherent in the industry.

Key Rating Sensitivities:

Upward Factors:

Significant & sustained increase in scale of operations with improvement in profitability and debt protection metrics.

Downward Factors:

Substantial decline in the revenue & profitability leading to decline in the debt protection metrics and/or liquidity profile.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced management

SFPL commenced its fresh lending operations only from November 2016, after taking over the business from its previous management. Its executive directors, Mr. Bipin Bihari Sharma (CFO) along with Mr. Durgeshwar Kumar Mishra (CEO) along with Mr. Sanjeev Yadav (COO) have extensive experience in the financial services industry which supports the business profile of the Company. Also, on its board are other experienced professionals who maintain strong oversight of the business, which has helped the Company in placing prudent lending practices with stringent credit assessment and monitoring.

Consistent growth in AUM backed by established network.

SFPL primarily focuses on lending to SMEs & MSMEs under the JLG scheme, primarily in the northern part of India. It also lends Business Loans to individuals for income generation activities. Over the years, the Company has successfully expanded its operations in 8 states covering 49 districts comprising of 74 branches and ~80,000+ odd borrowers as on September 30, 2023. The Company's total Asset Under Management (AUM) stood at INR243.50 Crore in FY23 as against INR177.61 Crore in FY22 on account of substantial growth in its securitisation portfolio (Own book AUM in FY23: INR115.95 Crore and FY22: INR103.29 Crore) with the prudent practice adopted by the company in making the disbursements. SFPL takes off-book exposure through its associates with multiple financial institutions viz. MAS Financial Services Limited, Kissandhan Agri Financial Services Private Limited, DCB Bank, Ananya Finance, Fincare Small Finance Bank and more.

Comfortable capital structure backed by regular capital infusion:

While the Company has been in the process of improving its exposure meanwhile increasing its overall lending portfolio backed by support of regular capital infusion & borrowings. Company's CRAR showed an improving trend with CRAR of 31.36% for FY23 (28.85% - FY22). Further, the company has infused additional capital in the form of preference shares and equity shares of Rs 2.94 in FY23. On the back of which, tangible net worth has increased to INR43.74 Crore in FY23 (FY22 - INR33.13 Crore). The net worth experienced a growth of 32%, attributed to an infusion of approximately 7.38 crore from the Promoter Group and their company, where the company total Networth in H1FY24 stands at Rs.48.55 crore. Additionally, a capital infusion of Rs.2.08 crore in the month of February 2024, contributed to the net worth, reaching approximately Rs.51 crore. Going forward, the ability to access timely capital or mobilizing low-cost debt, will be a key rating factor in the scalability of the business.

Stable Debt protection metrics:

While the Company has been in the process of improving its exposure meanwhile increasing its overall lending portfolio backed by support of regular capital infusion & borrowings. The overall gearing stood 2.43x in FY23 (FY22: 2.94x) and interest coverage ratio of 1.47x in FY23 (FY22: 1.55x). Going forward, the ability to access timely capital or mobilizing low-cost debt, will be a key rating factor in the scalability of the business.

Resilient Credit Underwriting Framework for Sustainable Lending

The credit underwriting process is well-structured, with clear demarcation and separation based on product types. Business loans, in particular, involve a distinct hierarchy that includes field officers, credit managers, and evaluators responsible for assessing cash inflows and outflows. The field force is closely connected with respective credit managers, conducting on-site evaluations of customers' residences and business premises to analyse financial aspects.

The information gathered is incorporated into a Credit Appraisal Memorandum (CAM) through a mobile-based app, which also facilitates geotagging and instant credit bureau checks from entities like Cibil and Microfinance (MFI) Bureau. Additionally, the process now involves obtaining CCR data to enhance customer origination.

This field data is then centralized for credit evaluation by a dedicated team of 10 to 15 individuals. They conduct thorough reviews, including telephonic and video discussions, when necessary, before seeking final approval. Post-approval, predefined processes outlined in credit manuals are followed for disbursement.

Key Rating Weaknesses

Moderate profitability:

The company's profitability remains range bound albeit growing revenues due to the higher operating expenses as the company is in expansion mode and hence the cost to income ratio has also increased. Also, the company has provided Rs5.92 Crs write-off in last 2 years which has also impacted the profitability of the company. Company's NIM has decreased from 13.96% in FY22 to 12.78% in FY23 on account of increased borrowing cost. PAT margin remains stable at 7.59% in FY23 (7.77% in FY22). Going forward, the ability of the company to improve its profitability on a sustainable basis will be a key rating sensitivity. However, the company has shown steady performance in H1FY24 where their total operating income stood at Rs.21.26 crore in comparison to Rs.18.68 crore in H1FY23, the AUM exhibited a notable growth of around 35% in H1FY24 in comparison to H1FY23, the PAT level is intact in H1FY24 with Rs.1.31 cr as compared to H1FY23 with Rs.1.34 cr.

Average asset quality.

The company is mainly concentrated into lending of SME/ MSME loans (~86% of total loan portfolio), with ticket size ranging from 65k to 110k with a maximum tenure of up to 18 months. MSME industry generally has higher delinquencies given the vulnerability of the borrowers to the external environment. The GNPA and NNPA of the company has increased to 1.66% and

0.86% respectively in FY23, when compared to 1.46% and 1.32% in FY22, however the company is making constant efforts to improve their asset quality. Given the ticket size, the ability of the company to make timely recoveries and maintain a healthy asset quality will be a key monitorable.

Risk inherent in unsecured lending to SMEs/MSMEs

The Company lends unsecured and secured loan through their Product Business Loan, Loan against Property, Small Enterprise Loan and Micro Enterprise Loan with its average tenure up to two years. Loans are given to low-income group self-employed personal or working in informal sector and such type of lending accounts for more than 90% of the total loan book. Further, since SME/MSME loans are extended to self-employed individuals for business purposes, the serviceability of these loans is directly dependent on the level of economic activity in the region. While the activities of most of these small MSME units might have been impacted because of the global pandemic hit along with their restrictions on the movement of men and materials. The occurrence of events such as the slowdown in economic activity or shifting of activity to other geographies could impact the cash flows of the borrowers, thereby impacting the credit profile of SFPL. Though it is to be known, the Company has maintained its asset quality as seen in its historical years of operations and its collection efficiency (on-time DPD) stood at an average of ~96% as on November 30, 2023, which highlights the collection efficiency capabilities of the Company.

Competitive nature of industry

SFPL is exposed to stiff competition from other varied sized NBFCs. The lending industry focused around SMEs and small ticket unsecured loans is highly fragmented with unorganized lenders also vying for the same set of borrowers. However, SFPL's professional management and focused approach towards SME lending and conservative underwriting policy standards is expected to grow its business while mitigating the risks.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Financial Institutions/NBFCs]

[Policy for placing the ratings on Credit Watch]

[Criteria for complexity level of rated instrument/ Facilities]

[Criteria for Rating Outlook]

Liquidity - Adequate

Liquidity is marked adequate by the balanced ALM profile for the short to medium term with sufficient cushion of inflows as against its repayment obligations largely because of its short-term lending type of loans as against term debt availed. Apart from it, the company maintains cash and cash equivalents of about INR10.40 Crore as on March 31st, 2023.

About the Company

Subhlakshmi Finance Pvt Ltd (SFPL) was originally incorporated on January 19, 1996, at Punjab, Sangrur as 'Pepsu Capital Services Pvt Ltd' and was later acquired by the current promoters, Mr. Durgeshwar Kumar Mishra, Mr. Sanjeev Kumar Yadav & Mr. Bipin Bihari Sharma in October 2016. SFPL caters mainly to MSMEs/SMEs in Rural and Semi-Urban areas. It lends small ticket unsecured loans through their products Business Loan, LAP, SEL and MEL. These loans are given to low-income group self-employed personal or working in informal sector.

Financials (Standalone)

INR in Crore

For the year ended* As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	39.97	42.85
Interest	13.89	14.27
PAT	3.12	3.25
Total Debt	97.45	106.12
Tangible Net worth	33.13	43.74

Total Loan Assets	103.29	115.95
Ratios (%)		
PAT Margin %	7.77	7.59
Overall Gearing Ratio (x)	2.94	2.43
Gross NPA (%)	1.46%	1.66%
Net NPA (%)	1.32%	0.86%
CAR (%)	28.84%	31.63

** Classification as per Infomerics' standards*

Status of non-co-operation with any other CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (February 22, 2023)	Date(s) & Rating(s) assigned in 2021-22 (December 9, 2021)	Date(s) & Rating(s) assigned in 2020-21 (October 22, 2020)
1.	Long Term Fund Based Bank Facility – Term Loan	Long Term	51.94	IVR BBB-/Stable	IVR BBB-/Stable	IVR BBB-. Under credit watch with negative implications	IVR BBB-/Stable
2	Proposed Long Term Fund Based Bank Facility – Term Loan	Short Term	48.06	IVR BBB-/Stable	IVR BBB-/Stable	IVR BBB-; Under credit watch with negative implications	IVR BBB-/Stable

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Bank Facility – Term Loan	-	--	Upto 2026	51.94	IVR BBB-/Stable
Proposed Long Term Fund Based Bank Facility – Term Loan	-	--	--	48.06	IVR BBB-/Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-subhlakshmi-feb24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at **www.infomerics.com**.