Press Release

Subhlakshmi Finance Private Limited

February 22nd , 2023

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action	Complexity indicators
1	Long Term Fund Based Facility – Term Loan	44.56 (Increased from 41.77)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Rating Reaffirmed and outlook assigned; Removed from Rating Watch with Negative Implication	Simple
2	Proposed Long Term Fund Based Facility – Term Loan	55.44 (Decreased from 58.23)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Rating Reaffirmed and outlook assigned; Removed from Rating Watch with Negative Implication	Simple
	Total	**100.00**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating reaffirmation to the bank facilities of Subhlakshmi Finance Private Limited (SFPL) continues to derives comfort from its experienced management team, comfortable operational indicators backed by regular equity infusions and improving debt protection metrics. However, the rating strengths are partially offset by risk inherent in unsecured lending to SMEs/MSMEs, competitive nature of industry and regulatory and socio-political risks inherent in the industry.

Earlier, the rating was placed on watch with negative implication due to headwinds arising out of ongoing COVID-19 pandemic and its impact on the operational and financial parameters of the company which resulted in increased delinquencies.

As the company was able to sustain its performance backed by improvement in its overall scale of operation, Asset Under Management (AUM), collection efficiency and expected improvement in its Net Interest Margin (NIM). These recent developments majorly extinguish the concern led for placing the rating under credit watch with developing implications. Hence, the watch was resolved and stable outlook was assigned.

Key Rating Sensitivities:

- **Upward Factor**
    - Significant scaling up the business operations while maintaining the asset quality and profitability indicators
- **Downward Factor**
    - Significant deterioration in leverage indicators, asset quality and/or profitability metrics in order to improve the lending operations

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 on the business, which has helped the Company in placing prudent lending practices with stringent credit assessment and monitoring.

Comfortable operational indicators backed by regular equity infusion

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 42 districts comprising of 58 branches and ~74,000+ odd borrowers as on December 31, 2022. The Company's total Asset Under Management (AUM) stood at INR177.61 Crore in FY22 as against INR144.75 Crore in FY21 on account of substantial growth in its securitization portfolio (Own book AUM in FY22: INR103.29 Crore and FY21: INR109.41 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, and Fincare Small Finance Bank. It reported Gross Non Performing Assets (GNPA) of 1.46% (NNPA of 1.32%) as on March 31st, 2022. SFPL has comfortable Net-Interest Margins (NIMs) of 16.78% in FY22 (FY21- 12.21%). Further, the company has infused additional capital in the form of preference shares and equity shares resulting to increase in overall tangible net worth has increased to INR33.13 Crore in FY22 (FY21 -INR27.01 Crore). The moderate delinquency levels have enabled the Company to maintain comfortable profitability metrics. The overall profitability in FY22 has improved as compared to previous year on account of improvement in the overall interest income earned on On-Book and off-Book portfolio. Interest income and PAT stood at INR39.97 Crore and 3.12 Crore respectively in FY22 (INR37.06 Crore; INR1.08 Crore)

Improving 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 2.94x in FY22 (4.23x) and interest coverage ratio of 1.30x in FY22 (1.08x). 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.

Key Rating Weaknesses

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 ~95% as on December 31, 2022 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 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 INR21.81 Crore as on March 31st , 2022.

About the Company

Subhlakshmi Finance Pvt Ltd (SFPL) was originally incorporated on January 19, 1996 at Jalandhar 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. Crore)**

For the year ended/ As On*	31-3-2021 (Audited)	31-3-2022 (Audited)
Total Operating Income	37.06	39.97
Interest	14.85	13.89
PAT	1.08	3.12
Total Debt	114.28	97.45
Tangible Net worth	27.01	33.13
Total Loan Assets	109.41	103.29
Ratios (%)		
PAT Margin %	2.92	7.80
Overall Gearing Ratio (x)	4.23	2.94
Gross NPA (%)	0.77	1.46
Net NPA (%)	0.69	1.32
CAR (%)	24.56	28.85

** Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (December 9, 2021)	Date(s) & Rating(s) assigned in 2020-21 (October 22, 2020)	Date(s) & Rating(s) assigned in 2019-20
1	Long Term Fund Based Bank Facility – Term Loan	Long Term	44.56	IVR BBB- /Stable	IVR BBB-; Under credit watch with negative implications	IVR BBB- /Stable	--
2	Proposed Long Term Fund Based Facility – Term Loan	Long Term	55.44	IVR BBB- /Stable	IVR BBB-; Under credit watch with negative	IVR BBB- /Stable	--

					implications		
			100.00				

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com.

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Annexure 1: Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Bank Facility – Term Loan	--	--	--	44.56	IVR BBB-/Stable Outlook
Proposed Long Term Fund Based Facility – Term Loan	--	--	--	55.44	IVR BBB-/Stable Outlook

Annexure 2: List of companies considered for consolidated analysis: NA

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Subhlakshmi-Finance-feb23.pdf

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

Annexure 5: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.