



Press Release

Subhlakshmi Finance Private Limited (SFPL)

October 22nd, 2020

Sr. No	Facilities	Amount (INR Crore)	Current Ratings	Rating Action
1	Long Term Fund Based Facilities – Term Loans	100.00 (Includes proposed facilities of INR68.90 Crore)	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed
	Total	100.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating continues to derive strength from experienced management and healthy operational indicators. However, the rating strengths are partially offset by risks inherent in unsecured lending to SMEs/MSMEs, moderate debt protection metrics and competitive nature of industry.

Key Rating Sensitivities:

- **Upward Factor**
 - Substantial scaling up its operations and diversifying its loan portfolio geographically, while maintaining the asset quality indicators, adequate capital position and profitability.
- **Downward Factor**
 - Movement in the collection efficiency which impacts the asset quality significantly thereby increasing the credit cost for the Company.

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. Sanjeev Kumar Yadav (CEO) have extensive experience in the



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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.

- **Healthy operational indicators:**

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 7 states and has initiated lending in Rajasthan as on March 2020. The Company's total Asset Under Management (AUM) has grown to INR157.86 Crore as on March 31st, 2020 as against INR111.43 Crore as on March 31st, 2019. SFPL takes off-book exposure through its associates with MAS Financial Services Private Limited. It reported Gross Non-Performing Assets (GNPA) of 0.27% (NNPA of 0.24%) as on March 31st, 2020 when compared to 0.38% (NNPA of 0.34%) as on March 31st, 2019. The low delinquency levels have enabled the Company to maintain healthy profitability metrics. SFPL has comfortable Net-Interest Margins (NIMs) of 12.22% in FY2020 as against 10.88% in FY2019. The Company reported sustained Return on Average Assets (RoAA) of 3.65% in FY2020 and 3.68% in FY2019.

Key Rating Weaknesses

- **Risk inherent in unsecured lending to SMEs/MSMEs:**

The Company lends small ticket unsecured loans through their products MEL & SEL with its average tenure upto two years. Loans are given to low income group self-employed personal or working in informal sector and such type of lending accounts 98.73% 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 on-going lockdown and restrictions on the movement of men and material, collections of SFPL and its impairment will be known only over the coming quarters. 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.



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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 99.06% as on March 31st, 2020 which highlights the collection efficiency capabilities of the Company.

- **Moderate Debt protection metrics:**

While the Company has been in the process of improving its exposure meanwhile increasing its overall lending portfolio, a spike in its cost of borrowings is seen. The overall gearing stood at 4.20x as on March 31st, 2020 as against 3.67x as on March 31st, 2019. Going forward, the ability to access timely capital or mobilizing low-cost debt, will be a key rating factor in scalability of the business.

- **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, DFL'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 & Applicable Criteria:

Standalone Approach

Rating Methodology for Financial Institution/NBFCs

Financial Ratios & Interpretation (Financial Sector)

Liquidity: Adequate

Liquidity is marked adequate by the balanced ALM profile for the short 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 INR4.98 Crore as on March 31st, 2020.

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



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promoters, 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 MEL and SEL for upto 3 years of tenure. These loans are given to low income group self-employed personal or working in informal sector.

Financials:

For the year ended/ As On*	(INR Crore)	
	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	22.56	34.67
Interest	10.98	14.48
PAT	2.26	3.32
Total Debt	73.50	98.05
Total Net-worth	20.01	23.33
Total Loan Assets	73.09	108.67
Ratios (%)		
PAT Margin (%)	10.02	9.58
Overall Gearing Ratio (x)	3.67	4.20
GNPA (%)	0.38	0.27
NNPA (%)	0.34	0.24
CAR (%)	31.07	23.43

* 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 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (September 05 th , 2019)	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund Based Facilities – Term Loans	Long Term	100.00 (Includes proposed facilities of INR68.90 Crore)	IVR BBB-/Stable	IVR BBB-/Stable	--	--



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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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Size of Facility (INR Crore)	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Rating Assigned/ Outlook
Long Term Fund Based Facilities – Term Loans	100.00 (Includes proposed facilities of INR68.90 Crore)	NA	NA	Varies from October 2020 – November 2023	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)