

SML Finance Limited
April 7, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	45.00	CARE BB-; Stable; ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BB; Stable (Double B; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Total Facilities	45.00 (Rs. Forty Five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from SML Finance Limited to monitor the rating vide e-mail communications dated January 11, 2021, March 26, 2021 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on SML Finance Limited's bank facilities will now be denoted as **CARE BB-; Stable; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised on account of continuation of weak asset quality resulting in losses during FY20 (refers to the period April 01 to March 31) with decline in loan portfolio. The rating continues to be constrained by geographical concentration of loan portfolio, moderately diversified resource profile and marginal credit profile of borrowers. The rating, however, favourably factors in vast experience of the promoters, long track record of operations of the company and adequate capitalisation levels for the current scale of operations.

Detailed description of the key rating drivers

At the time of last rating on April 3, 2020, the following were the rating strengths and weaknesses (updated for information available from FY20 audited financials and 9MFY21 provisional financials)

Detailed description of the key rating drivers***Key rating weaknesses******Moderation in business growth***

SMLFL overall business moderated during FY20 with loan portfolio reduced from Rs.202 crore as on March 31, 2019 to Rs.185 crore as on March 31, 2020 registering the de-growth of 9%. As on December 31, 2020, the loan portfolio further moderated to Rs.170 crore. The share of HP loans has increased from 36% as on March 31, 2019 to 50% as on March 31, 2020. Microfinance loans have reduced to 0.41% (as a % of total loans outstanding) and business loans have reduced to 5.39% as on March 31, 2020. The company has started offering personal loans in FY19 and its share stood at 26% of the total portfolio as on March 31, 2020. The company has also started extending its presence in gold loan and also started other new products such as consumer durable loan and property/mortgage loan. The share of Gold loan has increased from 1.52% as on March 31, 2019 to 7.27% as on March 31, 2020. The ability of the company to maintain the diversification in the loan products and improve the business volumes in each loan products remains critical from the rating perspective.

Geographically concentrated nature of business

SMLFL currently operates only in southern and central part of Kerala with 56 branches as on December 31, 2019. Also, its associate company BRD securities engaged in same operations of SMLFL in Kerala. However, BRD securities operations are confined to Northern and Central part of Kerala thus restricting SMLFL to expand in Northern part of Kerala to avoid any

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

*Issuer did not cooperate; Based on best available information

overlapping in their business with BRD securities. The company would be required to venture into other regions where BRD securities is not present to expand their business and to reduce the geographical concentration risk going forward.

Marginal credit profile of borrower

SMLFL is primarily engaged in Asset financing and business finance to the unorganized segment in the rural and semi-urban areas which is characterized by marginal credit profile of the borrowers and that are not serviced by the banking sector. Since this segment is highly susceptible to the impact of economic downturn and asset quality is a key monitorable. However, the management team's good knowledge and experience on this target customer segment provides comfort to an extent.

Weak Asset quality

SMLFL's asset quality has been moderate since inception due to their moderate borrower profile. Gross NPA and Net NPA stood at 9.38% and 7.21% respectively as on March 31, 2020 as against 12.09% and 10.67% respectively as on March 31, 2019. Company has written off bad debt aggregating to Rs.9.15 crore as on March 31, 2020. The ability of the company to recover the bad assets and reduce NPA level in the HP segment and maintain good asset quality in new products remains critical for credit perspective.

Moderately diversified resource profile

SMLFL's funding profile is moderately diversified with resources like retails NCDs, sub debt and cash credit facilities. NCDs accounted around 51% and sub debt around 35% and CC facilities was around 14% of the total borrowing as on March 31, 2020. (PY: 60% NCD, 21% Sub debt and 19% CC as on March 31, 2019).

Moderation in the profitability

The company's NIM moderated to 7.97% in FY20 from 8.17% in FY19. Operating expenses (as % of average total assets) continues to remain high at 8.86% in FY20 as against 8.70% in FY19. PPOP stood at Rs.0.83 crore during FY20 as against Rs.5.62 crore in FY19. Credit costs increased to 4.23% in FY20 from 1.66% in FY19. Company has written off loans aggregating to Rs.9.15 crore in FY20 (PY: 4.52 crore). The company had exceptional income pertaining to declaration of additional income to settlement commission aggregating to Rs.11.35 crore in FY20 and the company also had payment of tax related to prior years of Rs.6.56 crore. SMLFL reported loss amounting to Rs.4.72 crore in FY20 as against a profit of Rs. 0.31 crore in FY19. PBT for FY20 stood at Rs.1.46 crore as against Rs. 0.69 crore in FY19.

During 9MFY20, the company reported PBT of Rs. 6.17 crore on a total income of Rs.35.29 crore.

Key rating strengths

Long track record of operations of the group and experienced promoters

SML group started its business in 1980 with its registered office at Kunnamkulam. SML group is currently operating with 2 main companies namely SML Finance Limited and SML Motors with branch offices spread across the state of Kerala. Over three decades of its operations, SML group has ventured into various line of business including new vehicle dealership, used vehicle dealership and NBFC. SMLFL has been operational for around two decades providing hire purchase facility for all kinds of 2 wheelers, 3 wheelers and 4 wheelers (both new and used vehicles) and has provided finance for more than one lakh vehicles. SMLFL was promoted by Mr William Varghese, and has experience of around 20 years in Vehicle financing. He is also the sole proprietor of SML Motors and also the founder of BRD group of companies.

Adequate capitalization profile

The company's total Capital adequacy ratio was adequate at 23.81% (PY: 19.82%) and tier I capital was around 15.88% (PY: 13.23%) as on March 31, 2019. Capital adequacy ratio was adequate at 25.00% and tier I capital was around 16.67% as on Dec 31, 2019. SMLFL's net worth declined to Rs. 51.67 crore as on March 31, 2020 from Rs. 56.80 crore as on March 31, 2019. Gearing increased to 3.39x times as on March 31, 2020 from 3.29x times as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

Policy in respect of Non-cooperation by issuer

Criteria on assigning Outlook and Credit watch to Credit Ratings

CARE's Policy on Default Recognition

Financial Ratios-Financial Sector

CARE's Rating Methodology for Non-Banking Finance Companies (NBFCs)

About the Company

SML Finance Limited (SMLFL) is a Non-Banking Finance Company (NBFC- ICC), a part of SML group, incorporated on August 13, 1996 as a private limited company under the name 'SML Finance Private Limited' and got converted into Limited Company on

June 18, 1998. The company extends Business Loans and Hire Purchase (HP) loans for financing three wheelers, two wheelers, cars, and Light Commercial Vehicles (LCV) for both old and new vehicles. The company also extends personal loans, gold loans, consumer durable loans and property/mortgage loans. The company has its registered office at Thrissur, Kerala and corporate office in Cochin, Kerala. As on December 31, 2019, the company operates with 56 branches with the entire portfolio concentrated in the Southern and Central districts of Kerala.

Apart from SMLFL, the group includes SML Motors which is an authorized dealer for the Piaggio vehicles. The promoter group of SML also has interest in the BRD group of companies, (all the firms in BRD group promoted by promoters of SML and promoter holds majority of the shares in both the group) which has presence in vehicle dealerships (Three Wheelers, LCVs & Cars), vehicle financing, vehicle body fabrication, chit funds, education and real estate. SML and BRD group entities operate in different regions of Kerala; while SML group mainly operates in Southern and Central districts of Kerala, the BRD group largely operates in some Central and Northern districts of Kerala.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	55.0	46.21
PAT	0.3	-4.71
Interest coverage (times)	1.04	1.06
Total Assets	261.92	244.94
Net NPA (%)	10.67	7.21
ROTA (%)	0.11	-

A: Audited

Status of non-cooperation with previous CRA: ICRA has suspended its rating vide press release dated December 01, 2015 on account of its inability to carry out a rating surveillance in the absence of the requisite information from the company.

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Please refer Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	45.00	CARE BB-; Stable; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	45.00	CARE BB-; Stable; ISSUER NOT COOPERATING*	1)CARE BB; Stable (03-Apr-20)	1)CARE BB; Stable (03-Apr-19)	-	1)CARE BB+; Stable (05-Jan-18) 2)CARE BB; Stable (11-Apr-17)
2.	Fund-based - ST-Working Capital Demand loan	ST	-	-	1)Withdrawn (03-Apr-20)	1)CARE A4+ (03-Apr-19)	-	1)CARE A4+ (05-Jan-18) 2)CARE BB; Stable (11-Apr-17)

*Issuer did not cooperate; Based on best available information

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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