

SML Finance Limited

May 10, 2022

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-Term Bank Facilities	45.00	CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BB-; Stable; (Double B Minus; Outlook: Stable)
Total Bank Facilities	45.00 (Rs. Forty-Five Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. had, vide its press release dated April 7, 2021, placed the rating of SML Finance Limited (SMLFL) under the 'issuer non-cooperating' category as SMLFL had failed to provide information for monitoring of the rating. SMLFL continues to be non-cooperative despite repeated requests for submission of information through e-mails dated February 21, 2022, March 3, 2022 and March 13, 2022, and phone calls. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating.

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 rating assigned to the bank facilities of SMLFL have been revised on account of moderation in loan portfolio and absence of adequate information required for reviewing the rating.

Detailed description of the key rating drivers

At the time of last rating on April 7, 2021, the following were the rating strengths and weaknesses (updated for the information available from company's website (FY21 (refers to the period April 01 to March 31) audited financials) and other public information):

Key Rating Weaknesses

Moderation in loan portfolio

SMLFL overall business moderated during FY21 with loan portfolio reduced from Rs.185 crore as on March 31, 2020 to Rs. 145 crore as on March 31, 2021 registering the de-growth of 21%. The share of HP loans has increased from 36% as on March 31, 2019 to 50% as on March 31, 2020. Microfinance loans had reduced to 0.41% (as a % of total loans outstanding) and business loans reduced to 5.39% as on March 31, 2020. The company had 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(4.70% as on March 31, 2020) and property/mortgage loan(2.14% as on March 31, 2020). The share of Gold loan 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 overlapping in their business with BRD securities.

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

Gross NPA and Net NPA stood at 11.47% and 9.02% as on March 31, 2021 as against 9.38% and 7.21% respectively as on March 31, 2020. Greater than 90 days PAR stood at 43% as on June 30, 2021 as against 22% as on March 31, 2021. Company has written off bad debt aggregating to Rs. 9.05 crore as on March 31, 2021 (PY: Rs.9.15 crore as on March 31, 2020). The

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

*Issuer did not cooperate; Based on best available information

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 retail NCDs, sub debt and cash credit facilities. NCDs accounted around 44% and sub debt around 43% and CC facilities was around 12% of the total borrowing as on March 31, 2021. (PY: 51% NCD, 35% Sub debt and 14% CC as on March 31, 2020).

Moderate profitability

SMLFL reported a profit of Rs. 0.08 crore in FY21 as against loss of Rs. 4.71 crore in FY20. The company's NIM was maintained at 7.96% in FY21 as against 7.97% in FY20. With increase in dividend on investments, SML's other income registered a significant growth. With reduction in employee costs, Operating expenses (as % of average total assets) reduced to 6.40% in FY21 from 9.99%. Credit cost increased to 3.58% in FY21 (PY: 3.10 %). Thus, with improvement in other income and reduction in operating expenses, SMLFL reported ROTA of 0.35% in FY21.

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

SML's net worth improved to Rs.52.78 crore as on March 31, 2021 as against Rs.51.67 crore as on March 31, 2020. Gearing improved to 2.72x times as on March 31, 2021 as against 3.39x times as on March 31, 2020.

The company's total Capital adequacy ratio was adequate at 23.81% and tier I capital was around 15.88% 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.

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)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(P)
Total operating income	46.21	44.54	NA
PAT	-4.71	0.80	NA
Interest coverage (times)	1.06	1.05	NA
Total Assets	244.94	212.36	NA
Net NPA (%)	7.21	9.02	NA
ROTA (%)	-	0.35	NA

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	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 B+; 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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	45.00	CARE B+; Stable; ISSUER NOT COOPERATING *	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING * (07-Apr-21)	1)CARE BB; Stable (03-Apr-20)	1)CARE BB; Stable (03-Apr-19)
2	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	-	1)Withdrawn (03-Apr-20)	1)CARE A4+ (03-Apr-19)

*Long Term / Short Term

*Issuer did not cooperate; Based on best available information

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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