

## SML Finance Limited

July 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	45.00	CARE B-; Stable; ISSUER NOT COOPERATING*	Reaffirmed

Details of instruments/facilities in Annexure-1

\*Issuer did not cooperate; based on best available information.

### Detailed Rationale and Key Rating Drivers

CARE Ratings Limited (CARE Ratings) 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 the rating. SMLFL continues to be non-cooperative despite repeated requests for submission of information through e-mails dated April 22, 2024, May 02, 2024, May 12, 2024, and phone calls. In line with the extant SEBI guidelines, CARE Ratings has reviewed the rating based on best available information, which in CARE Ratings' opinion is not sufficient to arrive at a fair rating.

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

The rating assigned to bank facilities of SMLFL is constrained by moderate loan portfolio, geographically concentrated business, marginal credit profile of the borrower segment, moderate profitability, weak asset quality, and the moderately diversified resource profile. However, the rating draws strength from long track record of operations of the group, experience of promoters, and the company's adequate capitalisation profile.

**Analytical approach:** Standalone

### Detailed description of key rating drivers

At the time of last rating on June 07, 2023, the following were rating strengths and weaknesses (updated for the information available from registrar of companies (FY23 refers to April 01 to March 31; audited financials) and other public information):

#### Key Weaknesses

##### Moderation in loan portfolio

SMLFL overall business moderated in FY23 with loan portfolio reduced from ₹139 crore as on March 31, 2022, to ₹114 crore as on March 31, 2023, registering the de-growth of 18%. The company had started offering personal loans in FY19 and its share stood at 15.46% of the total portfolio as on March 31, 2023. The company also started extending its presence in gold loan and other new products such as property/mortgage loan (2.40% as on March 31, 2023). The share of gold loan increased from 7.27%, as on March 31, 2020, to 7.59% as on March 2023. The company's ability to maintain diversification in loan products and improve 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 Kerala with 56 branches as on December 31, 2019. Its associate company, BRD securities, is also engaged in the same operations of SMLFL in Kerala. However, BRD securities' operations are confined to northern and central Kerala, restricting SMLFL to expand in northern Kerala to avoid overlapping their business with BRD securities.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications.

**Marginal credit profile of borrower**

SMLFL is primarily engaged in asset financing and business finance to the unorganised segment in the rural and semi-urban areas, which is characterised by marginal credit profile of borrowers and that are not serviced by the banking sector. 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 in this target customer segment provides comfort to an extent.

**Weak asset quality**

SMLFL's asset quality moderated in FY23. Net non-performing assets (NNPA) stood at 12.38% as on March 31, 2023, as against 10.51% as on March 31, 2022. The company's ability to recover bad assets and reduce NPA level in the hire purchase (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 such as retail non-convertible debentures (NCDs), sub debt and term loans and cash credit (CC) facilities. NCDs accounted around 34% (PY: 44%) and sub debt around 57% (PY: 46%) while bank facilities was around 5% and CC accounted to 4% (PY: 7%) of the total borrowing as on March 31, 2023.

**Moderate profitability**

SML reported profit of ₹0.55 crore in FY23 as against profit of ₹0.31 crore in FY22. The company's net income margin (NIM) reduced to 5.57% in FY23 as against 5.71% in FY22. Opex moderated to 6.63% in FY23 (PY:6.56%). Credit cost increased to 2.94% in FY22 (PY:1.62%). Supported by high other income, which comprises majorly dividend from investments and recovery from bad debt, the company reported return on total assets (ROTA) of 0.27% in FY23 (0.14% in FY22)

**Key strengths****Long track record of operations of the group and experienced promoters**

SML group started business in 1980 with its registered office at Kunnankulam. SML group is currently operating with two main companies, SML Finance Limited and SML Motors, with branch offices spread across Kerala. Over the three decades of its operations, the SML group ventured across different lines 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 two wheelers, three wheelers and four wheelers (new and used vehicles) and has provided finance for more than one lakh vehicles. SMLFL was promoted by William Varghese who has experience of around 20 years in vehicle financing. He is the sole proprietor of SML Motors and the founder of BRD group of companies.

**Adequate capitalization profile**

SML's net worth improved to ₹54.19 crore as on March 31, 2023, as against 53.04 crore as on March 31, 2022. Gearing improved to 2.12xx as on March 31, 2023, as against 2.53xx as on March 31, 2022.

The company's total capital adequacy ratio (CAR) was adequate at 23.81% and Tier I capital was around 15.88% as on March 31, 2019. CAR was adequate at 25.00% and Tier I capital was around 16.67% as on December 31, 2019.

**Applicable criteria**

[Definition of Default](#)

[Policy in respect of non-cooperation by issuers](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Non Banking Financial Companies](#)
**About the company and industry**
**Industry classification**

Macro-economic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Non-banking financial company (NBFC)

SMLFL is a non-banking finance company (NBFC- ICC), and part of the SML group. It was incorporated on August 13, 1996, as a private limited company under the name 'SML Finance Private Limited' and was later converted into a limited company on June 18, 1998. The company extends business loans and HP loans for financing three wheelers, two wheelers, cars, and light commercial vehicles (LCV) for 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 Kerala. Apart from SMLFL, the group includes SML Motors, which is an authorised dealer for Piaggio vehicles. SML's promoter group also has interest in the BRD group of companies, (all firms in BRD group promoted by promoters of SML and promoter holds majority shares in both groups), which has presence in vehicle dealerships (three wheelers, LCVs, and 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 Kerala, the BRD group largely operates in some central and northern Kerala.

Brief Financials (₹crore)	31-03-2022 (A)	31-03-2023 (A)
Total operating income	34.69	35.62
PAT	0.31	0.55
Interest coverage (times)	1.04	1.07
Total Assets	205.50	188.58
Net NPA (%)	10.51	12.38
ROTA (%)	0.14	0.27

A: Audited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:** Annexure-2

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure 4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ 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 for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	45.00	CARE B-; Stable; ISSUER NOT COOPERATING*	-	1)CARE B-; Stable; ISSUER NOT COOPERATING* (07-Jun-23)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (10-May-22)	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (07-Apr-21)

\*Issuer did not cooperate; based on best available information.

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities – Not applicable****Annexure-4: Complexity level of instruments rated**

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

**Annexure-5: Lender details**

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

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

## Contact us

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### About us:

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### Disclaimer:

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