November 02, 2022

Moneywise Financial Services Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based/non-fund based bank lines	100	100	[ICRA]A- (Stable); reaffirmed
Long-term fund-based/non-fund based bank lines	-	500	[ICRA]A- (Stable); assigned
Principal protected market-linked debenture programme (PP-MLDP)	25	25	PP-MLD [ICRA]A- (Stable); reaffirmed
Total	**125**	**625**	

**Instrument details are provided in Annexure I*

Rationale

The ratings for Moneywise Financial Services Private Limited (MFSPL) factor in its parentage in the form of SMC Global Securities Limited (SMC; rated [ICRA]A (Stable)/[ICRA]A1+) and the strategic importance of the company to the SMC Group as its lending business is an important extension of the existing financial products offered by the Group. In addition to capital support from the parent, MFSPL benefits from shared infrastructure, management support and oversight, and access to a pan-India presence. The ratings also factor in the improvement in MFSPL's scale of operations with the total loan book increasing to Rs. 716 crore as on June 30, 2022 from Rs. 579 crore as on March 31, 2021 (Rs. 690 crore as on March 31, 2022).

However, the composition of the loan book has gradually shifted in favour of unsecured loans (constituting 49% of the total loan book as on June 30, 2022), which have been driving the portfolio growth. Thus, there is limited association with SMC's operations and client base incrementally. The loan book also consisted of loan against property (LAP; 21%), receivable financing (17%), assets finance (8%) and loans against shares (2%) as on June 30, 2022.

The ratings also factor in MFSPL's adequate capitalisation and liquidity profile on a standalone basis with a low gearing of 1.0 times on a net worth of Rs. 372 crore as on June 30, 2022. The ratings are, however, constrained by the company's relatively moderate asset quality indicators with a reported gross non-performing advances (GNPA) ratio of 2.6% as on June 30, 2022, though the same was marginally lower than 2.8% as on March 31, 2022 and significantly lower than 6.2% as on March 31, 2021. The decline in the GNPA% in FY2022 was largely on account of significant write-offs as well as recoveries. Post FY2022, fresh slippages were limited in Q1 FY2023. ICRA also notes the increase in the unsecured portion of the loan book in the last two years. MFSPL's increased focus on disbursements towards smaller ticket sizes is expected to reduce the portfolio vulnerability over the medium term. The asset quality will remain a key monitorable going forward as well.

The company's profitability indicators are satisfactory and have been improving, driven largely by the decline in credit costs, resulting in a return on average assets (RoA) of 3.2% in FY2022 (2.9% in FY2021 and 3.2% in FY2020). The RoA improved further to 4.3% in Q1 FY2023, driven by the increase in yields and the consequently better lending spreads and decline in credit costs. The ratings also factor in MFSPL's borrowing mix, which consists of bank borrowings (55% of total borrowings as on June 30, 2022), non-convertible debentures (NCDs; 20%) and inter-corporate deposits (ICDs) from related parties (16%). Going forward, the company's ability to scale up the business profitably while managing the asset quality and controlling fresh slippages will be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Parentage in the form of SMC – The company benefits from being a part of the SMC Group, which has a long track record of about three decades in the capital market segment. While the Group caters to retail as well as institutional clients, the bulk of the business remains retail focused. The company has a well-established position in the capital markets and has seen an improvement in its market share over the past two years (market share in equity segment of 0.4% in Q1 FY2023 and 0.8% in FY2022). The non-banking financial business (NBFC) business is a strategically important extension of the existing bouquet of financial services provided by the Group. Thus, ICRA expects support from the parent to be forthcoming as and when required. With the majority of MFSPL's loan book being related to non-capital market related lending, its association with SMC's operations and client base is limited.

Adequate liquidity and capitalisation profile – MFSPL's standalone capital position is adequate for the current scale of operations with a capital-to-risk weighted assets ratio (CRAR) of 49%, a net worth of Rs. 372 crore and a gearing of 1.0 times as on June 30, 2022. Going forward, the gearing is expected to increase with incremental business likely to be funded from fresh borrowings. Nevertheless, ICRA expects the Group to maintain a conservative capitalisation profile, going forward as well.

Further, MFSPL's liquidity profile is adequate with positive cumulative asset-liability maturity (ALM) gaps in all the maturity buckets as per the ALM statement as on June 30, 2022. MFSPL's borrowing mix is adequately diversified and consists of bank borrowings (55% of total borrowings as on June 30, 2022), NCDs (20%) and ICDs from related parties (16%). The capitalisation profile, at the consolidated level, stood comfortable with SMC's reported gearing at 0.55 times on a net worth of Rs. 922 crore as on June 30, 2022. With the NBFC operating at a modest gearing level, the capital requirement to grow the loan book further is expected to be limited in the near term.

Credit challenges

Moderate, albeit improving, asset quality – MFSPL has relatively moderate, albeit improving, asset quality indicators with a reported GNPA% of 2.6% as on June 30, 2022 (2.6% including write-offs; nil write-offs in Q1 FY2023) compared to 2.8% as on March 31, 2022 (5.2% including write-offs) and 6.2% as on March 31, 2021 (7.5% including write-offs) on the back of significant write-offs and recoveries. Slippages remained high at Rs. 24.5 crore and Rs. 13.2 crore in FY2021 and FY2022, respectively, on account of some higher ticket slippages. While the company has incrementally focused on the lower ticket sized segment (unsecured loans), its ability to control further slippages as well as recover from existing delinquent accounts, going forward, will remain a key monitorable. Also, since a significant proportion of the loan growth in the unsecured segment was seen in the last two years, the asset quality is yet to be tested through cycles. Going forward, MFSPL's ability to scale up its business operations profitably while keeping its asset quality intact would remain a key rating monitorable.

Improving profitability indicators, though sustainability remains to be seen – The yields for MFSPL declined optically in FY2022 as a large part of the growth came in the later part of the year, thus having a denominator impact. At the same time, the cost of funds moderated sharply with the softening of systemic interest rates, leading to an expansion in the lending spreads. However, the net interest margins (NIMs) compressed to 8.9% in FY2022 from 10.5% in FY2021 owing to the increase in the leverage. The operating costs, in relation to total assets, increased to 4.3% in FY2022 from 3.3% in FY2021 largely due to the portfolio expansion efforts undertaken by the company. This increase was offset by the moderation in credit costs to 2.1% for FY2022 from 3.7% for FY2021 and income from investments.

Overall, MFSPL's standalone profitability improved in FY2022 with the RoA increasing to 3.2% in FY2022 from 2.9% in FY2021. The return indicators (RoA of 4.3%) improved further in Q1 FY2023, supported by higher yields (due to increasing share of relatively higher-yielding unsecured loans), and hence higher NIMs and controlled credit costs (1.5%) despite the increase in operating expenses in relation to average assets (5.3%). The company's ability to sustain the profitability, going forward, would be a key monitorable and the same remains to be seen.

Liquidity position: Adequate

MFSPL's liquidity position, on a standalone basis, remains adequate with the company having positive cumulative mismatches across all buckets due to its low gearing as on June 30, 2022. As on June 30, 2022, MFSPL had debt repayments (including interest) of Rs. 219.9 crore in the next 12 months compared to expected inflows from advances of Rs. 485.5 crore during this period. The liquidity position is further supported by the unencumbered cash and bank balance of Rs. 1.8 crore. Further, ICRA expects support from the parent to be forthcoming if needed, given the management and operational linkages along with the company's strategic importance to the SMC Group.

Rating sensitivities

Positive factors – The ratings are underpinned by the parentage and will therefore remain sensitive to any change in SMC's credit profile. The ratings could be upgraded if MFSPL is able to grow its scale of operations profitably while maintaining prudent capitalisation and keeping the GNPAs, including write-offs, below 3.5% on a sustained basis.

Negative factors – Pressure on the ratings could emerge if there is a weakening in the consolidated credit profile of the Group and/or a significant change in MFSPL's strategic importance to the Group. Further, the ratings could be revised downwards on a sustained deterioration in the asset quality indicators.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

MFSPL is a wholly-owned subsidiary of SMC Global Securities Limited. It offers a diverse set of products, including small and medium-sized enterprise (SME) working capital term loans (WCTL; 47% of the total loan book as on June 30, 2022), SME LAP (21%), onward lending (17%), SME assets (8%), CMF (2%) and consumer durables (5%). MFSPL reported a profit after tax (PAT) of Rs. 22 crore in FY2022 on a total asset base of Rs. 770 crore as on March 31, 2022 compared to a PAT of Rs. 17 crore in FY2021 on a total asset base of Rs. 618 crore as on March 31, 2021. The loan book stood at Rs. 554.5 crore as on September 30, 2021. In Q1 FY2022, the company reported a PAT of Rs. 9 crore on a total asset base of Rs. 812 crore.

About the group

SMC Global Securities Limited (SMC) is a Delhi-based stockbroking company, which was incorporated on December 19, 1994 and is the flagship company of the SMC Group. SMC, with its subsidiaries, has a significant presence in almost all the important segments of financial services such as broking, distribution of third-party products and initial public offerings (IPOs), insurance broking, financing (NBFC), real estate advisory and wealth management, investment banking, clearing services, depository participant, non-resident Indian (NRI) and foreign portfolio investment (FPI) services, etc. SMC has a presence in more than 447 cities across India and is also present in the United Arab Emirates (UAE). It has a client base of over 2.0 million.

On a consolidated basis, SMC reported a PAT of Rs. 175 crore for FY2022 on a total asset base of Rs. 2,954 crore as on March 31, 2022 compared with a PAT of Rs. 105 crore for FY2021 on a total asset base of Rs. 2,411 crore as on March 31, 2021. In Q1 FY2023, SMC reported a PAT of Rs. 37.0 crore on a consolidated basis.

On a standalone basis, SMC reported a PAT of Rs. 144.6 crore in FY2022 on an asset base of Rs. 2,371.6 crore as on March 31, 2022 compared to a PAT of Rs. 74.9 crore in FY2021 on an asset base of Rs. 1,940.5 crore as on March 31, 2021. SMC reported a PAT of Rs. 35.8 crore in Q1 FY2023.

Key financial indicators (audited)

SMC (consolidated)	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22	Q1 FY2023/Jun-22*
Gross brokerage income	388.4	470.3	543.9	180.6^
Net brokerage income	151.7	171.5	190.3	NA
Trading income	158.9	170.9	191.0	44.6
Fee income	79.9	90.9	122.8	NA
Net interest income	90.7	110.4	141.0	42.9
Net operating income (NOI)	325.7	388.7	478.4	224.4
Total operating expenses	429.6	399.2	472.1	220.9
Profit before tax	45.1	142.5	221.4	49.4
Profit after tax (PAT)	23.9	105.0	174.6	37.0
Net worth	681.4	772.7	926.1	922.3
Borrowings	291.5	499.31	513.91	NA
Borrowings (excl. lease liabilities)	184.7	465.47	480.99	NA
Gearing (times)	0.32	0.64	0.55	NA
Gearing (times; excl. lease liabilities)	0.27	0.60	0.52	NA
Cost-to-income ratio	132%	103%	99%	98%
Cost-to-income ratio (incl. trading income)	89%	71%	71%	82%
Return on net worth	3%	14%	21%	16%
PAT/NOI	7%	27%	36%	16%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Limited financials; ^ Includes other fee income*

Key financial indicators (audited)

MFSPL (standalone)	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22	Q1 FY2023/Jun-22*
Total income	88	83	99	32
Profit after tax (PAT)	19	17	22	9
Net worth	325	342	364	372
Loan book	502	579	690	716
Total assets	542	618	770	812
Return on assets	3.2%	2.9%	3.2%	4.3%
Return on net worth	6.4%	5.1%	6.4%	9.3%
Gross gearing (times)	0.39	0.66	1.02	1.03
Gross NPA	4.2%	6.2%	2.8%	2.6%
Net NPA	2.5%	3.5%	2.0%	1.5%
Solvency	3.8%	6.0%	3.7%	2.8%
CRAR	68.2%	58.2%	51.5%	49.2%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Limited financials; ^ Includes other fee income*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Nov 02, 2022	Dec 02, 2021 Sep 16, 2021	Sep 17, 2020^ Aug 31, 2020	Dec 20, 2019	Apr 29. 2019
1	PP-MLDP	LT	25		PP-MLD [ICRA]A- (Stable)	PP-MLD [ICRA]A- (Stable)*	-	-	-
2	Long-term fund-based/non-fund based bank lines	LT	600	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)
3	Commercial Paper	ST	-	-			[ICRA]A1+ (CE)	[ICRA]A1+ (CE)	[ICRA]A1+ (SO)

*LT – Long term, ST – Short term; *Rating assigned on December 02, 2021; ^CP Rating withdrawn;*

Complexity level of the rated instruments

Instrument	Complexity Indicator
PP-MLD	Moderately complex
Long-term fund-based/non-fund based bank lines	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details as on September 30, 2022

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based/non-fund based bank lines	NA	NA	NA	25	[ICRA]A- (Stable)
NA	Long-term fund-based/non-fund based bank lines	NA	NA	NA	19.64	[ICRA]A- (Stable)
NA	Long-term fund-based/non-fund based bank lines	NA	NA	NA	7.78	[ICRA]A- (Stable)
NA	Long-term fund-based/non-fund based bank lines	NA	NA	NA	20	[ICRA]A- (Stable)
NA	Long-term fund-based/non-fund based bank lines	NA	NA	NA	9.33	[ICRA]A- (Stable)
NA	Long-term fund-based/non-fund based bank lines	NA	NA	NA	17.08	[ICRA]A- (Stable)
NA	Long-term fund-based/non-fund based bank lines	NA	NA	NA	23.21	[ICRA]A- (Stable)
NA	Long-term fund-based/non-fund based bank lines	NA	NA	NA	3.75	[ICRA]A- (Stable)
NA	Long-term fund-based/non-fund based bank lines	NA	NA	NA	25	[ICRA]A- (Stable)
NA	Long-term fund-based/non-fund based bank lines	NA	NA	NA	10	[ICRA]A- (Stable)
NA	Long-term fund-based/non-fund based bank lines	NA	NA	NA	5	[ICRA]A- (Stable)
NA	Long-term fund-based/non-fund based bank lines	NA	NA	NA	5	[ICRA]A- (Stable)
NA	Long-term fund-based/non-fund based bank lines	NA	NA	NA	17.5	[ICRA]A- (Stable)
Unallocated	Long-term fund-based/non-fund based bank lines	NA	NA	NA	411.7	[ICRA]A- (Stable)
Yet to be placed	PP-MLD	NA	NA	NA	25	PP-MLD [ICRA]A- (Stable)

Source: Company, ICRA Research

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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