May 26, 2023

Seyad Shariat Finance Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed deposit programme	-	-	[ICRA]BBB- (Stable); reaffirmed
Total	-	-	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation factors in the support received by Seyad Shariat Finance Limited (SSFL) from the Seyadu Group (the Group). The Group's promoters are actively involved in SSFL's day-to-day operations and it leverages the Group's employee base for raising deposits and extending credit. The company's capitalisation profile is comfortable with a gearing of 0.7 times (provisional) as of March 2023.

The rating also takes into consideration SSFL's adequate profitability (profit after tax/average managed advances; PAT/AMA), which remained stable at 5.4% in FY2023 (provisional; 5.3% in FY2022), notwithstanding the moderation in the net interest margin to 11.5% in FY2023 from 12.3% in FY2022 on account of the sharp increase in the portfolio at the end of FY2023. This was partly supported by exceptional income of 1.9% and 0.8% in FY2023 and FY2022, respectively, resulting from profit on the sale of land. Credit and provision costs remained stable at 0.9% in FY2023 and 0.8% in FY2022, backed by the improvement in the asset quality even as the provision coverage grew to 88.2% as of March 2023 from 57.5% as of March 2022. Going forward, SSFL's ability to keep the operating and credit costs under control would be critical for incremental profitability.

The rating remains constrained by SSFL's modest scale, geographically concentrated operations and subdued asset quality. SSFL's 90+ days past due (dpd) delinquencies remain elevated, notwithstanding the improvement to 6.4% as of March 2023 from 7.7% as of March 2022 (10.8% as of March 2021). Further, the 180+dpd deteriorated to 5.8% as of March 2023 from 5.5% as of March 2022 (3.6% as of March 2021) due to slippages in the small business loans segment, which is unsecured in nature. The restructured book, on the other hand, improved significantly to 0.1% as of March 2023 from 17.3% as of March 2022.

ICRA also notes that SSFL's funding diversity is limited as it does not have any bank facilities and funds its portfolio largely through deposits from the public and funds from the promoters and related parties. It also notes that the company refunded around Rs. 10 crore in April 2022 to the beedi rollers who have maintained recurring deposit-cum-savings accounts with it on account of the Reserve Bank of India's (RBI) observation[1] during its inspection. Nevertheless, the company continued to maintain an adequate liquidity profile. Going forward, SSFL is expected to have limited external borrowings beyond public deposits, restricting its financial flexibility.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile – SSFL's capitalisation is comfortable with a gearing of 0.7 times (provisional) and a total capital adequacy ratio of 72.1% as on March 31, 2023 vis-à-vis 0.9 times and 70.8%, respectively, as on March 31, 2022. ICRA

[1] *Recurring deposits (RD) to have a defined maturity period as opposed to the company's prevalent practice of not doing the same*

expects the company to maintain a comfortable capital structure over the medium term as internal generation is likely to be sufficient to meet the near-to-medium-term business growth.

Adequate profitability indicators – SSFL's profitability (PAT/AMA) improved marginally to 5.4% in FY2023 (provisional) from 5.3% in FY2022, notwithstanding the moderation in the net interest margin to 11.5% in FY2023 from 12.3% in FY2022 as the portfolio improved sharply at the end of FY2023. This was partly supported by exceptional income of 1.9% and 0.8% in FY2023 and FY2022, respectively, on account of profit on the sale of land. Credit costs stood at 0.9% in FY2023 and 0.8% in FY2022 as the provision coverage improved to 88.2% from 57.5% during this period. Going forward, SSFL's ability to keep the operating and credit costs under control would be critical for incremental profitability.

Managerial, financial and operational support from Seyadu Group – SSFL derives managerial, financial and operational support from the Seyadu Group, which is a well-established brand in southern India. Seyadu Beedi Company is the Group's flagship company. SSFL also leverages the Group's employee base to raise low-cost deposits and it extends personal loans to the employees of its Group companies. Collections pertaining to personal loans are taken by way of fortnightly wage deductions. The Group's promoters are actively involved in the operational and strategic decision-making process and SSFL is expected to get timely financial support from its promoters if required. Promoters/relatives of the promoters have also subscribed to the preference shares and invested in the deposits of SSFL.

Credit challenges

Modest scale of operations; significant geographical and customer concentration – SSFL has a modest scale of operations (portfolio of Rs. 50.5 crore as on March 31, 2023), with the loan book concentrated in eight districts in Tamil Nadu. Loan against property (LAP) and personal loans constituted about 88% of the portfolio as of March 2023. Further, the share of large-ticket loans (>Rs. 50 lakh) increased in the LAP segment to 45% as of March 2023 from 33% as of March 2022 (18% as of March 2021). In FY2023, the company forayed into secured business loans, i.e. equipment financing and funding contractors against government orders, by taking a large exposure of Rs. 5 crore to a single group, significantly increasing the concentration of the top exposures. Going forward, SSFL's ability to restrict risks arising from such concentrated exposures would be a key rating consideration.

The company intends to run down its unsecured loans (except personal loans to beedi rollers) and improve the secured loan portfolio by appointing field officers and branch managers across its eight branches (including Erode, Chennai and Coimbatore). The portfolio growth is expected at 15% in FY2024 with a portfolio mix of 55:25:10 comprising LAP, personal loans to beedi workers and vehicle loans, respectively.

Subdued asset quality, notwithstanding improvement in FY2023 – SSFL's asset quality in the LAP segment improved with the 90+dpd declining to 7.4% as of March 2023 from 13.1% as of March 2022 and 15.7% as of March 2021 (8.4% as of March 2020). Also, delinquencies in the harder bucket, i.e. 180+dpd, improved to 6.6% as of March 2023 from 9.5% as of March 2022 and 7.2% as of March 2021 (4.2% as of March 2020). LAP constituted about 50% of the portfolio as of March 2023 vis-à-vis 37% as of March 2022 and 31% as of March 2021 (50% as of March 2020). The average ticket size in the LAP portfolio is about Rs. 3-5 lakh and these loans are extended to self-employed borrowers with average credit profiles; the loan-to-value (LTV), however, is low at about 40-50%.

The company has scaled down its business in the vehicle finance segment (10% of the portfolio in March 2023 from about 14% in March 2019) over the past few years due to asset quality concerns. The personal loan segment declined largely because SSFL extended loans to customers other than Group company employees. The 90+dpd in the personal loan segment stood at 1.1% as of March 2023 and March 2022 vis-à-vis 6.2% as of March 2021 (0.8% as of March 2020).

The overall 90+dpd remains elevated, notwithstanding the improvement to 6.4% as of March 2023 from 7.7% as of March 2022 (10.8% as of March 2021). Further, the 180+dpd deteriorated to 5.8% as of March 2023 from 5.5% as of March 2022 (3.6% as of March 2021) due to slippages in the small business loans segment, which is unsecured in nature. The restructured book, on the other hand, improved significantly to 0.1% as of March 2023 from 17.3% as of March 2022. ICRA expects that higher recoveries is crucial to keep the asset quality under control and the same would be a monitorable in the near term.

SSFL's loan origination and appraisal process and subsequent monitoring are limited while the promoters are directly involved in the credit appraisal process for large-ticket loans. SSFL undertakes credit bureau checks for all the borrowers, including Group company employees.

Liquidity position: Adequate

SSFL has a comfortable asset-liability maturity (ALM) profile, supported by its low leverage. As of March 31, 2023, the ALM profile reflected no cumulative negative mismatches in the <1-year bucket. ICRA also notes that the company had a cash and bank balance of Rs. 7.8 crore as of March 2023 and expects maturity of deposits of Rs. 6.5 crore between April 2023 and March 2024.

SSFL's borrowing profile predominantly comprises public fixed deposits (83% of the total deposits as of March 2023) and recurring deposits (17%) from Group company employees. Overall deposits accounted for 92% of the total borrowings as of March 2023 while preference shares subscribed by the promoters accounted for the balance. The company does not have any funding lines from banks.

Rating sensitivities

Positive factors – ICRA could change the outlook or upgrade the rating if SSFL is able to significantly improve its asset quality and grow its portfolio while improving its earnings profile.

Negative factors – ICRA could change the outlook or downgrade SSFL's rating in case of further weakening in the asset quality on a sustained basis, which could adversely impact its capital profile. A significant decline in the deposits and a deterioration in the liquidity profile would also negatively impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of SSFL

About the company

Seyad Shariat Finance Limited is a small, deposit-taking non-banking financial company (NBFC) established in 1989. It provides personal loans (predominantly to Group company beedi workers/rollers), mortgage-backed loans (LAP), small business loans and vehicle finance. As on March 31, 2023, LAP constituted 50% of the company's loan portfolio, followed by personal loans at 38%, vehicle loans at 10% and small business loans at 2%.

SSFL is a part of the Seyadu Group of Companies, which has interests in beedi production, textile, finance, etc. Seyadu Beedi Company is the flagship company of the Group. SSFL has an arrangement with Seyadu Beedi Company to deduct loan instalments from the fortnightly wages of its employees. The Group is well established in the Tirunelveli region of southern Tamil Nadu. SSFL reported a provisional net profit of Rs. 3.9 crore on a total asset base of Rs. 71.4 crore as on March 31, 2023 compared with a net profit of Rs. 3.9 crore on a total asset base of Rs. 72.2 crore as on March 31, 2022.

Key financial indicators

Standalone	FY2021	FY2022	FY2023*
Total income	11.4	12.3	10.7
Profit after tax	1.4	3.9	3.9
Net worth	32.3	35.4	38.8
Loan book	61.3	50.2	50.5
Total managed assets	74.3	72.2	71.4
Return on managed assets	1.9%	5.3%	5.4%
Return on net worth	4.2%	11.4%	10.4%
Managed gearing (times)	1.2	0.9	0.7
Gross stage 3	10.8%	7.7%	6.4%
Net stage 3	5.9%	3.3%	0.8%
Solvency (Net stage 3/Net worth)	11.2%	4.6%	1.0%
CRAR	54.4%	70.8%	72.1%

*Source: Company, ICRA Research; *Provisional; All ratios as per ICRA's calculations; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					May 26, 2023	Jun 14, 2022	Aug 31, 2021	Aug 31, 2020
1	**Fixed deposit programme**	Long term	-	-	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**MA- (Stable)**	**MA- (Stable)**

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fixed deposit programme	Very 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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fixed deposit programme**	-	-	-	-	[ICRA]BBB- (Stable)

Source: Company

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

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About ICRA Limited:

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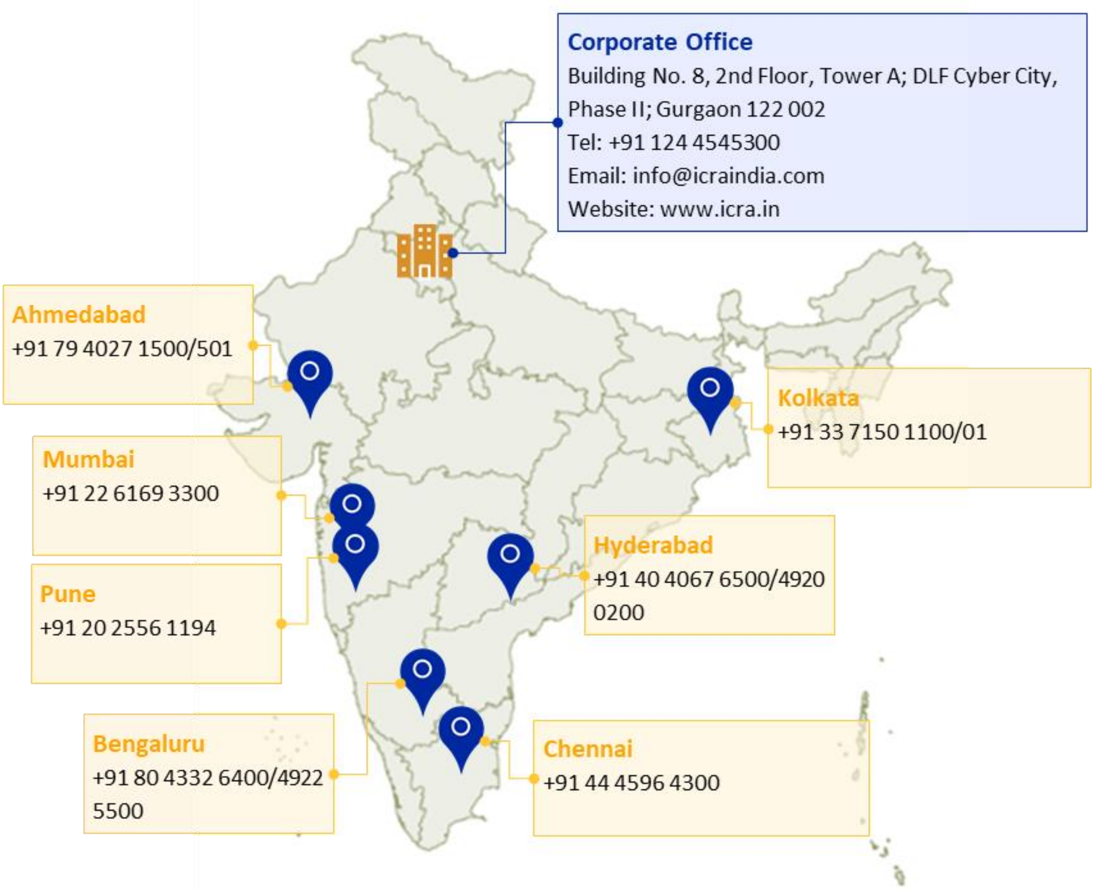

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