May 31, 2024

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 takes into consideration Seyad Shariat Finance Limited's (SSFL) adequate profitability and comfortable capitalisation profile. SSFL's net profitability (profit after tax/average managed advances; PAT/AMA) remained stable at 5.8% in FY2024 (provisional; 5.4% in FY2023), supported by healthy interest margins and controlled credit costs. The net interest margin improved to 11.9% in FY2024 from 11.5% in FY2023 on account of the increasing share of loan against property (LAP) in the overall portfolio mix. In the previous years, SSFL's profitability was supported by exceptional income of 1.9% and 0.8% in FY2023 and FY2022, respectively (0.2% in FY2024), resulting from profit on the sale of land. Credit costs stood at -0.8% in FY2024 compared to 0.9% in FY2023 on account of the reversal of provisions, backed by the improvement in the asset quality even as the provision coverage increased to 98.2% as of March 2024 from 88.2% as of March 2023. The capitalisation profile remains comfortable with a gearing of 0.7 times (provisional) as of March 2024.

The rating also factors in the support received by SSFL from the Seyadu Group (the Group). The Group's promoters are actively involved in the company's day-to-day operations and it leverages the Group's employee base for raising deposits and extending credit.

The rating remains constrained by SSFL's modest scale, geographically concentrated operations and subdued asset quality. The company's 90+ days past due (dpd) delinquencies remain elevated, notwithstanding the improvement to 4.3% as of March 2024 from 6.4% as of March 2023 (7.7% as of March 2022). Further, the 180+dpd improved to 3.2% as of March 2024 from 5.8% as of March 2023 (5.5% as of March 2022) due to strong recoveries. 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. 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 74.5% as on March 31, 2024 vis-à-vis 0.7 times and 72.1%, respectively, as on March 31, 2023. ICRA 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[1]) improved marginally to 5.8% in FY2024 (provisional) from 5.4% in FY2023. The net interest margin improved to 11.9% in FY2024 from 11.5% in FY2023 on account of the increasing share of LAP in the overall portfolio mix. The profitability was also partly supported by exceptional income of 0.2%, 1.9% and 0.8%

[1] *Profit after tax/Average managed assets*

in FY2024, FY2023 and FY2022, respectively, resulting from profit on the sale of land. Credit costs stood at -0.8% in FY2024 compared to 0.9% in FY2023 on account of reversal of provisions, backed by the improvement in the asset quality even as the provision coverage grew to 98.2% as of March 2024 from 88.2% as of March 2023. However, the profitability was impacted by higher operating expenses of 5.8% in FY2024 and 5.5% in FY2023 due to slow portfolio growth. Going forward, SSFL's ability to keep the operating and credit costs under control would be critical for incremental profitability.

Support from Seyadu Group – SSFL derives 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. 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. 53.4 crore as on March 31, 2024), with the loan book concentrated in eight districts in Tamil Nadu. LAP and personal loans constituted about 56% and 30% of the portfolio respectively as of March 2024. Further, the share of large-ticket loans (>Rs. 50 lakh) decreased in the LAP segment to 28% as of March 2024 from 45% as of March 2023 (33% as of March 2022). 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 FY2025 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 FY2024 – SSFL's asset quality in the LAP segment improved with the 90+dpd declining to 5.1% as of March 2023 from 7.4% as of March 2022 and 13.1% as of March 2021 (15.7% as of March 2020). Also, delinquencies in the harder bucket, i.e. 180+dpd, improved to 5.0% as of March 2024 from 6.6% as of March 2023 and 9.5% as of March 2022 (7.2% as of March 2021). LAP constituted about 56% of the portfolio as of March 2024 vis-à-vis 50% as of March 2023 and 37% as of March 2022 (31% as of March 2021). These loans are extended to self-employed borrowers with average credit profiles; however, the loan-to-value (LTV) is low at about 40-50%.

The overall 90+dpd remains elevated, notwithstanding the improvement to 4.3% as of March 2024 from 6.4% as of March 2023 (7.7% as of March 2022). The 180+dpd improved to 3.2% as of March 2024 from 5.8% as of March 2023 (5.5% as of March 2022), supported by recoveries.

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. It 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, 2024, the ALM profile reflected no cumulative negative mismatches in the less-than-1-year bucket. ICRA also notes that the company had a cash and bank balance of Rs. 9.0 crore as of March 2024 and expects maturity of deposits of Rs. 7.8 crore between April 2024 and March 2025.

SSFL's borrowing profile predominantly comprises public fixed deposits (68% of the total deposits as of March 2024) and recurring deposits (32%) from Group company employees. Overall deposits accounted for 96% of the total borrowings as of

March 2024 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 – Improvement in the asset quality and portfolio growth, while enhancing the earnings profile, would be positive factors.

Negative factors – Weakening in the asset quality, which could affect the capital profile, would have a negative impact. 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), vehicle finance and small business loans. As on March 31, 2024, LAP constituted 56% of the company's loan portfolio, followed by personal loans at 30%, vehicle loans at 13% and small business loans at 1%.

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. 4.3 crore on a total asset base of Rs. 77.7 crore as on March 31, 2024 compared with a net profit of Rs. 3.9 crore on a total asset base of Rs. 71.4 crore as on March 31, 2023.

Key financial indicators

Standalone	FY2022	FY2023	FY2024*
Total income	12.3	10.7	11.6
Profit after tax	3.9	3.9	4.3
Total managed assets	72.2	71.4	77.7
Return on managed assets	5.3%	5.4%	5.8%
Managed gearing (times)	0.9	0.7	0.7
Gross stage 3	7.7%	6.4%	4.3%
CRAR	70.8%	72.1%	74.5%

*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 (FY2025)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					May 31, 2024	May 26, 2023	Jun 14, 2022	Aug 31, 2021
1	**Fixed deposit programme**	Long term	-	-	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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