ICRA

July 23, 2024

# Moneywise Financial Services Private Limited: Ratings reaffirmed

## 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 | 1,000 | 1,000 | [ICRA]A- (Stable); reaffirmed |
| Principal protected market-linked debenture programme (PP-MLD) | 25 | 25 | PP-MLD [ICRA]A- (Stable); reaffirmed |
| **Total** | **1,025** | **1,025** | |

**Instrument details are provided in Annexure I*

## Rationale

The ratings continue to factor in Moneywise Financial Services Private Limited's (MFSPL) parentage [wholly-owned subsidiary of SMC Global Securities Ltd. (SMC); rated [ICRA]A (Stable)/[ICRA]A1+] and its strategic importance to SMC as the lending business is a key focus area for the Group. In addition to capital support from the parent, MFSPL benefits from management support and oversight.

While reaffirming the ratings, ICRA has also taken cognisance of the improvement in the scale of operations in FY2024, with the assets under management (AUM) growing by 38% year-on-year (YoY). Moreover, MFSPL's capitalisation remains adequate with a net worth of Rs. 443 crore and a managed gearing of 2.1 times as on March 31, 2024. A similar growth trajectory is expected in the near-to-medium term, given the company's plans to diversify its product offerings further by introducing micro loan against property (micro-LAP) and increasing the share of gold loans and medical equipment financing. While the borrowing level is likely to increase with the scaling-up of operations, comfort is drawn from management's stated intent of maintaining a prudent capitalisation profile with the gearing not exceeding 3.5 times. In this regard, a fresh equity raise (by onboarding an external investor or from the parent) over the medium term will remain imperative.

The ratings are, however, constrained by the limited portfolio seasoning (given the recent evolution of the product mix) and the modest borrower profile. Around 80% of the AUM, as on March 31, 2024, comprised the small and medium enterprises (SME) segment, which is inherently susceptible to economic shocks and has limited income buffers. Additionally, 41% of the AUM, as on March 31, 2024, was unsecured, increasing the risk associated with the portfolio.

Nonetheless, the headline asset quality metrics have remained under control. The stage 3 assets remained stable at 2.2% as of March 2024 (2.3% as of March 31, 2023). This was, however, partially supported by higher write-offs. Stage 3 assets, including write-offs[1], stood at 3.1% as on March 31, 2024 compared to 2.6% as on March 31, 2023, ICRA also notes that MFSPL's operating profitability came under pressure in FY2024 due to rising borrowing costs and elevated credit costs. Nonetheless, sizeable gains on investments[2] supported the net profitability as reflected by the return on average managed assets (RoMA) of 4.5% in FY2024. Going forward, the company's ability to scale up the business profitably in a geographically diversified manner, while keeping good control on the credit cost, will be critical for the credit profile.

The Stable outlook reflects ICRA's expectation that MFSPL will remain strategically important to the SMC Group and would be able to grow its business profitably while maintaining prudent capitalisation levels.

[1] *As reported in profit and loss statement, net of recoveries*
[2] *Gain on investments in initial public offerings (IPOs)*

## Key rating drivers and their description

### Credit strengths

**Parentage in the form of SMC Group** – MFSPL is a wholly-owned subsidiary of SMC. It benefits from being a part of the SMC Group, which has a long track record of over three decades in the capital market and allied businesses. The Group's full-service stockbroking operations primarily cater to retail securities broking clients with an extensive network of 145 branches, 2,327 franchisees and an active National Stock Exchange (NSE) client base of 1.8 lakh as of March 2024. The non-banking financial company (NBFC) business is strategically important to the Group and is a core focus area. Thus, ICRA expects support from the parent to be forthcoming as and when required. In addition to capital support from the parent, MFSPL benefits from management support and oversight, and access to the Group's pan-India presence.

**Adequate capitalisation profile** – MFSPL's capitalisation has historically been characterised by low financial leverage, supported by regular capital infusions by the parent, especially in the years preceding FY2020. While the dependence on borrowings has risen with the increasing scale of operations in recent years, capitalisation has remained adequate with a managed gearing of 2.1 times as of March 31, 2024. The managed gearing was 1.4 times as of March 31, 2023. The capital-to-risk weighted assets ratio (CRAR) and Tier-1 stood at 35.4% and 34.8%, respectively, as on March 31, 2024, compared to 40.1% and 39.6%, respectively, as on March 31, 2023. Going forward, the gearing is expected to increase from the current level, given the ambitious growth plans. Nonetheless, ICRA draws comfort from the management's stated intent of maintaining a prudent capitalisation profile with the gearing not exceeding 3.5 times and MFSPL's plans to raise fresh equity over the medium term, from external investors as well if required.

While MFSPL's capitalisation remains adequate, supported by the track record of capital infusions by the parent, the borrowing profile remains moderate with reliance primarily on bank borrowings. Nonetheless, it has, over the years, expanded its borrowing relationships to 27 lenders including several reputed and established banks. Given its ambitious growth plans, the company would need to continuously expand its borrowing relationships.

### Credit challenges

**Evolving portfolio mix, modest borrower profile, and moderate asset quality; high share of unsecured loans** – MFSPL's AUM expanded across a diversified product mix by 38% in FY2024 to Rs. 1,239 crore as on March 31, 2024. However, given the high pace of growth, disbursements in FY2024 accounted for 71% of the AUM as on March 31, 2024. A similar growth trajectory is expected in the near-to-medium term, given the company's plans to further diversify its product offering by introducing newer products like micro-LAP and increasing the share of products like gold loans and medical equipment financing.

Also, as MFSPL primarily provides finance to SMEs (~80% of AUM as on March 31, 2024), it is susceptible to the underlying risk of the borrowers, who are susceptible to economic shocks and have limited income buffers. Additionally, 41% of the AUM as on March 31, 2024 comprised unsecured loans to SMEs, increasing the risk associated with the portfolio. Nonetheless, the headline asset quality metrics have remained under control. The stage 3 assets remained stable at 2.2% as of March 2024 (2.3% as of March 31, 2023). This was, however, partially supported by the growth in the AUM and higher write-offs, as depicted by the increase in the gross non-performing advances (GNPAs), including write-offs[3], to 3.1% as on March 31, 2024 from 2.6% as on March 31, 2023. Credit costs, as a percentage of average managed assets, also rose to 1.5% in FY2024 from 0.6% in FY2023. This was partially on account of higher write-offs and the increased stage 2 and stage 3 provision coverage due to the implementation of the reviewed expected credit loss (ECL) framework. As a result, the net NPA eased to 1.0% as of March 31, 2024 from 1.4% as of March 31, 2023. Going forward, MFSPL's ability to maintain good

[3] *As reported in profit and loss statement, net of recoveries*

control over the asset quality, as the portfolio evolves and seasons, considering the expected scale-up in operations, will remain a monitorable.

**Sustainable profitability trajectory yet to be established; lending spreads under pressure due to rising borrowing cost** – Despite the evolving portfolio mix, MFSPL's blended yields have remained range-bound and stood at about 14% in FY2024 and FY2023. However, the lending spreads are facing pressure due to the higher borrowing cost amid the rise in systemic interest rates. This, coupled with the increasing financial leverage, offset the gain from the upfronting of the direct assignment (DA) income. Thus, the net interest margin (NIM) declined to 6.7% in FY2024 (7.4% adjusted for interest apportioned to borrowings for investments) from 8.3% in FY2023. Further, the credit cost increased in FY2024, particularly due to the implementation of the reviewed ECL framework and higher write-offs. Nonetheless, this was partially offset by the improvement in the operating expenses/average total assets ratio. Moreover, the sizeable non-operating income {largely gains from investments in initial public offerings (IPOs)} led to an improvement in the RoMA to 4.5% in FY2024 from 4.0% in FY2023. Adjusting for gains from investments in IPOs, the RoMA is estimated to have stood at ~3.0% in FY2024.

Given the management's plan to scale up the operations with a diversified portfolio mix, the operating expense trajectory led by investment in infrastructure and the setting up of specialised teams for the new products will remain a monitorable. Also, the yields are expected to remain under pressure due to the intense competition in these segments. Hence, the company's ability to scale up its operations, while maintaining optimal NIMs and exercising adequate control over the operating and credit costs, would be imperative for sustaining healthy profitability.

## Liquidity position: Adequate

As per the asset liability maturity (ALM) statement as of March 31, 2024, MFSPL's liquidity position remains adequate as reflected by the positive cumulative mismatches across the near-term buckets. The company has debt repayments of Rs. 211 crore falling due in H1 FY2025 compared to expected inflows from advances of Rs. 243 crore. Additionally, MFSPL had modest on-balance sheet liquidity of Rs. 61 crore, as of March 31, 2024, along with unutilised bank lines of Rs. 36 crore. The liquidity profile is also supported by financial flexibility by virtue of the parentage. ICRA expects support from the parent to be forthcoming if needed, given the company's strategic importance to the SMC Group.

## Rating sensitivities

**Positive factors –** An improvement in the scale and vintage of operations across products, while demonstrating good control on the asset quality and achieving healthy profitability, would be a positive. Meaningful diversification in the resource profile and a comfortable capital profile on a sustained basis would also be a credit positive. The ratings will also remain sensitive to the credit profile of the parent.

**Negative factors –** A significant increase in the leverage or a sustained weakening in the asset quality would be a credit negative. Pressure on the ratings could also arise on a deterioration in the parent's credit profile or on lower-than expected support from the parent group.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Non-banking Finance Companies (NBFCs) |
| **Parent/Group support** | Parentage: SMC Global Securities Ltd. |
| **Consolidation/Standalone** | Standalone |

## About the company

Moneywise Financial Services Private Limited (MFSPL), a non-banking financial company (NBFC) incorporated in 2008 and registered with the Reserve Bank of India (RBI), is a wholly-owned subsidiary of SMC Global Securities Ltd. It offers a diverse set of products including unsecured business loans (41%), loan against property (LAP; 30%), receivables financing (17%), equipment financing (asset-backed financing; 7%), capital market financing (CMF; 2%) and gold loans (2%) as on March 31, 2024. It reported a profit after tax (PAT) of Rs. 56.0 crore in FY2024 on AUM of Rs. 1,239.0 crore as on March 31, 2024 compared to PAT of Rs. 36.1 crore in FY2023 and AUM of Rs. 900.4 crore as on March 31, 2023. As of March 31, 2024, MFSPL had a network of 23 branches across 8 states and a customer base of 4,925 loan accounts.

**About the group**

SMC Global Securities Ltd., incorporated on December 19, 1994, is a Delhi-based securities broker. It is the flagship company of the SMC Group with its subsidiaries providing financial services such as securities broking, insurance broking, distribution of third-party products, lending, real estate advisory, wealth management, investment banking, clearing and depository services, etc. The SMC Group has a presence in 437 cities with 188 branches (including 1 in Dubai) and had an active client base of 1.8 lakh as of March 31, 2024.

On a consolidated basis, SMC reported a PAT of Rs. 188.3 crore in FY2024 on an asset base of Rs. 4,767.2 crore as on March 31, 2024 compared to PAT of Rs. 120.4 crore in FY2023 on an asset base of Rs. 3,323.1 crore as on March 31, 2023.

On a standalone basis, SMC reported a PAT of Rs. 141.0 crore in FY2024 on an asset base of Rs. 3,611.4 crore as on March 31, 2024 compared to a PAT of Rs. 93.4 crore in FY2023 on an asset base of Rs. 2,507.3 crore as on March 31, 2023.

## Key financial indicators

| MFSPL (standalone) | FY2023/Mar-23 | FY2024/Mar-24 |
|---|---|---|
| Total income | 132.0 | 205.7 |
| Profit after tax (PAT) | 36.1 | 56.0* |
| Total managed assets | 1,037.9 | 1,431.1 |
| Return on managed assets (RoMA) | 4.0% | 4.5%* |
| Reported gearing (times) | 1.4 | 1.8 |
| Managed gearing (times) | 1.4 | 2.1 |
| Gross stage 3 | 2.3% | 2.2% |
| CRAR | 40.1% | 35.4% |

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *PAT and RoMA, excluding gain on investment in IPOs, stood at Rs. 33 crore and ~3.0%, respectively, in FY2024*

## Key financial indicators

| SMC (consolidated) | FY2023/Mar-23 | FY2024/Mar-24 |
|---|---|---|
| Net operating income (NOI) | 525.7 | 656.5 |
| Proprietary trading income | 165.1 | 170.0 |
| Profit after tax (PAT) | 120.4 | 188.3 |
| Net worth | 932.7 | 1,095.7 |
| Total assets | 3,323.1 | 4,767.2 |
| Gearing (times) | 1.0 | 1.3 |
| Return on net worth | 13.0% | 18.6% |

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

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

## Any other information: Not applicable

## Rating history for past three years

| S. No. | Instrument | Current Rating (FY2025) | | | Chronology of Rating History for the Past 3 Years | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Date & Rating | Date & Rating in FY2024 | | Date & Rating in FY2023 | Date & Rating in FY2022 | |
| | | | | July 23, 2024 | Sep 05, 2023 | Jul 24, 2023 | Nov 02, 2022 | Dec 02, 2021 | Sep 16, 2021 |
| 1 | Principal protected market-linked debenture programme | LT | 25 | PP-MLD [ICRA]A- (Stable) | PP-MLD [ICRA]A- (Stable) | PP-MLD [ICRA]A- (Stable) | PP-MLD [ICRA]A- (Stable) | PP-MLD [ICRA]A- (Stable) | - |
| 2 | Long-term fund-based/non-fund based bank lines | LT | 1,000 | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) |

*Source: ICRA Research; LT – Long term*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Principal protected market-linked debenture programme** | 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: Click Here

## Annexure I: Instrument details as on July 23, 2024

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Long-term fund-based/non-fund-based bank lines | NA | NA | NA | 1,000 | [ICRA]A- (Stable) |
| INE956L07068 | Principal protected market-linked debenture programme (PP-MLD) | Jan-27-2022 | 10-year G-Sec linked | Mar-27-2025 | 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:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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## ICRA Limited

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