

March 04, 2025

Share Microfin Limited: Rating downgraded to [ICRA]BB+ (Negative)

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term fund based – Term loan	200.00	200.00	[ICRA]BB+ (Negative); rating downgraded from [ICRA]BBB- and outlook revised to Negative from Stable
Total	200.00	200.00	

*Instrument details are provided in Annexure I

Rationale

The rating action takes into consideration the sizeable net losses reported by Share Microfin Limited (SML) in 9M FY2025, largely due to the exceptional and prior period items (including write-down of certain loans and advances) and decline in the scale, which has led to a fall in its net worth. The action also considers the significant decline in SML's assets under management (AUM) in 9M FY2025 along with the deterioration in its asset quality performance, especially in the agri-focussed loans under the business correspondent (BC) book.

SML underwent a change in management during Q2 FY2025, with the founder's family stepping down from the executive position; however, it has commensurately augmented its management team and the Board profile. The new management team is taking various steps, including towards improvement in operational efficiencies, capital raise, etc., which would be crucial for SML's performance going forward.

ICRA notes that while the company maintaining a sizeable operating infrastructure of 717 branches (AUM per branch of Rs. 0.4 crore) as of December 2024, the operational efficiency weakened on account of the decline in the scale (which was partly driven by the headwinds in the microfinance segment), resulting in operating losses. The asset quality performance witnessed a deterioration with an increase in delinquencies in its own book as well as the BC book. The overall 90+ days past due (dpd) increased to 13.0% as of December 2024 (15.0% as of January 2025) from 0.9% as of March 2024. The asset quality performance of the own-book portfolio also weakened to 3.8% (90+dpd) as of December 2024 from 1.4% as of March 2024.

SML's capitalisation profile weakened in 9M FY2025 with its reported net worth declining to Rs. 94 crore and the managed gearing¹ to 2.6 times as of December 2024 (Rs. 206 crore and 2.2 times, respectively, as of March 2024). Going forward, it would be critical for the company to adequately scale up to improve its operating efficiency and raise equity to augment its capital buffers.

The Negative outlook on the rating reflects ICRA's expectation that the company's profitability would remain under pressure in the near term, which shall impact its capital profile.

¹ Managed gearing = (on-book debt + off-book portfolio) / net worth

Key rating drivers and their description

Credit strengths

Geographically diversified presence with robust branch infrastructure – ICRA notes that SML's operations are geographically diversified with the company having a presence in 18 states across 294 districts and 717 branches. Over the last two years, Gujarat has emerged as the state with the largest exposure (24% of AUM) for SML due to one of its BC relationships. However, excluding this, none of the other states accounted for more than 15% of the total exposures as of December 2024. The top 3 and top 5 states accounted for 45% and 61%, respectively, of the AUM as of December 2024 (46% and 64%, respectively, as of March 2024). As of December 2024, SML had an AUM of Rs. 0.4 crore per branch compared to the industry average of Rs. 3-5 crore. As it moves to the AUM growth trajectory, the company is expected to leverage its diversified operational infrastructure and improve its operating efficiency.

Post the exit of the promoters from executive position, the current management team is being headed by Mr. KV Rao; the team structure has been strengthened with key functional heads, who have commensurate experience. The Board profile has also been augmented with increase in the independent directors to 5 currently from 4 as of March 2024.

Credit challenges

Weakened profitability and fall in net worth – With the AUM on a declining trend in 9M FY2025, the company faced significant underutilisation of capacity. Consequently, the cost-to-income ratio and operating expenses, as a percentage of average managed assets, increased to 175.0% and 21.7%, respectively, in 9M FY2025 (98.6% and 11.2%, respectively, in FY2024). In addition, SML's net profitability was impacted significantly in 9M FY2025 on account of higher credit costs (due to write-offs from the restructuring book and invocation of first loss default guarantee; FLDG) and sizeable exceptional one-off expenses totalling Rs. 74.5 crore. Consequently, it reported a net loss of Rs. 111.5 crore in 9M FY2025 vis-à-vis a profit of Rs. 2.1 crore in FY2024. The company is taking steps to improve its operating efficiency, including consolidation of the branch network and other cost-saving measures.

SML's capitalisation profile weakened in 9M FY2025 with its reported net worth declining to Rs. 94 crore and the managed gearing increasing to 2.6 times as of December 2024 (Rs. 206 crore and 2.2 times, respectively, as of March 2024). Going forward, the scale-up of the operations, while keeping adequate capital buffers, would be critical.

Deterioration in asset quality, especially in BC book – SML's asset quality (on-book portfolio) deteriorated with the 90+dpd increasing to 3.8% as of December 2024 (higher than the peak of 3.1% seen in March 2021) from 1.4% as of March 2024 due to the declining loan book. In addition, the company undertook a write-off (net) of Rs. 32.3 crore on the restructured book. Following this, SML does not have any further restructured portfolio on its book.

SML's overall 90+dpd increased to 13.0% as of December 2024 from 0.9% as of March 2024. The delinquencies in the BC book have risen significantly, impacting the performance of the overall AUM. Consequently, one of the BC partners has invoked the FLDG of Rs. 7.7 crore (maximum loss liability). ICRA notes that the delinquencies in SML's BC book continued to increase in Q4 FY2025 as well. As a result, its overall 90+dpd increased to 15.0% as of January 2025 from 13.0% as of December 2024. In the near term, the asset quality performance is expected to remain monitorable as the company resumes scaling up its portfolio.

Constrained funding profile – SML entered into a payment agreement with its 23 lenders in March 2023 and repaid all its outstanding debt, including the corporate debt restructuring (CDR) debt, Optionally Convertible Cumulative Redeemable Preference Shares (OCCRPS) and priority debt, totalling Rs. 409.4 crore. The repayment was completed through the proceeds from the direct assignment (DA) of loan transactions (net purchase consideration of ~Rs. 367 crore).

The company largely relied on off-balance sheet (b/s) funding avenues in 9M FY2025, including BC relationships and securitisation (DA and pass-through certificates; PTCs), with on-b/s funding remaining constrained due to legacy reasons and weakness in the microfinance institution (MFI) industry over the last few months. Further, on-b/s funding was largely availed

from non-banking financial companies (NBFCs) at a relatively higher cost. Going forward, SML’s ability to diversify its borrowings and secure funding at more competitive rates would be critical for achieving AUM growth and improving the profitability.

Marginal borrower profile; ability to manage political, communal and other risks in the microfinance sector –

The microfinance industry is prone to socio-political and operational risks, which could negatively impact the financial performance of entities in this sector. The sector is currently experiencing asset quality stress largely due to the overleveraging of microfinance borrowers from multiple microfinance lenders. Further, marginal borrower profiles, unsecured lending, as well as business and political risks, along with challenges associated with rapid growth and attrition impact the performance of the sector. While credit bureau checks and the regulatory ceiling on borrower repayment capacity reduce concerns on overleveraging, issues related to MFI’s underwriting practices, borrowers’ income and leverage assessment, multiple identity proofs and gaps in the information available with the bureaus remain. As such, the company’s ability to onboard borrowers with a good credit history, along with the recruitment and retention of employees, would be key monitorable factors.

Liquidity position: Adequate

As of December 2024, SML did not have any negative cumulative mismatches in any of the buckets. It was carrying unencumbered on-book liquidity of Rs. 3.3 crore against scheduled debt obligations of Rs. 17.7 crore during January-March 2025. The company is expected to have monthly collections of Rs. 15-17 crore (own book), which would support its near-term liquidity position. Going forward, its ability to raise fresh funds in a timely manner will be critical for improving the fresh loan disbursements.

Rating sensitivities

Positive factors – An increase in the scale and improvement in the asset quality and operating efficiency, resulting in better profitability, would have a positive impact.

Negative factors – Further deterioration in the asset quality performance or weakening of SML’s earnings or liquidity profile would have a negative impact.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of SML

About the company

SML is a non-deposit accepting non-banking financial company-microfinance institution (NBFC-MFI), incorporated as a public limited company in 1999. It provides microfinance loans to women from the weaker sections of society under the joint liability group (JLG) model. Mr. M. Udaia Kumar was the founder of the company. Currently, the company is managed by an independent professional management team headed by Mr. KV Rao since July 2024. Prior to joining SML, Mr. KV Rao has over 35 years of experience in Banking and financial services sector.

SML was impacted by the Andhra Pradesh Microfinance Institutions Ordinance 2010 as it had sizeable exposure in the state. The company was admitted to CDR in September 2011 and has since been making payments accordingly. Subsequently, a Scheme of Arrangement, approved by the High Court of Hyderabad, was implemented. While SML was vested with the non-Andhra Pradesh (AP) & Telangana (TS) business, the AP and TS business was vested with another entity – Asmitha Microfin Limited (Asmitha). Subsequently, the company, through the proceeds from a DA transaction, paid all its debt obligations (debt

principal, interest, OCCRPS, OCCRPS redemption premium) to all the lenders on March 29, 2023, as laid down by the payment agreement with these lenders.

SML's operations are geographically diversified with a presence in 18 states across 294 districts and 717 branches. Its AUM stood at Rs. 298.1 crore as of December 2024 (Rs. 550.0 crore as of March 2024).

Key financial indicators (audited)

Share Microfin Limited	FY2023	FY2024	9M FY2025
	IGAAP	IGAAP	IGAAP
Total income	163.0	87.7	56.8
PAT	4.3	2.1	(111.5)
Total managed assets	722.0	675.9	359.8
Return on managed assets	0.6%	0.3%	-28.7%
Managed gearing (times)	2.2	2.2	2.6
Gross stage 3	0.9%	1.4%	3.8%
CRAR	78.2%	69.4%	59.9%

Source: Company, ICRA Research; Amount in Rs. crore; Managed gearing = (on-book debt + off-book portfolio) / net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Mar 04, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based – Term loan	Long term	200.00	[ICRA]BB+ (Negative)	May-28-24	[ICRA]BBB- (Stable)	Apr-28-23	[ICRA]D; Withdrawn	Nov-30-22	[ICRA]D	Sep-28-21	[ICRA]D

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund based – Term loan	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	Amount rated (Rs. crore)	Current rating and outlook
NA*	Long-term fund-based term loan	NA	NA	NA	200.00	[ICRA]BB+ (Negative)

Source: Company; *Proposed limit

[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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