

August 31, 2020 ^{Revised}

Moneywise Financial Services Private Limited: Ratings reaffirmed; Outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank Lines – Long Term (fund based/ non-fund based)	50	100	[ICRA]A-; reaffirmed and outlook revised to Stable from Positive
Bank Lines – Unallocated	50	0	[ICRA]A-; reaffirmed and outlook revised to Stable from Positive
Commercial Paper Programme	50	50	[ICRA]A1+(CE); reaffirmed
Total	150	150	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement

[ICRA]A-/ [ICRA]A1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

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)/A1+) and the strategic importance of the company as its lending business is an important extension of the existing financial products offered by the SMC Group. In addition to the capital support from the parent, MFSPL benefits from a shared infrastructure, management support and oversight, and access to a pan-India presence. The ratings also factor in MFSPL's adequate capitalisation and liquidity profile with low gearing levels of 0.4x on a net worth of Rs. 325 crore as on March 31, 2020, supported by an equity infusion of Rs. 50 crore in Q1 FY2020 from the parent. The company has adequate liquidity with positive cumulative Asset Liability Mismatches in all the buckets as on March 31, 2020. ICRA expects capital support from the parent to be forthcoming if required.

The ratings are, however, constrained by the company's modest asset quality indicators, which remained largely stable because of write-offs (Rs. 12.5 crore) with gross non-performing assets (NPAs) of 4.2% as on March 31, 2020 compared with 4.1% as on March 31, 2019. Given the challenges in the operating environment and the expected impact on the underlying businesses, especially the SME segment, MFSPL could face asset quality related pressure going forward. Its ability to control significant slippages will be a key monitorable. As for profitability, the YoY increase in credit costs owing to the write-offs and elevated operating expenses with the company remaining in expansion mode led to a moderation in the profitability indicators with a return on average assets of 3.2% in FY2020 compared to 5.3% in FY2019.

ICRA has taken note of the management's intention to reduce the portfolio vulnerability by focusing on relatively smaller-ticket loans and by strengthening the systems and processes. However, the impact of the same would only be visible over the medium term. Going forward, the company's ability to profitably increase the scale of its business while maintaining the asset quality indicators will be a key rating sensitivity.

The revision in the outlook factors in ICRA's expectation that MFSPL's business growth as well as its asset quality indicators would be impacted due to the Covid-19 pandemic, which, in turn, could affect its profitability metrics. Nevertheless, the overall profitability is expected to remain stable at the current levels provided the company can control fresh slippages.

For the [ICRA]A1+(CE) rating

The commercial paper (CP) rating for MFSPL is based on the unconditional and irrevocable guarantee provided by SMC that covers all repayment obligations with respect to the rated commercial paper facility.

Adequacy of credit enhancement

The rating of the facility is based on the credit substitution approach whereby the credit profile of the corporate guarantee provider has been considered for arriving at the rating of the said facility. The guarantee is legally enforceable, irrevocable, unconditional, continuing, covers entire amount and tenor of the rated facility and have a well-defined guarantee invocation and payment mechanism. Given these attributes, the corporate guarantee provided is adequately strong to result in an enhancement in the rating of the said facility to [ICRA]A1+(CE) against the unsupported rating of [ICRA]A1. In case ICRA's view on the corporate guarantee provider was to undergo a change in future, the same would reflect in the rating of the aforesaid facility as well. The rating of this facility may also undergo a change in a scenario whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient Covenants: Not applicable

Key rating drivers and their description

Credit strengths

Parentage in the form of SMC Global Securities Limited – The company benefits from being a part of the SMC Group, which has a good presence and track record in the financial services sector. MFSPL has strong operational and management linkages with the parent in terms of a shared infrastructure and the availability of capital support in the form of regular equity infusions. The growing importance of MFSPL in the Group's portfolio provides additional comfort.

Adequate capitalisation and liquidity profile – MFSPL's capital position is adequate for the current scale of operations with a CRAR of 61.2%, a net worth of Rs. 325 crore and a gearing of 0.4x as on March 31, 2020, supported by an equity infusion of Rs. 50 crore by the parent in FY2020. Going forward, the gearing is expected to remain low considering the company's modest growth plans due to the current challenging operating environment. ICRA expects support from the parent to be forthcoming as and when required. MFSPL's liquidity profile also stands adequate with positive cumulative ALM mismatches in all the maturity buckets.

Unconditional and irrevocable guarantee - The CP rating for MFSPL is based on the unconditional and irrevocable guarantee provided by SMC that covers all repayment obligations with respect to the rated CP facility. The rating is supported by a payment mechanism which is designed to ensure timely payment to the investors.

Credit challenges

High portfolio vulnerability – MFSPPL offers a diverse set of products, including loan against property (LAP; 28% of the total loans as on March 31, 2020), receivable financing (22%), secured (9%) and unsecured business loans (33%), with the underlying borrower largely belonging to the SME sector. After remaining largely stable in FY2019 (+0.5% growth), the portfolio contracted by 15% YoY in FY2020 with the company exiting a few legacy builder loans and reducing its exposure to a few large-scale non-banking financial companies (NBFCs). ICRA notes that the management is currently looking at the consolidation of the loan book and is expecting the portfolio book to remain largely stable in FY2021, given the expected moderation in demand and increased credit risk across the sector.

The company's asset quality indicators remained largely stable with gross NPAs of 4.2% as on March 31, 2020 compared to 4.1% as on March 31, 2019. However, ICRA notes that this was largely supported by write-offs (Rs. 13 crore or 60% of opening gross NPAs in FY2020) though there have also been some recoveries (Rs. 9 crore). Given the challenges in the operating environment and the expected impact on the underlying businesses especially the SME segment, MFSPPL could face asset quality related pressure. The vulnerability increases further because of the low seasoning and a few high-ticket exposures. Also, 45% of the company's portfolio was under moratorium as on July 31, 2020 as per the Reserve Bank of India's (RBI) directions. There could be some slippages from these once the moratorium period is over. ICRA notes the company's increased focus on disbursements towards smaller ticket sized and secured loans, which is expected to reduce the portfolio vulnerability over the medium term. Going forward, MFSPPL's ability to profitability scale up its business operations while keeping its asset quality intact would remain a key rating monitorable.

Moderation in profitability indicators with increased operating expenses and credit costs – MFSPPL's yields reduced to 15.1% in FY2020 (vs. 16.6% in FY2019) due to increased delinquencies and a shift in the company's focus towards secured low ticket size loans. This, coupled with a slight increase in the cost of funds, led to a compression in the lending spreads to 4.3% during this period. At the same time, the net interest margin (NIM) remained relatively high at 10.4%, supported by the low gearing levels. The operating expenses increased significantly to 3.8% in FY2020 from 2.7% in FY2019 largely owing to the company's incremental focus on scaling up its business processes and systems for future portfolio growth. This, coupled with the steep increase in the credit cost owing to write-offs (2.2% in FY2020 from 0.8% in FY2019) led to a moderation in the profitability indicators with the return on average assets declining to 3.2% in FY2020 from 5.3% in FY2019 and the return on average net worth declining to 6.4% in FY2020 from 12.9% in FY2019. Going forward, ICRA expects the profitability to remain largely stable provided the company can control fresh slippages.

Liquidity position:

For the [ICRA]A-(Stable) rating: Adequate

As on June 30, 2020, MFSPPL had repayments of Rs. 21.8 crore in the next nine months against which it had a cash and bank balance of Rs. 4.4 crore and sanctioned and unutilised bank lines of Rs. 31.6 crore. As on July 31, 2020, 45% of the portfolio was under moratorium, though the company's collection efficiencies are gradually improving. 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.

For the [ICRA]A1+(CE) rating: Adequate

The liquidity position of the guarantor, SMC is adequate as reflected with adequate unutilised margins placed at the exchanges (average margin utilisation of around 60% during April 2019-June 2020), sufficient unencumbered cash and bank balance of Rs. 233 crore at the consolidated level as on March 31, 2020 and adequate sanctioned and unutilised bank lines. Company has consolidated debt repayments of Rs. 172 crore due for FY2021.

Rating sensitivities

For the [ICRA]A-(Stable) rating

Positive triggers – The rating is underpinned by the parentage and hence will remain sensitive to any change in SMC’s credit profile. Further, the rating could be upgraded if MFSP is able to profitably grow its scale of operations while maintaining a prudent capitalisation and if the gross NPAs, including write-offs, are maintained below 3.5% on a sustained basis.

Negative triggers – Pressure on the ratings could emerge if there is a weakening in the credit profile of the parent and/or a significant change in the ownership of the company or its strategic importance to the Group. Further, the ratings could be revised downwards on a sustained deterioration in the asset quality indicators.

For the [ICRA]A1+(CE) rating:

The rating assigned to the Rs. 50 crore CP Programme would remain sensitive to any movement in the rating or outlook of the guarantor SMC Global Securities Limited.

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 ICRA’s Credit Rating Methodology for Brokerage Houses
Parent/Group Support	The ratings derive significant strength from MFSP’s parentage in the form of SMC along with the operational, managerial and financial support by virtue of being a part of the SMC Group. ICRA expects support from the parent to be forthcoming as and when required.
Consolidation/Standalone	Standalone

About the company

Moneywise Financial Services Private Limited is a wholly-owned subsidiary of SMC Global Securities Limited. The company offers a diverse set of products including SME- Secured LAP (29.5%), SME-Unsecured working capital loans (33.1%), SME-Asset Finance (8.5%), Retail lending through onward lending to NBFCs (23.3%), Capital market finance (4.3%) and consumer durable (1.3%) as on March-20.

MFSP reported a profit after tax of Rs. 18.5 crore on a total managed asset base of Rs. 541 crore in FY2020 compared with a profit after tax of Rs. 31 crore on a managed asset base of Rs. 607 crore in FY2019. MFSP’s gross and net NPAs stood at 4.2% and 2.5%, respectively, as on March 31, 2020, against 4.1% and 1.7%, respectively, as on March 31, 2019.

About the guarantor

SMC Global Securities Limited (SMC), a Delhi-based stockbroking company, 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 the financial services sector 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, NRI and FPI services, etc. SMC has a presence in more than 550 cities across India and is also present in the UAE. It has a client base of over 1.8 million. On a consolidated basis, SMC reported a profit after tax of

Rs. 24 crore on a total asset base of Rs. 1,875 crore in FY2020 compared with a profit after tax of Rs. 75 crore on a total asset base of Rs. 2,350 crore in FY2019. The gearing stood at 0.3x as on March 31, 2020 (1.1x as on March 31, 2019).

Key financial indicators – MFSPL (audited; standalone)

	FY2018	FY2019	FY2020
PAT	30	31	19
Net Worth	239	256	325
Gross Loan Book	544	590	501
Total Assets	562	607	541
Return on Average Assets	6.3%	5.3%	3.2%
Return on Average Equity	15.1%	12.9%	6.4%
Gearing (times)	1.4	1.2	0.4
CRAR	41.8%	42.9%	61.2%
Gross NPA%	1.4%	4.1%	4.2%
Net NPAs %	0.7%	1.7%	2.5%
Net NPA/Net Worth %	1.8%	3.9%	3.8%

Note: Amounts in Rs. crore, Source: MFSPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018	
					31-Aug-20	20-Dec-19	29-Apr-19	3-Aug-18	30-Jan-18	13-Apr-17
1	Bank Lines - Long Term (fund based/ non-fund based)	Long Term	100	100	[ICRA]A-(Stable)	[ICRA]A-(Positive)	[ICRA]A-(Positive)	[ICRA]A-(Positive)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Bank Lines - Unallocated	Long Term	0	0	[ICRA]A-(Stable)	[ICRA]A-(Positive)	[ICRA]A-(Positive)	[ICRA]A-(Positive)	NA	NA
3	Commercial Paper Programme	Short Term	50	50	[ICRA]A1+(CE)	[ICRA]A1+(CE)	[ICRA]A1+(CE)	NA	NA	NA

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	7-365 days	50	[ICRA]A1+ (CE)
NA	Long-term/short-term fund-based/non-fund based bank lines	NA	NA	NA	100	[ICRA] A- (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

Corrigendum:

Document dated August 31, 2020 has been corrected with revision as detailed below:

Details with respect to [ICRA]A1+ (CE) have been added

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