December 02, 2021

Moneywise Financial Services Private Limited: PP-MLD [ICRA]A- (Stable) assigned; earlier rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Principal Protected Market-Linked Debenture Programme (PP-MLDP)	0.00	25.00	PP-MLD [ICRA]A- (Stable); assigned
Long-term/Fund-based/Non-fund based Bank Lines	100.00	100.00	[ICRA]A- (Stable); reaffirmed
Total	**100.00**	**125.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating for Moneywise Financial Services Private Limited (MFSPL) factors in its parentage in the form of SMC Global Securities Limited (SMC; rated [ICRA]A (Stable)/A1+) and its strategic importance to the SMC Group as its lending business is an important extension of the existing financial products offered by the Group. In addition to capital support from the parent, MFSPL benefits from shared infrastructure, management support and oversight, and access to a pan-India presence. The rating also factors in MFSPL's adequate capitalisation and liquidity profile with a low gearing of 0.6x on a net worth of Rs. 350 crore as on September 30, 2021. ICRA expects support from the parent to continue going forward as well.

The rating is, however, constrained by the company's relatively moderate asset quality indicators with a reported gross non-performing advances (GNPA) ratio of 2.9% as on September 30, 2021, albeit significantly lower than 6.2% as on March 31, 2021. The decline in the GNPA% in H1 FY2022 was largely on account of write-offs of a few large 180+ days past due (dpd) loans worth Rs. 20.6 crore during the period. Nevertheless, ICRA favourably notes that fresh slippages remained limited in H1 FY2022 despite the challenging operating environment.

ICRA notes MFSPL's increased focus on disbursements towards smaller ticket sized and secured loans, which is expected to reduce the portfolio vulnerability over the medium term. The company's profitability indicators remained modest due to high credit costs, resulting in a return on average assets (RoA) of 3.1% in H1 FY2022 (2.8% in FY2021 and 3.2% in FY2020). MFSPL's borrowing mix is diversified across banks (42% of total borrowings as on September 30, 2021), non-convertible debentures (NCDs; 43%) and inter-corporate deposits (ICDs) from related parties (15%). Going forward, the company's ability to profitably increase the scale of its business while managing the asset quality and controlling fresh slippages will be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Parentage in the form of SMC – 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 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. ICRA expects support from the parent to continue going forward as well.

Adequate capitalisation and liquidity profile – MFSPL's capital position is adequate for the current scale of operations with a CRAR of 62%, a net worth of Rs. 350 crore and a gearing of 0.6x as on September 30, 2021. Going forward, the gearing is expected to remain low considering the company's cautious growth plans amid the current challenging operating environment. ICRA expects support from the parent to be forthcoming as and when required.

MFSPL's liquidity profile is also adequate with positive cumulative asset-liability maturity gaps in all the maturity buckets. Its borrowing mix is diversified across banks (42% of total borrowings as on September 30, 2021), NCDs (43%), and ICDs from related parties (15%).

Credit challenges

Moderation in asset quality – MFSPL's loan book stood at Rs. 555 crore as on September 30, 2021. It offers a diverse set of products, including small and medium enterprise loan against property (SME LAP; 22% of the total loans as on September 30, 2021), onward lending (18%), SME assets (8%) and SME WCTL (44%), with the underlying borrowers largely belonging to the SME sector. The rest of the portfolio comprised capital market funding (CMF; 5%) and consumer durables (3%). After contracting by 15% on a year-on-year (YoY) basis in FY2020, the portfolio expanded by 16% YoY in FY2021, with the growth mainly coming from unsecured business loans and consumer durable loans. The portfolio declined marginally (-4%) in H1 FY2022 due to some contraction in the LAP and receivables financing segments.

MFSPL had relatively moderate asset quality indicators with a reported GNPA% of 6.2% as on March 31, 2021 compared to 4.2% as on March 31, 2020. Though the GNPA% declined further to 2.9% as on September 30, 2021, this was largely on account of write-offs of a few large 180+ dpd loans worth Rs. 20.6 crore in H1 FY2022. Nevertheless, ICRA favourably notes that fresh slippages were limited in H1 FY2022 despite the challenging operating environment.

The portfolio vulnerability is augmented by the relatively low seasoning of the portfolio and a few high-ticket exposures. ICRA notes MFSPL'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, MFSPL'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 rise in credit costs – Amid the declining interest rate environment, the company's yields as well as cost of funds declined in FY2021. Consequently, the net interest margin (NIM) remained largely stable at 10.5% in FY2021 (10.4% in FY2020), supported by stable lending spreads and low gearing levels. With improved operating efficiency, cost rationalisation and a decline in both employee and administrative expenses, the operating expenses reduced to 3.3% of the average total assets (ATA) in FY2021 (3.7% in FY2020). At the same time, higher credit costs of 3.7% of ATA (2.2% in FY2020) resulted in a moderation in the profitability indicators with the RoA declining to 2.8% in FY2021 from 3.2% in FY2020 and the return on average net worth declining to 4.9% in FY2021 from 6.4% in FY2020. The credit costs remained high in H1 FY2022 as well owing to large write-offs worth Rs. 20.6 crore, resulting in an RoA and a return on equity (RoE) of 3.1% and 5.4%, respectively, during the period. Going forward, ICRA expects the profitability to remain largely stable, provided MFSPL can control fresh slippages.

Liquidity position: Adequate

MFSPL's liquidity position remains adequate with the company having positive cumulative mismatches across all buckets due to its low gearing. As on September 30, 2021, MFSPL had debt repayments (including interest) of Rs. 49.4 crore in the next six months compared to expected inflows from advances of Rs. 132.0 crore during this period. The liquidity position is further supported by unencumbered cash and bank balances of Rs. 19.6 crore and sanctioned and unutilised bank lines of Rs. 16.0 crore. 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.

Rating sensitivities

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

Negative factors – Pressure on the rating 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 rating could be revised downwards on a sustained deterioration in the asset quality indicators.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Implicit Support from Parent or Group
Parent/Group Support	The rating derives significant strength from MFSPL'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

MFSPL is a wholly-owned subsidiary of SMC Global Securities Limited. It offers a diverse set of products, including SME WCTL (44% of the total loan book as on September 30, 2021), SME LAP (22%), onward lending (18%), SME assets (8%), CMF (5%) and consumer durables (3%).

MFSPL reported a profit after tax (PAT) of Rs. 16.4 crore on a total asset base of Rs. 618.3 crore in FY2021 compared with a PAT of Rs. 18.5 crore on a total managed asset base of Rs. 542.4 crore for FY2020. The loan book stood at Rs. 554.5 crore as on September 30, 2021. In H1 FY2022, the company reported a PAT of Rs. 9.4 crore on a total managed asset base of Rs. 611.9 crore.

SMC Global Securities Limited

SMC Global Securities Limited (SMC) is a Delhi-based stockbroking company, which 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 offers (IPOs), insurance broking, financing (non-banking financial companies – NBFCs), real estate advisory and wealth management, investment banking, clearing services, depository participant, non-resident Indian (NRI) and foreign portfolio investment (FPI) services, etc. SMC has a presence in more than 550 cities across India and is also present in the United Arab Emirates (UAE). It has a client base of 1.9 million.

In FY2021, SMC reported a PAT of Rs. 100.1 crore on a consolidated basis on a managed asset base of Rs. 2,353.5 crore compared to a PAT of Rs. 23.9 crore on a managed asset base of Rs. 1,875.3 crore in FY2020.

In H1 FY2022, SMC reported a PAT of Rs. 66.8 crore on a consolidated basis compared to a PAT of Rs. 46.6 crore in H1 FY2021. As on September 30, 2021, the gearing stood at 0.3x with a consolidated net worth of Rs. 866.8 crore.

Key financial indicators - SMC (consolidated[1])

	FY2019	FY2020	FY2021	H1 FY2022
	Audited	Audited	Audited	Provisional
Brokerage Income	343	388	470	307
Net Interest Income	116	90	111	66
Net Operating Income (NOI)	354	326	388	143
Total Operating Expenses	401	430	399	140
Non-operating Income	144	160	172	95
Profit before Tax (PBT)	91	45	136	88
Profit after Tax (PAT)	75	24	100	67
Loan Book	571	498	572	555
Net Worth	681	681	774	867
Return on Net Worth (%)	11.3%	3.5%	13.7%	16.3%

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

Key financial indicators – MFSPL (standalone)

	FY2019	FY2020	FY2021	H1 FY2022
	Audited	Audited	Audited	Provisional
PAT	31	19	16	9
Net Worth	256	325	342	350
Gross Loan Book	590	502	580	555
Total Assets	607	542	618	612
Return on Average Assets	5.3%	3.2%	2.8%	3.1%
Return on Average Equity	12.9%	6.4%	4.9%	5.4%
Gearing (times)	1.2	0.4	0.7	0.6
CRAR	42.9%	61.2%	58.2%	62%
Gross NPA%	4.1%	4.2%	6.2%	2.9%
Net NPAs %	1.7%	2.5%	3.5%	2.2%
Net NPA/Net Worth %	3.9%	3.8%	6.0%	3.4%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[1] Consolidated with SMC Comtrade Limited, SMC Investments & Advisors Limited, Moneywise Financial Services Private Limited, SMC Capital Limited, SMC Insurance Brokers Pvt. Ltd, SMC Comex International DMCC, Moneywise Finvest Limited, SMC Global USA Inc, SMC Global IFSC Private Limited, SMC Real Estate Advisors Pvt. Ltd, SMC & IM Capitals Investment Manager LLP

Rating history for past three years

	Current Rating (FY2022)						Chronology of Rating History for the Past 3 Years				
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019
					Dec 02, 2021	Sep 16, 2021	Sep 17, 2020	Aug 31, 2020	Dec 20, 2019	Apr 29, 2019	Aug 03, 2018
1	PP-MLDP	Long Term	25.0	0.0	**PP-MLD [ICRA]A- (Stable)**	-	-	-	-	-	-
2	Bank Lines	Long Term	100.0	54.2	**[ICRA]A- (Stable)**	**[ICRA]A - (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Positive)**	**[ICRA]A- (Positive)**	**[ICRA]A- (Positive)**
3	Commercial Paper Programme	Short Term	-	-	-	-	**[ICRA] A1+ (CE); Withdrawn**	**[ICRA] A1+ (CE)**	**[ICRA] A1+ (CE)**	**[ICRA] A1+ (CE)**	**[ICRA] A1+ (CE)**

Source: *ICRA Research, MFSPL*

Complexity level of the rated instruments

Instrument	Complexity Indicator
PP-MLDP	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: www.icra.in

Annexure-1: Instrument details

ISIN/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
State Bank of India	Term Loan	Jun-26-2020	NA	FY2022	13.4	[ICRA]A- (Stable)
State Bank of India	Term Loan	Jun-26-2020	NA	FY2022	9.5	[ICRA]A- (Stable)
State Bank of India	Term Loan	Jun-26-2020	NA	FY2025	10.0	[ICRA]A- (Stable)
RBL	Term Loan	Nov-14-2019	NA	FY2022	11.3	[ICRA]A- (Stable)
Bank of Maharashtra	Term Loan	Jun-15-2020	NA	FY2024	10.0	[ICRA]A- (Stable)
Unallocated	Term Loan	NA	NA	NA	45.8	[ICRA]A- (Stable)
NA	PP-MLDP*	NA	NA	NA	25.0	PP-MLD [ICRA]A- (Stable)

Source: *MFSPL; *Yet to be placed*

Annexure-2: 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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