Moneywise Financial Services Private Limited

April 29, 2019

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	0	50	[ICRA]A1+(SO); Rating assigned
Bank Lines- Long Term (Unallocated)	100	100	[ICRA]A- (Positive); Outstanding
Total	100	150	

Rationale

ICRA has assigned a short-term rating of [ICRA] A1+ (SO) (Pronounced ICRA A1 Plus Structured obligation) to Rs. 50 crore Commercial paper programme of Moneywise Financial services private limited (MFSPL). The commercial paper rating is based on the unconditional and irrevocable guarantee provided by SMC Global Securities Limited (Rated [ICRA]A (Stable)/A1+) and a confirmation from the guarantor, which suggests that the guarantor will ensure that the company abides by its financial commitments in a timely manner. The ratings are specific to the terms and conditions of the proposed debt programme as was indicated to ICRA by the company. It does not represent ICRA's opinion on the general credit quality of the entity concerned.

The standalone rating for Moneywise Financial Services Private Limited (MFSPL) factors in the parentage in the form of SMC Global Securities Limited (SMC) and the strategic importance of MFSPL to SMC given that MFSPL's lending business is an important extension to the existing financial products offered by SMC Group. In addition to the capital support from the parent, MFSPL benefits from the common experienced management, cross-selling opportunities to the Group's customers, pan India presence and infrastructure sharing, which helps to keep operating expenses low. The rating also factors in MFSPL's good capitalisation with a gearing of 1.33x on a net worth of Rs. 245.93 crore as on December 31, 2018 supported by adequate profitability with return on average net worth of 11.46% in 9MFY2019. ICRA further expects the capital support from the parent SMC Global Securities Limited to be there going forward in case of need.

ICRA takes note of the company's improving track record of operations in relation to the tenure of the loan assets. MFSPL's risk management systems and processes have evolved and are adequate for the current scale, however need to keep pace with the growth plans. Further the company's borrowing profile is concentrated towards other higher rated Non-Banking Financial Companies (53% of the overall borrowing profile as on December 31, 2018) and inter-corporate deposits (24%) from group companies, Nevertheless, ICRA notes that the company is in process of improving the diversity of its funding profile. Going forward, the company's ability to maintain asset quality while growing business volumes would be a key rating sensitivity.

Outlook: Positive

The 'positive' outlook reflects company's improving track record of operations and ICRA's expectation that the company would be able to profitably scale up the operations while reporting improvement in asset quality indicators. ICRA further expects that MFSPL will remain strategically important to SMC and will continue to receive regular financial and operational support from the parent. The outlook may be revised to stable or negative if there is a significant deterioration in the asset quality or solvency profile of the company or change in the support from the parent /credit profile of the group.

Key rating drivers

Credit strengths

Strong parentage: The company benefits from being a part of the SMC group with strong operational and management linkages with the parent. The capital support from the parent in form of regular equity infusion and the growing importance of MFSPL in the group's portfolio provides additional comfort.

Adequate capitalization and Liquidity profile: The company's capital position stands adequate for the current scale of operations with gearing of 1.33 x as on December 31, 2018 supported by good internal accruals. Going forward, gearing is expected to increase to around 4x in the medium term considering company's growth plans and incremental business growth being funded out of fresh borrowings. ICRA expects the company to maintain prudent capitalisation levels going forward as well and expects the support from the parent to be forthcoming as and when required. The company's liquidity profile also stands comfortable with no cumulative mismatches in any of the maturity buckets.

Adequate profitability indicators: The profitability indicators for the company have improved in FY2018 with return on average assets of 6.3% in FY2018 (vs. 3.3% in FY2017) and return on average equity of 14.1% in FY2018 (vs. 7.9% in FY2017) driven by higher margins and lower credit costs. The Margins of the company improved as a result of the company diversifying the portfolio into higher yielding segments. MFSPL's operating expenses/ATA remained low (2.1% in FY2018 vs. 1.2% in FY2017) resulting from operational linkages in form of shared infrastructure with the parent. Also, the credit costs for the company are currently under control with credit costs/ATA of 0.8% in FY2018 (vs.1.1% in FY2017), however ICRA notes that credit costs could increase with increased portfolio seasoning. The Return on net worth moderated in 9MFY2019 to 11.46% largely owing to compression in margins and increased operating expenses (2.27% in 9MFY2019 as against 2.05% in FY2018) nevertheless profitability remained adequate.

Improved Scale of Operations: Since June-15, the company has grown the portfolio at a CAGR of 72% and over the years the company has diversified the portfolio to include relatively higher yielding products such as Loan against Property (constituting 23% of the portfolio as on December 31, 2018), Unsecured Business loans (22%) and loan against shares (25%) with balance being in receivable financing (22%) and secured business loans (4%). While the risk adjusted returns on these segments are high and the delinquencies could increase with increased portfolio seasoning though the systems and processes put in place by the company could mitigate the risk. Nevertheless, the company's ability to grow the businesses while controlling fresh slippages and recovering from existing delinquent accounts will be a key rating monitorable.

Credit weaknesses

Moderate yet reducing credit concentration: The credit concentration with top 20 borrowers accounting for 26%[1]of total portfolio as on Dec 31, 2018, though reduced from earlier year levels of 40.8% as on March 31, 2018. However, ICRA notes that the borrower profile is diversified across various sectors and the company is further focusing on diversifying the loan book through acquisition of new retail customers and new business segments.

Limited financial flexibility: The majority of proportion of the borrowings (53% of the overall borrowing profile as on December 31, 2018) for the company is from higher rated NBFCs followed by the Inter corporate deposits from related parties amounting to around 24% and loans from Banks with 23% of the overall borrowings. ICRA however notes that going forward the company plans to expand the banking relationships and also raise funds from alternate sources like Commercial paper which is expected to improve the overall diversification of the funding profile.

[1] This excludes the onward lending to the NBFCs. If we include onward lending, top 20 borrowers will constitute 31.33% of the loan book as on Dec 31, 2018 and 46.2% as on March 31, 2018

Moderation in asset quality indicators: The company's pace of growth moderated in 9MFY2019 with the loan book growing at 22% on an annualized basis as compared with 85% in FY2018. Further the asset quality also deteriorated from a Gross NPA of 1.38% of the total advances to 2.14% in 9MFY2019 owing to few big-ticket size slippages in the Loans Against Property (LAP) segment of the portfolio. However, ICRA notes that the company has made recoveries in Q4FY2019 and the year end asset quality numbers are expected to be better. ICRA has also taken note that MFSPL is diversifying into new segments, where the group has a limited track record of operations, however the businesses are being managed by experienced management teams and there are adequate systems and process to manage these businesses. Overall, the company's ability to grow the businesses while maintaining asset quality will be a key rating monitorable

Liquidity position

The liquidity position of the company stands comfortable with the company having a total of Rs. 10 crore of borrowings maturing in the next 6 months against which it has inflows of Rs. 224 crore as on December 31, 2018. Further the liquidity position of the company is supported through adequate sanctioned and unutilized bank lines (Rs.156 crore as on December 31, 2018). In addition to this the support from the parent SMC Global securities in terms of equity infusion is expected to be there whenever required owing to the strategical importance of MFSPL to SMC given that MFSPL's lending business is an important extension to the existing financial products offered by SMC Group

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
Parent/Group Support	The ratings derive significant strength from MFSPL's parentage in form of SMC Global Securities Limited (SMC, rated [ICRA]A (Stable)/[ICRA]A1+) along with the operational, managerial and financial support by virtue of being a part of the SMC Group. ICRA expects the support from the parent to be forthcoming as and when required.
Consolidation/Standalone	Consolidated profile of SMC Global Securities Limited (SMC) and Moneywise financial services private limited (MFSPL)

About the company:

Moneywise is a wholly owned subsidiary of SMC Global Securities Limited. SMC Global Securities Limited is the holding company of SMC Group, founded by Mr. Subhash C. Aggrawal and Mr. Mahesh C. Gupta in 1990.Moneywise offers diverse set of products including, LAP (23% of total portfolio as on December 31, 2018), Unsecured business loans (22%), Receivable financing (22%), secured business loan (4%) along with loans under IPO/Bonds segment (21%) etc.

MFSPL reported a profit after tax of Rs. 30.3 crore on a total managed asset base of Rs. 582crore in FY2018 as compared with a profit after tax of Rs. 12.4 crore on a managed asset base of Rs. 383 crore for FY2017. MFSPL's gross and net NPAs stood at 1.44% and 0.71% respectively, as on March 31, 2018. The reported PAT during 9MFY2019 stood at Rs. 21 crore on a total asset base of 685 crore. The Gross and Net NPAs of the company as on December 31, 2018 stood at 2.14% and 1.38% respectively. Capital adequacy ratio of the company stood at 34.99% as on December 31, 2018.

About the Guarantor:

SMC is an investment solutions company with over 28 years of operations, serving a diverse customer base of Retail and Institutional Investors; SMC with its subsidiaries has presence in almost all the important segments of the financial services section such as Broking, Distribution of third party products and IPOs, Insurance Broking, Financing (NBFC), Real Estate Advisory and Wealth Management, Investment Banking, Clearing Services, Depository Participant, NRI and FPI

Services etc. SMC is having presence in more than 500 cities across India and also in UAE and servicing over client base 1.8 million

SMC on consolidated basis reported a profit after tax before extraordinary item of Rs. 61.6 crore on a managed asset base of Rs. 1827 crore for FY2018 as compared with a profit after tax of Rs. 45 crore on a managed asset base of Rs. 1581 crore in FY2017. The reported PAT for 9MFY2019 stood at Rs. 41 crore on a total managed asset base of Rs. 2,048 crore.

Key Financial Indicators (MFSPL)

In Rs. Crore	FY 2017	FY2018	9MFY2019(IND AS)
PAT	12	30	21
Net Worth	169	239	246
Assets under management	317	570	681
Total Assets	383	582	685
Return on Average Assets	3.3%	6.3%	4.4%
Return on Average Equity	7.9%	14.1%	11.5%
Gearing (times)	1.01	1.32	1.33
CRAR	45.0%	41.8%	35.0%
Gross NPA%	3.31%	1.44%	2.14%
Net NPAs %	2.36%	0.71%	1.38%

Source: MFSPL, ICRA research

Key Financial Indicators (Consolidated)

In Rs. crore	**FY 2017 IGAAP**	**FY2018 IGAAP**	**9MFY2019 IND AS**
Brokerage income	189.7	269.1	248.9
Treasury income	20.9	25.2	21.03
Interest Income	41.9	72.9	97.07
Other Non-Interest income	29.88	38.3	3.7
Operating income (Excluding trading income)	371.9	512.5	433.2
Total Revenues	532.7	655.4	553.1
Total Operating expenses	415.7	503.1	447.28
Profit before tax	68.5	76.7	57.5
Profit after tax	45.1	50.9	40.9
Net Worth	594.8	640.6	646.3
Return on average Net worth	7.7%	9.98%[2]	8.47%

Source: SMC, ICRA research

[2] *The ratio is calculated eliminating the impact of the extraordinary expenses on ADR issue, including which the ROE would be 8.2%*

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)		FY2019	FY2018		FY2017
					Apr-19	Aug-18	Jan-18	Apr-17	
1	Bank Lines-Long Term (Fund based/ non-fund based)	Long Term	50	50	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	n/a
2	Bank Lines-Unallocated	Long Term	50	50	[ICRA]A- (Positive)	[ICRA]A- (Positive)	n/a	n/a	n/a
3	Commercial Paper Programme	Short Term	50	0	[ICRA] A1+ (SO)	n/a	n/a	n/a	n/a

Source: ICRA Ltd.

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 www.icra.in

Annexure-1: Instrument Details

Bank Name	Loan type (term loan/ cash credit, etc.)	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
n/a	Cash Credit	30/10/2018	n/a	30/10/2019	25	[ICRA] A- (Positive)
n/a	Term Loan	30/10/2017	n/a	30/10/2021	25	[ICRA] A- (Positive)
Unallocated	n/a	n/a	n/a	n/a	50	[ICRA] A- (Positive)
N/A	Commercial Paper	n/a	n/a	7-365 days	50	[ICRA] A1+ (SO)
			Total		**150**	

Source: Moneywise Financial Services Private Limited.

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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.

For more information, visit www.icra.in

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