

June 29, 2020

Share Microfin Limited: Rating withdrawn for Rs. 125.00-crore Long Term Debt Programme; Rating reaffirmed for Rs. 130.11-crore Bank Facilities Programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Bonds/NCD/LTD	125.00	0.00	[ICRA]D; Reaffirmed and simultaneously withdrawn
Long Term – Fund-based TL	128.18	130.11	[ICRA]D; Reaffirmed
Long Term - Fund based/CC	1.93	0.00	-
Total	255.11	130.11	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the continued delays in debt servicing by Share Microfin Limited (SML). ICRA notes that SML has successfully implemented the Demerger Scheme of Arrangement approved by the Hon'ble High Court of Andhra Pradesh (AP) & Telangana on April 18, 2017, resulting in the de-merger of the AP business into Asmitha Microfin Limited and merger of Non-AP business of Asmitha into SML. Post implementation of the Scheme, SML has been operating in states other than AP and Telangana (Non-AP). The assets under management (AUM), as on December 31, 2019 and as per the provisional 9M FY2020 financials, totalled Rs. 768 crore and SML's operations are diversified across 293 districts in 18 states with no state having exposure above 15% of the AUM and no district having exposure above 2.3% of the AUM. CRAR as on December 31, 2019 was at 23.2%. SML's ability to secure capital and funding for the settlement of debt obligations and business expansion as well as its ability to manage the impact of the Covid-19 pandemic on the portfolio quality will be critical for its rating going forward.

Key rating drivers and their description

Credit strengths

Geographically diversified presence – As on December 31, 2019, SML had a portfolio of Rs. 768 crore spread across 293 districts in 18 states with none of the states accounting for more than 15% of the portfolio. The top 3 states comprised 43% of its portfolio while the top 5 states accounted for 63% of its total advances. As on December 31, 2019, SML had 746 branches with each branch having a portfolio of ~Rs. 1.0 crore vis-à-vis the industry average of Rs. 3-4 crore. However, with capital infusion and the repayment of the restructured debt, the high portfolio growth and deeper penetration in existing geographies are likely to yield higher operating efficiency.

Credit challenges

Stretched liquidity and continued delays in debt servicing – Following the AP Ordinance of 2010, the company's asset quality was impacted severely thereby impairing SML's ability to make debt repayments. The company was admitted to CDR in September 2011 and has been delaying interest and principal repayments to lenders. ICRA however notes that SML has successfully implemented the Scheme of Arrangement approved by the Hon'ble High Court of Hyderabad on April 18, 2017 leading to the AP business of Asmitha Microfin and Share Microfin to be merged into Asmitha Microfin and the Non-AP business of these two entities into Share Microfin Limited. The scheme is applicable retrospectively from April 01, 2015. Subsequent to the said scheme of arrangement, the company is in discussions with its lenders to repay all the CDR debt in full.

Ability to secure funds from diversified funding sources at competitive rates crucial – SML’s borrowings as on December 31, 2019 comprise CDR debt and priority debt from 23 lenders. Following the Scheme of arrangement, the company is in the process of raising new funds to repay the existing debt aggregating approximately Rs. 620 crore¹ (including accrued interest and payables to OCCRPS holders). ICRA notes that the company is in advanced stages of discussions with certain existing and new lenders to raise funds in addition to raising equity. Its ability to raise funds in a timely manner and at competitive rates and terms from diversified sources during the current COVID scenario would be crucial from a growth perspective.

Ability to manage adverse impact of Covid-19 on asset quality – Asset quality indicators have remained largely stable over the last nine months. The 0+ and 180+ dpd across last eight quarters is stable as there are no significant fresh additions post the demonetization period. The company’s asset quality has improved with 0+dpd at 1.8% as on December 31, 2019 (compared to 2.4% as on March 31, 2018) and the Net NPA is at 0.06%. SML’s ability to manage the impact of Covid-19 on its portfolio would be a key monitorable going forward. The portfolio growth has remained flat due to the lack of fresh funding. Consequently, SML’s ability to support its clients, post Covid-19, remains to be seen.

Ability to improve profitability – SML’s profitability has remained impacted on account of significant under-utilization of capacities which was in turn constrained by funding issues. The cost to income ratio and operating expenses as a percentage of average total assets remained high at 88% and 13% respectively for 9MFY2020 as per provisional financials. While the net profitability in FY2019 was supported by recovery on written off loans, write-back of provisions and an extraordinary income of Rs. 10.11 crore on account of one-time settlement of debt with one of the lenders, the 9MFY20 net profitability indicators remained subdued with a return on average assets of 1.90% and return on average net worth of 8.7% respectively, on account of flat portfolio growth and operating inefficiency. SML’s ability to improve operating efficiency and raise low cost funding would be crucial for incremental profitability

Marginal borrower profile – The rating factors in the risks associated with the marginal borrower profile, unsecured lending business, political risks, and operational risks arising out of cash handling, along with the challenges associated with a high pace of growth and high attrition rates. Additionally, in line with the industry, SML would face challenges pertaining to Covid-19 as multiple EMIs may have to be collected from borrowers who availed of moratorium.

Liquidity position: Poor

SML’s liquidity is poor on account of the continued delay in the servicing of debt repayments. The company’s portfolio growth has remained flat over the last three years as no fresh funding has been tied up.

Rating sensitivities

Positive triggers – ICRA could upgrade SML’s rating if the company repays its debt obligations in a timely manner on a sustained basis.

Negative triggers – Not applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA’s Rating Methodology for Non-Banking Finance Companies ICRA’s Policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

¹ As on December 31, 2019
www.icra.in

About the company

Share Microfin Limited is a non-deposit accepting non-banking finance company-micro finance institution (ND-NBFC-MFI) incorporated as a public limited company in the year 1999, engaged in lending microfinance loans to women from the weaker sections of society under the joint liability group (JLG) model. Mr. M. Udaia Kumar is the founder and Managing Director of the company. He has over 30 years of experience in the field of financial inclusion, sustainable and development financing. SML is amongst the Andhra Pradesh (AP) based entities which were impacted because of Andhra Pradesh Microfinance Institutions Ordinance 2010; subsequent to which, the company's debt repayment abilities were impacted, and the company was admitted into CDR. During April 2017, through a scheme of arrangement approved by Hon'ble High Court of Hyderabad, the company has demerged its AP portfolio into Asmitha Microfin Limited while merging Asmitha's non-AP portfolio. Subsequent to the said scheme of arrangement, the company is in discussions with its lenders to repay all the CDR debt in full.

Rs. crore	FY2018	FY2019	9M FY2020*
Total Income	205.6	203.7	148.2
Profit after Tax	6.0	25.7	11.9
Net Worth	155.7	178.7	188.6
Total Managed Portfolio	736.7	788.1	768.0
Total Managed Assets	872.3	834.3	841.0
Return on Average Managed Assets	0.7%	3.1%	1.9%
Return on Average Net Worth	3.9%	15.4%	8.7%
Gearing	4.2	3.5	3.3
Gross NPA/ Gross Advances	2.4%	1.6%	1.7%
Capital Adequacy	21.4%	21.3%	23.2%

**As per unaudited provisional financials*

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 29-Jun-20	FY2020 27-May-19	FY2019 30-Apr-18	FY2017 21-Mar-17	FY2016 05-Feb-16	
1 NCD	Long Term	25.00	0.00	[ICRA]D; Reaffirmed and Simultaneously Withdrawn	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D	
2 Sub-Debt	Long Term	100.00	0.00	[ICRA]D; Reaffirmed and Simultaneously Withdrawn	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D	
3 Bank Lines	Long Term	130.11	130.11	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D	

Amount in Rs. crore

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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE973K08014	Non-convertible Debenture	31-03-10	13.75%	NA	25.00	[ICRA]D (Reaffirmed and Simultaneously Withdrawn)
INE973K07032	Subordinated Debt	29-03-10	12.00%	NA	100.00	[ICRA]D (Reaffirmed and Simultaneously Withdrawn)
NA	Various Term Loans	2007-2009	12-13%	31-12-20	130.11	[ICRA]D

Source: SML

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

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