

## Press Release

**S.M.I.L.E Microfinance Limited**



August 13, 2021

**Rating Reaffirmed & Withdrawn**

<b>Total Facilities Rated*</b>	Rs. 300.00 Cr.
<b>Bank Facilities Rated</b>	Rs. 250.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB/ Negative (Reaffirmed; Outlook revised from Stable)
<b>Total Non-Convertible Debenture Rated</b>	Rs. 50.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB (Withdrawn)

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs. 250 Cr. bank facilities of S.M.I.L.E. Microfinance Limited (SMFL). The outlook is revised from '**Stable**' to '**Negative**'.

Acuité has withdrawn the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs. 50 Cr. Non-Convertible Debenture programme of S.M.I.L.E. Microfinance Limited (SMFL). This rating is being withdrawn on account of the request received by the client along with No Objection Certificate received from the bank as per Acuite's policy.

### Reason for Outlook revision

The revision in outlook is primarily driven by higher than anticipated deterioration in asset quality metrics and the consequent stress on profitability. SMFL has reported asset quality stress marked by GNPA and NNPA weakening to 9.41% and 2.28% as on March 31, 2021. While Acuite takes cognizance of asset quality stress in the MFI sector due to ongoing pandemic, some MFIs have been more affected due to intrinsic factors like geographic presence, customer profile etc. SMFL reported sharp increase in delinquencies across different time buckets and the on-time portfolio has declined from 99.58 percent as on March 31, 2020 to 81.05 percent as on March 31, 2021, which further declined to 65.79 percent as on June 30, 2021 on account of second cycle of Covid-19. The elevated stress levels are reflected in softer buckets as well, delinquencies in 30+ to 90dpd bucket increased from 0.06 percent as on March 31, 2020 to 5.23 percent as on March 31, 2021 and further to 4.61 percent as on June 30, 2021. This in turn has impacted the financial performance; the company reported losses of Rs.8.9 crore during FY21 [Q1FY22 profits: Rs.1.2 crore]. The rating is also constrained due geographically concentrated portfolio in the state of Tamil Nadu, modest capital raising ability and risks inherent to the microfinance sector. Going forward, the company's ability to raise capital (both equity and debt), and movement of delinquencies across different time buckets and resultant impact on profitability would remain key monitorables.

The rating continues to derive strength from SMFL's established track record of operations in the microfinance sector of over a decade along with the support of the experienced management team. The rating also derives strength from its adequate capitalisation levels and liquidity profile. The Capital Adequacy Ratio (CAR) stood at 27.61 percent as on March 31, 2021.

### About the company

S.M.I.L.E. Microfinance Limited (SMFL) is a Tamil Nadu based Systemically Important Micro Finance Institution. Incorporated on 21<sup>st</sup> March 1995, it obtained license from the Reserve Bank of India as 'Non-Banking Finance Company – Non-Deposit Taking Microfinance Institution (NBFC-MFI-ND) in May 2015. SMFL is engaged in extending of microfinance services to women in rural and urban areas for income generation purposes under the Joint Liability Group Model. The company's operations are spread across 6 States and 1 Union Territory, namely, Tamil Nadu, Kerala, Chhattisgarh, Karnataka, Jharkhand, Madhya Pradesh and Puducherry. It has a network of 144 branches across 49 Districts as of March 31, 2021.

## Analytical Approach

Acuité has considered the standalone financial and business risk profile of SMFL to arrive at the rating.

## Key Rating Drivers

### Strengths

- **Established Track Record of Operations**

SMFL commenced its microfinance activities since 2006. The company was founded by Dr. N. Sethuraman, a medical practitioner with an established practice in Madurai region of Tamil Nadu. Dr. Sethuraman initially commenced microfinance activities under the Mahasemam Trust, a not for profit organization in the 90's, thereafter in 2004, most of the operations of the trust were transferred to SMFL. In FY2010, Developing World Markets (DWM), a US based, social impact fund, invested Rs. 50 Cr for a 66.64 percent stake in the company and since then has been managing the operations of the company. Presently, the shareholding pattern constitute of DWM ~66.64 percent, Dr. S. Gurushankar (Son of Dr. N Sethuraman) having 15.59 percent stake while the remaining shareholders include ~11,000 women members of the public who were earlier associated with Mahasemam Trust.

At present, the company's operations are spread across 6 States and 1 Union Territory, namely, Tamil Nadu, Kerala, Chhattisgarh, Karnataka, Jharkhand, Madhya Pradesh and Puducherry. It has a network of 137 branches across 45 Districts in these six States and one Union Territory.

At the helm of company affairs is Mr. Murali Srinivas, who is the Managing Director & CEO of the company. He has 20 years of experience in Corporate & Development Sector including Microfinance. The other board members who oversee the operations of the company time to time include two representative directors from DWM Investments (Cyprus) Limited and Mr. V. S. Padmanaban director representing promoter. Mr. Rajan Samuel, Ms. Aparna Sharma and Mr. Suresh K. Krishna are Independent Directors on the board, Ms. Indrani Bhagwan Singh as non-executive director. The day to day operations are supported by an experienced team of personnel.

Acuité believes that the operations of SMFL's will be supported by established presence and experienced management.

- **Adequate Capital adequacy:**

SMFL's networth stood at Rs. 136.11 Cr. as on March 31, 2021 and reported adequate capital adequacy ratio (CAR) of 27.23 percent as on March 31, 2021 as against 23.64 percent as on March 31, 2020. Improvement in capitalization levels has been partially on account of decline in AUM during FY21.

Acuité believes that the company needs to raise fresh equity in the near to medium term in order to bolster its capitalization levels.

### Weaknesses

- **Deteriorating Asset Quality:**

During FY21 and Q1FY22, the company has witnessed higher than anticipated deterioration in asset quality metrics and the consequent stress on profitability. SMFL has reported asset quality stress marked by GNPA and NNPA weakening to 9.41% and 2.28% as on March 31, 2021. While Acuite takes cognizance of asset quality stress in the MFI sector due to ongoing pandemic, some MFIs have been more affected due to intrinsic factors like geographic presence, customer profile etc. The monthly collection efficiency (as against Scheduled Collections) of the company post lifting of moratorium has been in the range of 50-75 percent. Due to subdued collection efficiency, there has been sharp increase in the softer delinquencies across different buckets; the on-time collection efficiency has declined from 99.58 percent as on March 31, 2020 to 81.05 percent as on March 31, 2021, which further declined to 65.79 percent as on June 30, 2021. Post second wave of Covid-19 induced lockdowns, GNPA and provision cover further deteriorated to 16.20 percent and 53.9 per cent as on June 30, 2021.

Acuité believes that SMFL's ability to improve its collection efficiency while containing elevated stress in asset quality will be key monitorable.

**• Pressure on Profitability Metrics:**

Asset quality deterioration and the resultant rise in credit provisions have impacted the credit profile of the company during FY21. Consequently, SMFL's reported losses of Rs. 8.88 Cr. in FY2021 as compared to profit of Rs. 12.44 Cr. for FY2020. The reported loss was on account of increased write-offs and provision expense in FY2021 to the tune of Rs.25.16 crore. Similarly, profitability metrics also reported deterioration marked by Return on Average Assets (ROAA) deteriorating to (1.47) percent for FY2021 as compared to 1.91 percent for FY2020. The company's Assets under Management (AUM) of declined to Rs.388.17 Cr. as on June 30, 2021 from 475.80 Cr. as on March 31, 2021 [P.Y.: Rs 606 Cr].

Acuité believes that due to elevated stress on the asset quality, SMFL's profitability would continue to remain subdued in the near to medium term.

**• Susceptibility of near term operating performance to the current challenging environment; geographically concentrated portfolio adds to the challenges:**

The MFI lending segment entails providing loans to the lower economic strata of the society. The inherent risks of microfinance industry including exposure to marginalised borrowers have been exacerbated by localised lockdowns and economic disruptions in the wake of second wave of Covid-19. The intermittent lockdowns and relaxations have resulted in volatility in collection efficiency. Most of the decisions regarding lockdowns are currently taken at the state government and local authority's level. SMFL's portfolio is concentrated in the State of Tamil Nadu constituting more than 90 percent of AUM as on March 31, 2021. The top 10 districts amounted more than 60 percent of the AUM as on March 31, 2021. SMFL has plans to diversify its portfolio by leveraging on the network of branches recently established in the States of Chhattisgarh, Jharkhand, Madhya Pradesh and Karnataka.

Acuité believes that SMFL's ability to maintain growth in AUM against the backdrop of a subdued economic scenario while managing its asset quality will determine the trajectory of its future credit profile.

**Liquidity Position: Adequate**

SMFL's liquidity position is adequate and the liquidity buffers primarily depend on its cash inflows (collections from clients and loans from banks) vis. a vis. the cash outflows (disbursements, debt servicing commitments, operating expenses). The cash collections of the company were impacted by the first as well as second cycle of covid-19 lockdowns in its area of operations, however, post lifting moratorium the collections are likely to return to the pre-covid level. The monthly collection efficiency of the company post moratorium has been in the range of 50 – 75 percent (amount collected as against scheduled collections). The company has obligations (Debt servicing obligations and operating expense) of ~Rs. 204.92 Cr. for the next six months from March, 2021. It had unencumbered cash and bank balances of ~Rs. 38.76 Cr as on March 31, 2021 [Rs. 77.71 Cr as on July 31, 2021] and unavailed sanctions of Rs. 36 Cr as on July 31, 2021. It has also augmented its resources through the securitization route to support its liquidity.

**Rating Sensitivities**

- Capital raising (both equity & debt)
- Movement in Liquidity and Capital Adequacy buffers
- Profitability and asset quality
- Changes in regulatory environment

**Material Covenants**

None

**Outlook: Negative**

Acuité believes that SMFL credit profile will be under pressure on account of significant asset quality and profitability pressures over the near to medium term. The outlook may be revised to stable in case SMILE is able to demonstrate a significant improvement in liquidity buffers while containing asset quality pressures and demonstrating healthy profitability levels. Conversely, any significant reduction in SMILE liquidity buffers and higher than expected credit costs or deterioration in profitability levels could impart negative bias to the rating.

### About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Total Assets	Rs. Cr.	526.31	681.47
Total Income	Rs. Cr.	57.84	67.65
PAT	Rs. Cr.	-8.88	12.44
Net Worth	Rs. Cr.	136.11	144.28
Return on Average Assets (RoAA)	(%)	-1.47	1.91
Return on Average Net Worth (RoNW)	(%)	-6.33	8.99
Debt/Equity	Times	2.85	3.62
Gross NPA	(%)	9.41	0.22
Net NPA	(%)	2.28	0.00

\*Total income equals to Net Interest Income plus other income.

### Status of non-cooperation with previous CRA (if applicable):

None

### Any other information

None

### Applicable Criteria

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
March 23, 2021	Term Loan	Long Term	9.88	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/ Stable)
	Term Loan	Long Term	7.08	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/ Stable)
	Term Loan	Long Term	5.74	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/ Stable)
	Term Loan	Long Term	9.78	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/ Stable)
	Term Loan	Long Term	5.38	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/ Stable)
	Term Loan	Long Term	12.50	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/ Stable)
	Term Loan	Long Term	10.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/ Stable)
	Term Loan	Long Term	5.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/ Stable)

	Cash Credit	Long Term	2.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/ Stable)
	Proposed Bank Facility	Long Term	182.64	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/ Stable)
	Non-Convertible Debentures	Long Term	15.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/ Stable)
	Proposed Non-Convertible Debentures	Long Term	35.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/ Stable)
September 11, 2020	Proposed Bank Facility	Long Term	250.00	ACUITE BBB+/Stable (Assigned)
	Proposed Non-Convertible Debentures	Long Term	50.00	ACUITE BBB+/Stable (Assigned)

**\*Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Bank of Baroda	Term Loan	13.02.2021	11.90%	01.01.2023	7.73	ACUITE BBB/Negative (Reaffirmed; Outlook revised from Stable)
IDFC First Bank	Term Loan	27.02.2020	13.75%	01.07.2022	5.00	ACUITE BBB/Negative (Reaffirmed; Outlook revised from Stable)
Fincare Small Finance Bank	Term Loan	23.03.2020	13.50%	23.03.2022	3.59	ACUITE BBB/Negative (Reaffirmed; Outlook revised from Stable)
Jana Small Finance Bank	Term Loan	31.10.2019	14.00%	21.02.2022	5.34	ACUITE BBB/Negative (Reaffirmed; Outlook revised from Stable)
Union Bank of India	Term Loan	31.12.2018	11.30%	30.09.2022	3.71	ACUITE BBB/Negative (Reaffirmed; Outlook revised from Stable)
Union Bank of India	Term Loan	30.03.2020	11.60%	01.06.2023	9.99	ACUITE BBB/Negative (Reaffirmed; Outlook revised from Stable)
Tamil Nadu Industrial Investment Corporation	Term Loan	Not Available	12.95%	Not Available	10.00	ACUITE BBB/Negative (Reaffirmed; Outlook revised from Stable)
IDFC First Bank	Term Loan	Not Available	12.50%	Mar-23	4.17	ACUITE BBB/Negative (Reaffirmed; Outlook revised from Stable)
IDFC First Bank	Cash Credit	Not Applicable	14.00%	Not Applicable	2.00	ACUITE BBB/Negative (Reaffirmed; Outlook revised from Stable)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	198.47	ACUITE BBB/Negative (Reaffirmed; Outlook revised from Stable)

**Non-Convertible Debentures**

Lender name	ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Not Applicable	INE786V07100	Non-Convertible Debentures	18.12.2020	14.50%	20.12.2021	15.00	ACUITE BBB (Withdrawn)
Not Applicable	Not Applicable	Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB (Withdrawn)

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### About Acuité Ratings & Research:

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