

Press Release

S.M.I.L.E Microfinance Limited

November 10, 2022



Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	250.00	ACUITE BBB Reaffirmed & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	250.00	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 250 Cr.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). This rating is being withdrawn on account of the request received by the client along with No Objection Certificate received from the bank and in accordance with Acuite's policy on withdrawal of ratings.

Rationale for the rating

The rating factors that the company has sold the microfinance business to Northern ARC Capital Ltd by way of slump Sale Transactions and has exited the business. All microfinance business related assets and liabilities have been sold to Northern ARC Capital Ltd. The deal was closed on April 12, 2022.

About the company

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S.M.I.L.E. Microfinance Limited (SMFL) is a Tamil Nadu based Systemically Important Micro Finance Institution. Incorporated on 21st 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 was 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 were spread across 6 States and 1 Union Territory, namely, Tamil Nadu, Kerala, Chhattisgarh, Karnataka, Jharkhand, Madhya Pradesh, and Puducherry. It had a network of 144 branches across 49 Districts as of March 31, 2022.

Analytical Approach

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

Key Rating Drivers

Strength

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 144 branches across 49 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.

Adequate Capital adequacy:

SMFL's networth stood at Rs. 115.14 Cr. as on March 31, 2022 (Provisional) and reported adequate capital adequacy ratio (CAR) of 37.34 percent as on March 31, 2022, as against 27.61 percent as on March 31, 2021. Improvement in capitalization levels has been partially on account of decline in AUM during FY22. AUM has reduced to Rs 326.86 Crs as on March 31, 2022 as against Rs 475.80 Crs as on March 31, 2021.

Weakness

Moderate Asset Quality and Pressure on Profitability metrics.

The rating also factors higher than anticipated deterioration in asset quality metrics with GNPA weakening to 17.07 percent as on March 31, 2022. SMFL reported sharp increase in delinquencies across different time buckets and the on-time portfolio has declined from 81.0 percent as on March 31, 2021, to 79.40 percent as on March 31, 2022. Acuite takes cognizance of asset quality stress in the MFI sector due to pandemic, some MFIs have been more affected due to intrinsic factors like geographic presence, customer profile etc. This in turn has impacted the financial performance; the company reported losses of Rs.21.40 crore during FY22 (Provisional).

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. Since financial assistance to economic challenged borrowers is a sensitive issue, from government standpoint the regulatory dispensation in respect of the policies becomes relevant. Any changes in the regulatory environment impeding the ability of entities to enforce collections, etc will have an impact on its operational performance. SMFL's portfolio is concentrated in the State of Tamil Nadu constituting more than 80.77 percent of AUM as on March 31, 2022. Besides the regulatory risks, the inherent nature of the business renders the portfolios vulnerable to event risks such as natural calamities in operations.

Rating Sensitivity

None

Material Covenants

None

Liquidity Position

SMILE has sold the microfinance business undertaking to Northern ARC Capital Ltd by way of slump sale transaction and the deal was closed on 12th April 2022. SMILE is not continuing in Microfinance business after 12th April 2022. SMILE Microfinance Limited has reported losses amounting to Rs 21.40 Crs as on March 31, 2022 (Provisional).

Outlook:

None

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22(Provisional)	FY21 (Actuals)
Total Assets	Rs Cr	291.75	526.32
Total Income*	Rs Cr	32.08	57.84
PAT	Rs Cr	-21.40	-8.88
Net worth	Rs Cr	115.14	136.11
ROAA	Rs Cr	-5.23	-1.47
RoNW	Rs Cr	-17.03	-6.33
Debt/Equity	%	1.57	2.85
Gross NPA	%	17.07	9.48
Net NPA	%	1.89	2.54

*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

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
13 Aug 2021	Proposed Bank Facility	Long Term	198.47	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	9.99	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	3.59	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BBB Negative (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	35.00	ACUITE BBB (Withdrawn)
	Term Loan	Long Term	7.73	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	4.17	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	5.34	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	3.71	ACUITE BBB Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	15.00	ACUITE BBB (Withdrawn)
23 Mar 2021	Cash Credit	Long Term	2.00	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	9.88	ACUITE BBB Stable (Downgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	5.74	ACUITE BBB Stable (Downgraded from ACUITE BBB+ Stable)
	Proposed Bank Facility	Long Term	182.64	ACUITE BBB Stable (Downgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	5.00	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	7.08	ACUITE BBB Stable (Downgraded from ACUITE BBB+ Stable)
	Proposed Non Convertible Debentures	Long Term	35.00	ACUITE BBB Stable (Downgraded from ACUITE BBB+ Stable)
	Non Convertible Debentures	Long Term	15.00	ACUITE BBB Stable (Downgraded from ACUITE BBB+ Stable)
11 Sep 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's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
IDFC First Bank Limited	Not Applicable	Cash Credit	Mar 31 2021 12:00AM	14.00	Not Applicable	Simple	2.00	ACUITE BBB Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	198.47	ACUITE BBB Reaffirmed & Withdrawn
Union Bank of India	Not Applicable	Term Loan	Dec 31 2018 12:00AM	11.30	Sep 30 2022 12:00AM	Simple	3.71	ACUITE BBB Reaffirmed & Withdrawn
Tamil Nadu Industrial Investment Corporation Limited (TIIC)	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.00	ACUITE BBB Reaffirmed & Withdrawn
IDFC First Bank Limited	Not Applicable	Term Loan	Feb 27 2020 12:00AM	13.75	Jul 1 2022 12:00AM	Simple	5.00	ACUITE BBB Reaffirmed & Withdrawn
Fincare Small Finance Bank Ltd.	Not Applicable	Term Loan	Mar 23 2020 12:00AM	13.50	Mar 23 2022 12:00AM	Simple	3.59	ACUITE BBB Reaffirmed & Withdrawn
Bank of Baroda	Not Applicable	Term Loan	Feb 13 2021 12:00AM	11.90	Jan 1 2023 12:00AM	Simple	7.73	ACUITE BBB Reaffirmed & Withdrawn
Jana Small Finance Bank Ltd.	Not Applicable	Term Loan	Oct 31 2019 12:00AM	14.00	Feb 21 2022 12:00AM	Simple	5.34	ACUITE BBB Reaffirmed & Withdrawn
Union Bank of India	Not Applicable	Term Loan	Mar 30 2020 12:00AM	11.60	Jun 1 2023 12:00AM	Simple	9.99	ACUITE BBB Reaffirmed & Withdrawn
IDFC First Bank Limited	Not Applicable	Term Loan	Mar 20 2021 12:00AM	12.50	Mar 31 2023 12:00AM	Simple	4.17	ACUITE BBB Reaffirmed & Withdrawn

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294041 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Kunda Aditii Senior Analyst-Rating Operations Tel: 022-49294065 aditii.kunda@acuite.in	

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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