November 30, 2022

Share Microfin Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based TL	130.11	130.11	[ICRA]D; reaffirmed
Total	**130.11**	**130.11**	

Instrument details are provided in Annexure I

Rationale

The rating reaffirmation factors in the continued delays in debt servicing by Share Microfin Limited (SML). However, ICRA notes that SML had successfully implemented the Demerger Scheme of Arrangement approved by the Hon'ble High Court of Andhra Pradesh & Telangana on April 18, 2017, and the lenders executed a Payment Agreement granting time to the company to mobilise resources and repay the existing lender dues in full. Post the implementation of the Scheme, SML has been operating in states other than Andhra Pradesh (AP) and Telangana (non-AP). Though it has been paying interest and making partial repayments to lenders regularly, the overall debt remains in default.

Given the non-availability of additional funding and continued repayments to lenders, SML has been trying to maintain its assets under management (AUM) from internal accruals, which are also being used for the existing debt repayments. As on September 30, 2022, its AUM declined to Rs. 578 crore from Rs. 615 crore as on March 31, 2021. This was due to limited disbursements as a result of the Covid-19 pandemic and increased repayments to existing lenders. The company repaid Rs. 304 crore during April 2020 - September 2022 and its outstanding liabilities (including OCCRPS) stood at Rs. 408 crore as on September 30, 2022.

ICRA notes that the asset quality indicators, which had deteriorated post the second wave of the pandemic, improved towards the end of FY2022 and further in H1 FY2023. The company reported 0+ days past due (dpd) and 90+dpd of 0.61% and 0.55%, respectively, as on September 30, 2022 compared to 1.83% and 0.71%, respectively, as on September 30, 2021. ICRA also notes that SML's operations are geographically diversified with the company having a presence in 18 states across 295 districts with no state accounting for more than 15% of the total exposure as of September 2022. The company's capital to risk-weight adjusted ratio (CRAR) stood at 33% as on September 30, 2022. SML's ability to secure capital and funding for the repayment of its debt obligations and business expansion as well as its ability to manage the impact of the pandemic on the portfolio quality will be important for its rating.

Key rating drivers and their description

Credit strengths

Geographically diversified presence – ICRA notes that SML's operations are geographically diversified with the company having a presence in 18 states across 295 districts with no state accounting for more than 15% of the exposures as on September 30, 2022. The top 3 and top 5 states accounted for 39% and 59%, respectively, of its portfolio as on September 30, 2022 (42% and 61%, respectively, as on March 31, 2022). As on September 30, 2022, SML had 721 branches with portfolio per branch of ~Rs. 1.0 crore vis-à-vis the industry average of Rs. 3-4 crore.

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 its ability to make debt repayments. SML was admitted to corporate debt restructuring (CDR) in September 2011 and has been making payments since then according to the restructured guidelines. ICRA notes that the company has successfully implemented the Scheme of Arrangement approved by the Hon'ble High Court of Hyderabad on April 18, 2017. Subsequent to the said Scheme of Arrangement, SML's lenders granted time for repayments by executing a Payment Agreement in October 2020. As per the lender discussions in the Joint lender meetings, the company continues to service the existing debt while exploring options to repay the entire debt and liabilities. Due to the pandemic, the process for raising external funding to move forward with the company's growth plans got delayed.

Ability to secure funds from diversified funding sources at competitive rates – SML's borrowings, as on March 31, 2022, comprised CDR debt and priority debt from 23 lenders. ICRA notes that the company has deferred its earlier planned funding structure. SML is currently in discussions with certain existing lenders to raise funds bilaterally to grow its book and utilise the collection proceeds to repay the existing debt of approximately Rs. 408 crore (including accrued interest and payables to optionally convertible cumulative redeemable preference share (OCCRPS) holders) as on September 30, 2022.

Ability to improve profitability – SML's profitability has been impacted by the significant under-utilisation of capacity, which was, in turn, constrained by the lack of funding and reduction in loan disbursements. The cost-to-income ratio and operating expenses, as a percentage of average total assets, remained high at 96% and 15%, respectively, in H1 FY2023 (96% and 15%, respectively, in FY2022). Though the net profitability is partially supported by the recovery on written-off loans and write-back of provisions, the overall profitability indicators remained subdued with a return on average assets of 0.10% and a return on average net worth of 0.40% in H1 FY2023. SML's ability to improve its operating efficiency and raise low-cost funding would be crucial for incremental profitability.

Marginal borrower profile – The company faces 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 Covid-19.

Liquidity position: Poor

SML's liquidity is poor on account of the continued delay in the servicing of debt repayments. Its portfolio has declined over the last three years due to the lack of fresh funding.

Rating sensitivities

Positive factors – ICRA could upgrade SML's rating if it repays its debt obligations regularly and in a timely manner.

Negative factors – Not applicable

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Share Microfin Limited is a non-deposit accepting non-banking financial company-microfinance institution (ND-NBFC-MFI) incorporated as a public limited company in 1999. It provides 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 35 years of experience in the field of financial inclusion and sustainable and development financing.

SML is one of the AP-based entities, which were impacted by the Andhra Pradesh Microfinance Institutions Ordinance 2010. As a result, its debt repayment abilities were impacted, and it was admitted into CDR. In April 2017, through a Scheme of

Arrangement approved by the Hon'ble High Court of Hyderabad, the company has demerged its AP portfolio into another AP-based MFI while merging the non-AP portfolio of that MFI. Subsequent to the said Scheme of Arrangement, SML is in discussions with its lenders to repay all the debt and get fresh limits, post repayment.

Key financial indicators

Particulars	Mar-31-20	Mar-31-21	Mar-31-22	Sep-30-22
Accounting	IGAAP	IGAAP	IGAAP	IGAAP
Net interest income	129.0	109.0	100.2	49.8
Profit after tax (PAT)	15.6	2.5	3.2	0.4
Net worth	201.6	201.5	202.0	201.1
Total assets	837.9	701.9	664.8	665.3
Net interest margin/AMA	15.4%	14.2%	14.7%	15.0%
Return on average managed assets	1.9%	0.3%	0.5%	0.1%
Return on average net worth	8.2%	1.2%	1.6%	0.4%
Net NPA/Net worth	0.3%	4.8%	0.1%	0.1%
Gross NPA/Gross advances	1.8%	3.1%	0.6%	0.5%
Net NPA/Net advances	0.1%	1.6%	0.0%	0.0%
Gross AUM	754	615	577	578
Net worth/AUM	26.7%	32.7%	35.0%	34.8%

Source: Company, ICRA Research; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Nov-30-2022	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Sep-28-2021	Jun-29-2020	May-27-2019
1	Long term-NCD	-	-	-	-	Withdrawn	[ICRA]D
2	Long term – Fund-based TL	130.11	130.11	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based TL	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: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term – Fund-based TL**	2007-2009	12-13%	Dec-31-20	130.11	[ICRA]D

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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