May 28, 2024 (Revised)

Share Microfin Limited: [ICRA]BBB-(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	200.00	[ICRA]BBB-(Stable); assigned
Total	**200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating factors in Share Microfin Limited's (SML) established branch network, geographically diversified presence and adequate capital profile. SML was impacted by the Andhra Pradesh Micro Finance Institutions (Regulation of Moneylending) Act, 2010, which led the entity towards corporate debt restructuring (CDR) in September 2011. In March 2023, SML entered into a payment agreement with its erstwhile lenders and repaid all its outstanding debt, including CDR debt, optionally convertible cumulative redeemable preference shares (OCCRPS) and priority debt, totalling Rs. 409.4 crore. Owing to these legacy factors, the company had limited funding avenues, which impacted its growth in the last fiscal and the entity's profitability remained subdued due to low operating efficiencies. However, asset quality performance remained under control over the last 3-4 years. Going forward, ICRA expects the company to scale up and improve its operating efficiencies and profitability. Nevertheless, it is crucial for SML to secure adequate borrowings at more competitive rates to meet the envisaged AUM growth over the near-to-medium term.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company's performance will benefit from the experienced management team and its established branch infrastructure and employee base, which would drive the envisaged AUM growth.

Key rating drivers and their description

Credit strengths

Geographically diversified presence with robust branch infrastructure– ICRA notes that SML's operations are geographically diversified with the company having a presence in 18 states across 295 districts and 720 branches. Over the last two years, Gujarat has emerged as the state with the largest exposure (25% of AUM) for SML on the back of a pick-up in disbursements from one of its BC relationships; however, excluding this, none of the other states accounted for more than 15% of the total exposures as of March 2024. The top 3 and top 5 states accounted for 46% and 64%, respectively, of its AUM as of March 2024 (42% and 61%, respectively, as on March 31, 2022). As of March 2024, SML had an AUM of ~Rs. 0.8 crore per branch, compared to the industry average of Rs. 3-5 crore. Incrementally, as SML moves back to the envisaged AUM growth trajectory, ICRA expects the company to leverage its diversified operational infrastructure and improve its operating efficiencies.

Asset quality remained under control – SML's asset quality remained under control in the last 3-4 years, with modest write-offs. Gross NPAs stood at 1.4% as of March 2024 (0.9% as of March 2023), despite a decline in the own book portfolio. The 90+ days past due (dpd) (on overall AUM) stood at 0.9% in March 2024 (0.3% in March 2023). SML's outstanding restructured portfolio has been reduced to ~Rs. 16 crore as of March 2024 from ~Rs. 145 crore (~24% of AUM) as of September 2021. In the near term, asset quality performance is expected to remain under control even as the company resumes scaling up its portfolio, going forward.

Adequate capitalisation profile for the current scale of operations – SML has an adequate capitalisation profile, characterised by a reported net worth of Rs. 206 crore and managed gearing[1] of 2.2 times (reported gearing of 0.5 times) as of March 2024. The leverage has been low in recent years due to SML's declining AUM and constraints in obtaining incremental funding. However, with the repayment to the creditors as per the payment agreement in March 2023, the company is in the process of scaling up and has secured incremental funding from six lenders (excluding DA/PTC) and via business correspondent (BC) arrangement with three banks/financial institutions. Going forward, the company expects the portfolio to expand and secure commensurate capital in the near-to-medium term to maintain its leverage under control.

Credit challenges

Subdued profitability profile – SML's profitability has been impacted by the under-utilisation of its operational infrastructure, 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 managed assets, remained high at 98.6% and 11.2%, respectively in FY2024 (100.7% and 15.4% respectively in FY2023). Although the net profitability is partially supported by the recovery on written-off loans (Rs. 1.0 crore in FY2024 and Rs. 1.3 crore in FY2023), the overall profitability indicators remained subdued with a return on average assets of 0.3% and a return on average net worth of 1.0% in FY2024 (0.6% and 2.1% in FY2023). SML's ability to improve operating efficiency would be crucial for incremental profitability.

Constrained funding profile – In March 2023, SML entered into a payment agreement with its 23 lenders and repaid all its outstanding debt, including CDR debt, OCCRPS and priority debt, totalling Rs. 409.4 crore. The repayment was completed through the proceeds from a direct assignment of loan transactions (net purchase consideration of ~Rs. 367 crore). Since then, the company maintained the timely servicing of all its debt servicing obligations.

In FY2024, the company largely relied on off-balance sheet funding avenues, including BC relationships and securitisation (DAs and PTCs), as on-balance sheet funding remained constrained due to legacy reasons. The incremental on-b/s and off-b/s funding (excluding BC) received during the year stood at Rs. 100 crore and Rs. 84 crore, respectively. Further, the on-b/s funding was largely availed from NBFCs with a significantly higher cost of funding. Going forward, SML's ability to diversify its borrowings and secure funding at more competitive rates would be critical to achieve AUM growth and improve profitability.

Marginal borrower profile; ability to manage political, communal and other risks in the microfinance sector – The rating factors in the risks associated with the marginal borrower profile, unsecured lending, risks from multiple lending and overleveraging, as well as business and political risks, along with challenges associated with rapid growth and attrition. While credit bureau checks and the regulatory ceiling on borrower repayment capacity reduce concerns on overleveraging, issues related to MFI's underwriting practices, borrowers' income and leverage assessment, multiple identity proofs and gaps in the information available with the bureaus remain.

The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations and financial position. However, a geographically diversified portfolio would mitigate these risks to some extent as these issues are largely region-specific, at least thus far. SML's ability to onboard borrowers with a good credit history, recruit and retain employees and further improve its operating efficiencies would be relevant for managing the high growth rates.

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[1] *Managed gearing = (on-book debt + off-book portfolio) / net worth*

Liquidity position: Adequate

As of March 2024, SML did not have any negative cumulative mismatches across any of the buckets. It was carrying unencumbered on-book liquidity of ~Rs. 11 crore against scheduled debt obligations of ~Rs. 15 crore until June 2024. SML's collections continue to remain healthy, with current collections of ~98-100% (average of 99.4%) in FY2024. Going forward, its ability to raise fresh funds for loan disbursals in a timely manner will be important from a liquidity perspective.

Rating sensitivities

Positive factors – Increase in scale and improvement in operating efficiencies resulting in better profitability performance.

Negative factors – Deterioration in the asset quality impacting profitability, and increase in the managed gearing beyond 7 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of SML

About the company

SML is a non-deposit accepting non-banking financial company-microfinance institution (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 as well as sustainable and development financing.

SML was impacted by Andhra Pradesh Microfinance Institutions Ordinance 2010, as it had sizeable exposure in the state. SML was admitted to CDR in September 2011 and has since been making payments accordingly. Subsequently, a Scheme of Arrangement, approved by the Hon'ble High Court of Hyderabad, was implemented, by SML being vested with Non-AP (Andhra Pradesh) & TS (Telangana) business, and the AP and TS business being vested with another entity Asmitha Microfin Limited (Asmitha). Subsequently, the company through the proceeds from a DA transaction, paid all the debt obligations (debt principal, interest, OCCRPS, OCCRPS redemption premium) to all the lenders on March 29, 2023, as laid down by the payment agreement entered into with these lenders.

SML's operations are geographically diversified with the company having a presence in 18 states across 295 districts and 720 branches. Its AUM stood at Rs. 550.0 crore as of March 2024 (Rs. 628.5 crore as of March 2023). The company has reported a net profit of Rs. 2.1 crore on a managed asset base of Rs. 675.9 crore in FY2024 compared to Rs. 4.3 crore and Rs. 722.0 crore, respectively, in FY2023.

Key financial indicators (audited)

Share Microfin Limited	FY2022	FY2023	FY2024
	IGAAP	IGAAP	IGAAP
Total income	140.7	163.0	87.7
PAT	3.2	4.3	2.1
Total managed assets	664.8	722.0	675.9
Return on managed assets	0.5%	0.6%	0.3%
Managed gearing	2.0	2.2	2.2
Gross stage 3	0.6%	0.9%	1.4%
CRAR	33.5%	78.2%	69.4%

Source: Company, ICRA Research; Amount in Rs. crore; Managed gearing = (on-book debt + off-book portfolio) / net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 28, 2024	Apr 28, 2023	Nov 30, 2022	Sep 28, 2021
1	**Fund-based – Term loan**	Long term	200.0	0.0	**[ICRA]BBB- (Stable)**	**[ICRA]D; Withdrawn**	**[ICRA]D**	**[ICRA]D**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA*	**Long term Fund Based Term Loan**	NA	NA	NA	200.00	[ICRA]BBB-(Stable)

*Source: Company; *Proposed limit*

Please click here to view details of lender-wise facilities rated by ICRA

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

Corrigendum

The rating rationale document dated May 28, 2024 has been corrected with the revision as detailed below:

1) Changes made in Page-3 (About the company).

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