

Rating Rationale

October 03, 2024 | Mumbai

Share India Fincap Private Limited

'CRISIL A/Stable' assigned to Bank Debt and Non Convertible Debentures

Rating Action

Total Bank Loan Facilities Rated	Rs.50 Crore
Long Term Rating	CRISIL A/Stable (Assigned)

Rs.50 Crore Non Convertible Debentures	CRISIL A/Stable (Assigned)
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Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL A/Stable**' rating to the bank facilities and non-convertible debentures (NCDs) of Share India Fincap Private Limited (SIFPL; part of the Share India group). The company is a wholly owned subsidiary of Share India Securities Ltd (Share India; rated 'CRISIL A+/Stable/CRISIL A1+'), which is the flagship entity of the Share India group.

The ratings factor in the strategic importance of SIFPL to, and expectation of strong financial and managerial support from, Share India, both on an ongoing basis and in the event of distress, the adequate capitalisation and comfortable earnings profile. These ratings strengths are partially offset by the small scale of operations, modest asset quality, lack of vintage, marked by geographic concentration, and exposure to potential risks from legislative and regulatory changes in the microfinance sector.

SIFPL is a non-banking financial company (NBFC), registered with the Reserve Bank of India. It mainly offers micro loans for income generation to women entrepreneur and business loans. The company is a wholly owned subsidiary of Share India and has been promoted by Mr Rajesh Gupta, Mr Praveen Gupta and Mr Yash Pal Gupta. Currently, Mr Rajesh Gupta (Director) and Ms Aastha Gupta (Chief Executive Officer) manages the day-to-day operations.

The company started operations in 2019 and had 71 branches as of June 30, 2024. Assets under management (AUM) as on June 30, 2024, stood at Rs 209 crore (three-year compound annual growth rate of around 95%). Out of the overall portfolio, 72% has been towards micro loans and the balance 29%, towards other wholesale loans.

Portfolio asset quality has weakened over the last two quarters, amid challenges such as loan waiver schemes and adverse climatic conditions. While these issues have been industry-wide, the Share India group has seen greater impact as the

portfolio is concentrated in few northern states, which are more affected by these issues. Month-on-month collection efficiency reduced to 88% during the first quarter of fiscal 2025. In terms of 90+, it has increased to 7% as on June 30, 2024, as against 3% as on March 31, 2024 (0.3% as on March 31, 2023).

Analytical Approach

To arrive at the ratings, CRISIL Ratings has assessed the standalone financial and business risk profiles of SIFPL. The ratings also factor in the company's strategic importance to, and expectation of strong financial and managerial support from, the Share India group.

Key Rating Drivers & Detailed Description

Strengths:

Strategic importance to, and expectation of strong managerial and financial support from the parent:

The ratings factors in expectation of strong support from Share India, both on an ongoing basis and in the event of any exigency. SIFPL is the only NBFC arm of the Share India Group. As a part of its long-term strategy of providing end-to-end financial services under a single roof, the group has forayed into the financing space via SIFPL. Given the full ownership and shared name and common branding, CRISIL Ratings believes Share India has a strong moral obligation to support SIFPL. Further, founders of the group, Mr Rajesh Gupta, Mr Praveen Gupta and Mr Yash Pal Gupta are also on the board of SIFPL. Also, the parent has financial flexibility to infuse capital into Share India Fincap to support growth.

Adequate capital position

SIFPL is also adequately capitalised in relation to its current and expected scale and nature of operations. As on March 31, 2024, the company has reported networth of Rs 112 crore and gearing of 1.5 times, vis-a-vis Rs 79 crore and 0.7 time, respectively, as on March 31, 2023. The promoters have infused capital and have the ability to infuse equity as and when required. It expects to maintain a steady-state gearing of around 3 times throughout. Any increase in gearing beyond the committed threshold will be a key rating sensitivity factor.

Comfortable earning profile

The company has reported a return on managed assets (ROMA) of 8% (annualised) for the first quarter of fiscal 2025 (15.8% for fiscal 2024) vis-à-vis 23.2% for fiscal 2023. The earnings profile is supported by higher yields and income from investments. Excluding income from investments, RoMA stood at 8% for fiscal 2024 and 8% for June quarter of Fiscal 2025. For the first quarter of fiscal 2025, the company has not reported significant income from investment and indicated that it will focus on income from the core lending business going forward. Operating expenses (as a percentage of total managed assets) were rangebound at 8-9% over the last three fiscals. Credit cost has increased to 3.2% in fiscal 2024 from 1% in fiscal 2023. Earnings remain susceptible to high credit cost, especially during phases of macroeconomic stress. While the company has a healthy earnings profile, ability to manage its credit cost and sustain its earning profile is a key monitorable.

Weaknesses:

Small scale of operations along with limited vintage, marked by geographic concentration

Scale of operations of Share India has been improving, as reflected in a loan portfolio of around Rs 259 crore and network of 61 branches, as on March 31, 2024 (Rs 127 crore and 42 branches a year before). The states of Uttar Pradesh, Bihar and Punjab together accounted for over 90% of AUM as on June 30, 2024. However, during fiscal 2024, the management has opened new branches in Bihar and Madhya Pradesh. The company is in the process of expanding its operations to different states, such as Odisha and Maharashtra, which is also the reason for elevated operating expenditure. The ability to grow its scale and diversify in other regions/states will be critical to mitigate concentration risk going forward.

Modest asset quality

Portfolio quality has weakened over the last two quarters, amid challenges such as loan waiver schemes and adverse climatic conditions. While these issues have been industry-wide, the Share India group has seen greater impact as the portfolio is concentrated in few northern states, which are more affected by these issues. Month-on-month collection efficiency reduced to 88% during the first quarter of fiscal 2025. In terms of 90+, it has increased to 7% as on June 30,

2024, as against 3% as on March 31, 2024 (0.3% as on March 31, 2023). With the increase in scale of operations, the ability to maintain the current asset quality performance is a key monitorable.

Potential risks from legislative and regulatory changes in the microfinance sector:

The microfinance sector has witnessed various events over the years, including regulatory and legislative challenges that have disrupted operations. Some of these events include the Andhra crisis, demonetisation in 2016, the Covid-19 pandemic and socio-political issues in certain states. These events have adversely affected the sector and elevated the delinquencies and hurting profitability and capitalisation metrics of NBFC-MFIs. These challenges underscore the vulnerability of the microfinance business model to external risks. The pandemic posed a fresh set of challenges, aggravating existing vulnerabilities in the microfinance sector by heightening credit risk and the likelihood of loan default by borrowers. While the sector has navigated these events, it remains susceptible to issues, such as local elections, natural calamities and borrower protests, which may increase delinquencies for a while. Nevertheless, SIFPL was able to manage its portfolio fairly well without any significant impact on recoveries. However, MFIs remain vulnerable to socially sensitive factors and the macroeconomic scenario. Further, the sector is regulated by multiple bodies which, from time to time, have been providing several directives to maintain credit discipline and avoid over-indebtedness for borrowers. Hence, ability to sustain profitable business growth is a key monitorable.

Liquidity: Adequate

As on June 30, 2024, the asset-liability maturity (ALM) profile was comfortable with positive cumulative mismatches in the up to one-year bucket. Liquidity stood at Rs 23 crore (excluding the undrawn term loan) as on June 31, 2024, against debt obligation of Rs xx for the next two months. This represents a liquidity position at a cover of xx times (assuming 75% collection efficiency), considering operating expenses and debt repayments for the next two months through September 2024.

Outlook: Stable

SIFPL will continue to receive strong financial and managerial support from its parent over the medium term, while maintaining adequate capitalisation.

Rating Sensitivity Factors

Upward factors:

- Significant improvement in credit profile of the Share India group (via flagship entity, Share India), translating into an upward revision in rating of SIFPL
- Substantial scale up in operations, along with stable asset quality (90+ dpd) below 2% on a sustained basis

Downward factors:

- Downward revision in the credit rating of, or any change in the support stance of Share India towards, SIFPL
- Weaker asset quality, exerting pressure on profitability
- Increase in gearing to over 5 times

About the Company

SIFPL (erstwhile, Windpipe Finvest Pvt Ltd), was incorporated on December 24, 1996, as an NBFC with the Reserve Bank of India. The company is a wholly owned subsidiary of Share India. It provides various financial services such as women entrepreneurship loans (WEL), small and micro enterprise loans and loans against securities.

SIFPL started operations around the year 2000, by offering vehicle finance. The company is mainly funded via loans from directors and related parties. In 2019, the company started offering unsecured business loans and WEL. The average ticket size is Rs 5 lakh and Rs 40,000, respectively, for these loans. WEL is extended to women in tier-III cities and rural areas. This segment has around 64,000 clients, who are managed by a network of 57 branches across Punjab, Uttar Pradesh, Haryana, Bihar and Madhya Pradesh.

About Share India group

Incorporated in 1994, the Share India group provides a wide array of financial services such as stock broking, commodity broking, mutual fund distribution, currency derivatives broking, portfolio management and research analysis to its retail and institutional clients. It is a registered member of the National Stock Exchange (NSE; both cash and F&O segments) and Bombay Stock exchange (BSE), Multi Commodity Exchange of India Ltd (MCX), National Commodity & Derivatives Exchange Ltd (NCDEX), Indian Commodity Exchange of India Ltd (ICEX), and depository participant of National Securities Depositories Ltd (NSDL) and Central Securities Depositories Ltd (CDSL).

Since 2019, the group has started expanding its business portfolio. Merger with the Total group in 2019 helped expand the business significantly. The group has also diversified its portfolio by entering mutual fund and insurance distribution and lending and merchant banking services. To further scale up and diversify revenue, the group acquired three fintech companies mainly Algo wire Trading Technologies and U trade solutions. With these acquisitions, the group intends to provide financial analytics, advisory and trading platforms to retail clients. Recently in April 2024, the company acquired Silver Leaf Capital Financial Service.

Key Financial Indicators– Share India Fincap Ltd

Particulars March 31	Unit	June 2024	2024	2023	2022
Total assets	Rs crore	239	280	138	220
Total income	Rs crore	19	83	85	50
Profit after tax	Rs crore	5.3	33	41	19
GNPA	%	4.9	1.7	0.9	0
Gearing	Times	1.0	1.5	0.7	4.5
ROA	%	8.2	15.8	23.2	12.9

Key financial indicators – Share India Securities (consolidated)

As On/For the year ended March 31	Unit	FY 24	FY23	FY22	FY21
Total assets	Rs crore	2868	1838	1429	863
Total income	Rs crore	1,483	1,099	871	441
Profit after tax	Rs crore	426	330	202	81
Cost to income	%	63%	61%	61%	70%
Return on network	%	31%	45%	56%	34%
Gearing	Times	0.22	0.19	0.42	0.47

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Non Convertible Debentures [#]	NA	NA	NA	50.00	Simple	CRISIL A/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	50.00	NA	CRISIL A/Stable

#Yet to be issued

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	50.0	CRISIL A/Stable		--		--		--		--	--
Non Convertible Debentures	LT	50.0	CRISIL A/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	50	Not Applicable	CRISIL A/Stable

Criteria Details

Links to related criteria
Rating Criteria for Finance Companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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