

SBM Factors Ltd

December 08, 2022

Rating

Facilities/Instruments	Amount (Mur Million)	Rating ¹	Rating Action
Bank Facility	1,500	CARE MAU A2+ [A Two Plus]	Reaffirmed
Total	1,500		

Rating Rationale

The rating assigned to the bank facility of SBM Factors Ltd ("SBMF") continues to derive strength from the long & satisfactory track record of its resourceful promoters, SBM Holdings Ltd ("SBM Group") which is also the sole shareholder of the SBM Bank (Mauritius) Ltd ("The Bank"), continuous support from the Bank, maintenance of satisfactory regulatory ratios, history of no default from clients and credit insurance cover provided by Credit Guarantee Insurance Co. Ltd ("CGI").

The rating is however constrained by a stagnant asset under management over the past three years, highly concentrated portfolio of debtors, delayed repayment from the largest debtors, non-recovery of major bills factored and high level of gearing.

Rating Sensitivities:

Positive factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Successful recovery of bills factored
- Ability to factor additional bills and grow assets size while maintaining sound asset quality
- Further strengthening of regulatory ratios from current levels

Negative Factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Non-recovery or continued delay in recovery of proceeds from bills factored
- Reduction in asset size
- Default from major debtors
- Increasing gearing from current levels
- Significant dip in regulatory ratios
- Non-payment of claims by CGI on default by the clients

BACKGROUND

SBM Factors Ltd ("SBMF") was incorporated in August 2016 as a wholly owned subsidiary of SBM (NBFC) Holdings Ltd, which in turn is a 100% subsidiary of SBM Holdings Ltd (a public limited company listed on the Stock Exchange of Mauritius). SBM Holdings Ltd is the holding company of SBM Bank (Mauritius) Ltd.

¹Complete definitions of the ratings assigned are available at www.careratingsafrica.com.

CARE Ratings (Africa) Private Limited

(Subsidiary of CARE Ratings Ltd.)

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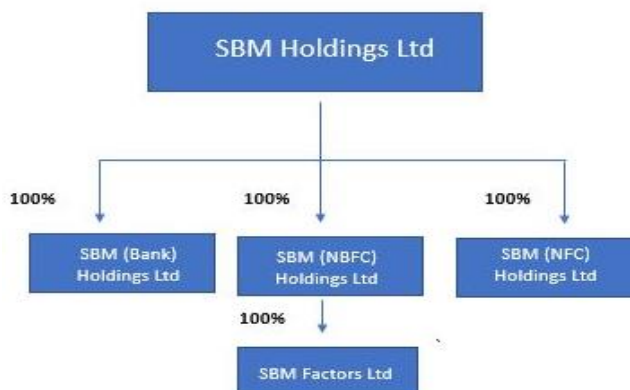
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SBMF started its operations in November 2017 as the third Factoring service provider in the local market offering mainly non-recourse factoring solutions to its clients. SBMF is licensed and regulated by the FSC of Mauritius as a factoring service provider.

Since 2019, SBM Factors Ltd is a member of the Factors Chain International (FCI), a global network of factoring firms. FCI is the Global Representative Body for Factoring and Financing of Open Account, both for Domestic and International Trade Receivables. International factoring is based on the idea of selling a business's outstanding receivables from a buyer (based in an international market) to the Factor (based in domestic market). FCI provides a bridge for Export and Import factor when the seller and buyer are in different countries. Thus, reducing the risk for the exporter while offering foreign customers competitive open account terms and giving the opportunity to importers to make purchases without having to incur additional administrative burden and costs, and orders can be placed swiftly.

SBMF purchases invoices from clients and avails credit insurance for such Invoices from Credit Guarantee Insurance Co. Ltd ("CGI"), which is the first specialist credit insurer in Mauritius. SBMF contracts insurance cover from CGI for all credit risk coverage offered to clients.

For FY21, SBMF factors made a profit of tax of MUR 19 million (FY21: MUR 45 million). The shareholding structure of SBMF is as illustrated:



Factoring & Credit Insurance - Since 2017, SBMF provides factoring solutions. It purchases invoices from clients (@ 90% of the Invoice value) and avails credit insurance for such invoices.

There are two main types of factoring - recourse and non-recourse.

Recourse factoring is the most common in which the client must buy back any invoice that the factoring company is unable to collect payment on. Clients are ultimately responsible for any non-payment.

Non-recourse factoring implies the factoring company bears the entire risk of non-payment by the customers. SBMF offers mainly non-recourse factoring solutions to its clients.

The procedure followed by SBMF for providing factoring services are as follows:

- Step 1:** Client sends its invoices raised to its customers and other relevant documents to SBM Factors;
- Step 2:** SBM Factors, after proper scrutiny of the documents provided, buys the invoices and pays the client up to 90% of its value within 24 hours and keeps the balance (10%) in reserve account;
- Step 3:** SBM Factors takes the insurance against the invoices paid;
- Step 4:** SBM Factors collects payments from the customers on due dates;
- Step 5:** SBM Factors releases reserve amount less factoring charges.

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A summary of the financial performance of SBM Factors over the past four years is provided below:

Year ended/ as at 31 December	FY18	FY19	FY20	FY21
	MUR million			
Total Income	5	75	114	98
PAT	(8)	32	45	19
Factoring receivables	139	1,221	1,255	1,290
Total debt	117	1,020	1,032	1,023
Tangible networth	6	99	103	110
Ratios				
PAT margin (%)	-	43.17	39.96	19.47
NIM (%)	1.99	2.49	3.76	3.65
Interest spread (%)	5.45	3.90	3.31	3.09
RONW (%)	-	61.73	44.94	17.90
ROCE (%)	-	8.98	7.20	4.47
Interest Coverage (Times)	-	2.74	2.67	1.70
Overall gearing (Times)	20.22	10.35	9.98	9.30

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Details of Rated Instruments

Facility	Bank	Amount (MUR million)
Bank Facility	SBM Bank (Mauritius) Ltd	1,500

Disclaimer

CARE Ratings (Africa) Private Limited ("CRAF")'s ratings are opinions on the likelihood of timely payment of the obligations under the rated facilities and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRAF's ratings do not convey suitability or price for the investor. CRAF's ratings do not constitute an audit on the rated entity. CRAF has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CRAF does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRAF have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CRAF may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CRAF is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CRAF is not responsible for any errors and states that it has no financial liability whatsoever to the users of CRAF's rating. CRAF's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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Annexure I
**Rating Symbols
Short term Instruments**

Symbols	Rating Definition
CARE MAU A1	Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry lowest credit risk.
CARE MAU A2	Instruments with this rating are considered to have strong degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry low credit risk.
CARE MAU A3	Instruments with this rating are considered to have moderate degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry higher credit risk as compared to instruments rated in the two higher categories.
CARE MAU A4	Instruments with this rating are considered to have minimal degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry very high credit risk and are susceptible to default.
CARE MAU D	Instruments with this rating are in default or expected to be in default on maturity.

Modifier {"+" (plus)} can be used with the rating symbols for the categories CARE MAU A1 to CARE MAU A4. The modifier reflects the comparative standing within the category.

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About CARE Ratings (Africa) Private Limited:

CARE Ratings (Africa) Private Limited (CRAF) is the first credit rating agency to be licensed by the Financial Services Commission of Mauritius in May 2015. It is also recognised by Bank of Mauritius as External Credit Assessment Institution (ECAI) from May 2016. CRAF is also licensed by Capital Markets Authority of Kenya to operate as a Credit Rating Agency in Kenya. CRAF intends to expand across other geographies in Africa with Mauritius as its hub of operations. With an equitable position in the Mauritius capital market, CARE Ratings (Africa) Private Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

CRAF's shareholders are CARE Ratings Limited, African Development Bank, MCB Equity Fund and SBM (NFC) Holdings Limited.

CRAF gets its technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings Limited on an ongoing basis. CARE Ratings Limited, with an established track record of rating companies over almost three decades, follows a robust and transparent rating process that leverages its domain and analytical expertise backed by the methodologies congruent with the international best practices.

CRAF's Rating Committee consist of full-time members comprising of Senior Rating officials from CARE Ratings Limited and a panel of experienced professionals from Mauritius and African Development Bank.

CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.

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