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 holding company of SBM Bank (Mauritius) Ltd.

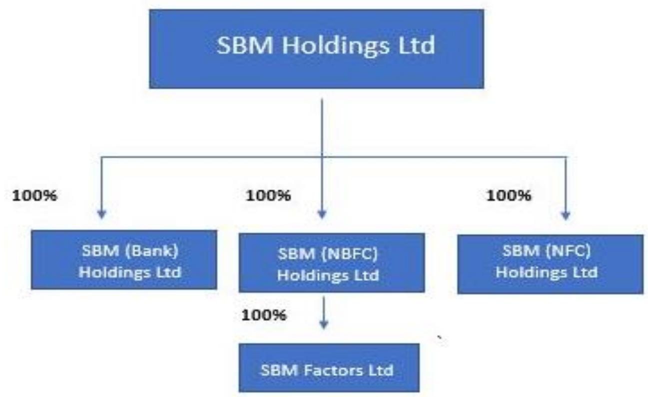
[1]Complete definitions of the ratings assigned are available at www.careratingsafrica.com.

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.

Strong track record of SBM Group

SBM Group has a well-established presence in Mauritius and regional markets such as India, Madagascar, Kenya and the Seychelles.

A summary of the consolidated financials of SBM Holdings Limited is given below:

Period ended/ as on 31 December	FY18	FY19	FY20	FY21	H1FY22
	MUR million				
Total Income	14,312	15,438	16,732	17,874	9,955
Interest	3,224	4,319	4,060	4,316	2,427
PAT	1,346	17	1,021	1,739	1,453
Gross Cash Accruals (GCA)	2,173	1,107	2,070	2,727	1,956
Tangible networth	20,955	21,819	22,900	23,328	23,047
Cash and Cash Equivalents (incl. central bank balances.)	25,630	28,861	32,868	61,282	26,691
Advances	110,690	116,418	123,369	131,232	145,440
Investments	77,347	100,290	121,053	153,426	162,147
Total Assets		258,118	288,040	357,667	362,253
Deposits	170,101	200,305	228,266	301,350	302,627
Other borrowings	11,965	13,373	15,017	9,512	22,579
Key Ratios					
Overall gearing ratio (times)	8.69	9.79	10.62	13.33	14.11
Gross Non-Performing Loan (%)	13.6	11.7	13.8	11.4	10.7
Liquidity coverage ratio (%)	154.1%	154.6%	143.6%	175.3%	-
Tier 1 CAR (%)	16.2	14.66	13.91	14.31	12.90
CAR (%)	24.6	22.19	20.68	21.39	19.30

SBMH is listed on the official market of the Stock Exchange of Mauritius and at 30 September 2022, the Bank had a market capitalization of MUR 13,364 million.

Satisfactory regulatory capital requirement

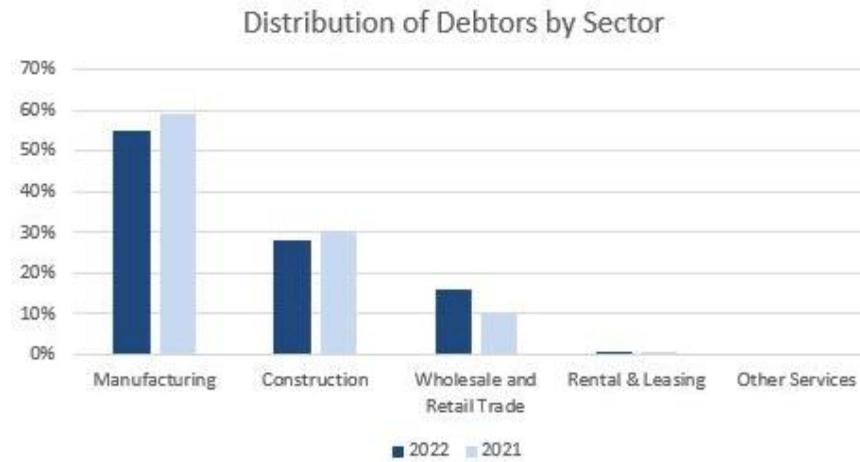
Factoring businesses are required to maintain at all times a minimum stated unimpaired capital which is the higher of MUR 5 million or 5% of their total liabilities. This is done to ensure that the Companies are able to operate as a going concern.

At 31 December 2021, SBMF had maintained minimum capital in excess of the regulatory requirement as shown below:

Particulars	FY18	FY19	FY20	FY21
	MUR million			
Total Liabilities (A)	134	1,149	1,153	1,181
Minimum statutory requirement (higher of)				
- Minimum capital	5	5	5	5
- 5% of Total liabilities (5% of A)	7	57	58	59
Capital maintained by SBMF	**8**	**100**	**105**	**114**

Concentrated Client Portfolio

At 30 June 2022, SBMF had at a portfolio consisting of 20 receivables totaling to MUR 1,179 million (MUR 1,395 million at 30 June 2021). The total receivables are highly concentrated across three main sectors as illustrated below:



Impairment

The assets of SBMF consist mainly of trade receivables arising from total invoices factored and the interest accrued on financing of those invoices. These are short term assets which are usually settled within 3 months. Hence, the Company holds trade receivables with the objective of collecting contractual cash flows, representing solely payments of principal and interest and therefore, these are measured at amortised cost.

The Company holds only trade receivables with no financing component as financial assets, and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply expected credit losses (ECL) under IFRS 9 to all its trade receivables.

The company has recognised an allowance for expected credit losses of MUR 10.7 million for FY21. SBMF considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the company may also consider a financial asset to be in default or impaired when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full. Further, the total debtors from this account have been reduced from MUR 421 million as on 30 June 2021 to MUR 292 million as on 31 October 2022.

High Gearing Level and Stable Liquidity Position

At 31 December 2021, SBMF had total debt of MUR 1,023 million (FY20: MUR 1,032 million) resulting in an overall gearing ratio of 9.30 times (FY20: 9.98 times).

The Company has working capital facility of MUR 1,500 million out of which MUR 411 million remained unutilised as at 30 June 2022, providing satisfactory liquidity cushion to the company.

Analysis of CREDIT GUARANTEE INSURANCE CO. LTD.
Background

Credit Guarantee Insurance Co. Ltd ("CGI") was incorporated in Mauritius and started its operations in February 2009 as a public company with limited liability. The Company is licensed and regulated by the Financial Services Commission ("FSC"). Prudence Holding Limited, a Company incorporated as a public company under the Mauritius Companies Act 2001, holds 60% shareholding in Credit Guarantee Insurance Co Ltd while MCB Group Ltd (CARE MAU AAA; Stable) holds the remaining 40% stake in the Company. CGI's core business is to provide credit insurance to domestic suppliers for both local and export markets. CGI provides cover to businesses against non-payment of receivables owed to them by their customers, for goods & services sold on credit terms. CGI also provides Business Information Reports which help the clients to know their customers, develop long-term business viability and staying informed of any changes in their status. CGI currently services more than 100 clients. As 31 December 2021, CGI was insuring around MUR 40 billion worth turnover for its clients and same is projected to increase to MUR 45 billion shortly. The general framework of the credit insurance business is as follows:

CGI's underwriting team carries out the risk assessment for around 5,000 buyers (domestic, regional and international) and issues more than 10,000 credit limits yearly. CGI has in place different level of reinsurance program to protect from any catastrophic losses.

Strong Solvency Position

In Mauritius, the law requires that all General Insurance companies comply with the requirements of the General Insurance Business Solvency Rules and the Mauritian Insurance Act 2005. As per these regulations, a general insurance company should, at all times, maintain a Solvency margin of at least 100% of the minimum capital requirement and the capital requirement ratio shall be at the target level of 150%.

As on 31 December	**FY20**	**FY21**
	MUR million	
Total Capital Available	37	61
Minimum Regulatory Capital	21	24
Capital Adequacy Ratio	176%	255%

The above ratios show that over the last two years, CGI has complied with the regulatory requirement as set out in the General Insurance Business Solvency Rules.

Liquidity Profile
The Asset-Liability (ALM) profile of CGI at 31 December 2021 is given below:

Particulars	On demand	0-2 months	2-6 months	6-12	> 1 yr	Total
ASSETS						
Trade and other receivables	-	30	3	-	-	33
Reinsurance contract	-	-	-	51	-	51
Cash at bank	27	-	-	-	-	27
Available for sale	27	-	-	-	-	27
Placements with financial institutions					20	20
[A]	**54**	**30**	**3**	**51**	**20**	**158**
LIABILITIES						-
Insurance liabilities	-	-	-	73	-	73
Trade and other payables	-	10	-	-	-	10
Amount payable to reinsurers	-	-	-	14	-	14
Lease liability	-	-	-	1	1	1
[B]	**-**	**10**	**-**	**88**	**1**	**99**
GAP [A-B]	**54**	**20**	**2**	**(36)**	**19**	**59**
Cumulative GAP	**54**	**74**	**76**	**40**	**59**	

CGI has a negative mismatch in the 6-12 months bucket, which can be met using on demand assets such as cash at bank and available for sale financial assets.

Risk Underwritten
CGI's core business is to provide credit insurance to domestic suppliers for both local and export markets for periods ranging from around 3-4 months. CGI provides cover to businesses against non-payment of receivables owed to them by business customers for the sale of goods or services on credit terms. CGI also provides Business Information Reports which help the clients to know their customer or prospect's long-term business viability and stay informed of any changes in their status. CGI currently services more than 100 clients and insures around MUR 40 billion worth of turnover for its clients, and this is projected to reach close to MUR 45 billion shortly.

The maximum insured losses as included in the terms of policy and calculated by the statutory Actuary of CGI is given below:

At 31 December	0-15	15-100 million	>100	Total
	MUR million			
2021				
Gross	363	1,564	3,224	5,150
Net (After reinsurance)	109	469	967	1,545
2020				
Gross	158	1,291	3,460	4,909
Net (After reinsurance)	48	387	1,038	1,473
2019				
Gross	300	1,060	3,150	4,510
Net (After reinsurance)	90	318	945	1,353

The principal risk that CGI faces is that the actual claims and benefits payments exceed the carrying amount of the insurance liabilities, which could occur because the frequency and severity of claims and benefits are greater than estimated. To mitigate this risk, CGI issues contracts that transfer the insurance and financial risk to Reinsurers.

Accordingly, for all insurance liabilities accepted, 70% is transferred to a reinsurance company and only 30% is retained in the books of CGI.

Hence, at any given point in time, 70% of the risk underwritten by CGI is always covered through Reinsurance Agreements.

SUMMARY OF FINANCIALS: Credit Guarantee Insurance Co. Ltd

Year ended/ as at 31 December	**FY18**	**FY19**	**FY20**	**FY21**
	MUR million			
Gross Premium Written	**53**	**58**	**78**	**68**
% of NPE	*346*	*390*	*356*	*380*
Net Premium Earned	**15**	**15**	**22**	**18**
Net Claims Incurred	**6**	**20**	**21**	**10**
% of NPE	*37*	*134*	*95*	*53*
Net Commission	**12**	**(12)**	**(18)**	**(17)**
% of NPE	*81*	*81*	*(83)*	*(94)*
Operating expenses related to insurance business	**19**	**15**	**14**	**15**
% of NPE	*123*	*102*	*64*	*83*
Net Underwriting Profit/ (Loss)	**3**	**(8)**	**5**	**10**
% of NPE	*21*	*(56)*	*24*	*58*
Net Investment Income	**1**	**2**	**1**	**7**
% of NPE	*6*	*16*	*16*	*51*
Operating Profit/ (Loss) (A-B)	**4**	**(6)**	**9**	**19**
% of NPE	*28*	*(55)*	*40*	*108*
PAT	**2**	**(9)**	**(0.2)**	**15**
Tangible Networth	**46**	**37**	**38**	**60**
Claims Outstanding	**5**	**62**	**64**	**55**
Investments	**42**	**64**	**46**	**73**
Cash & bank balances	**30**	**18**	**6**	**27**
Total assets	**125**	**148**	**145**	**161**
Ratios				
GPE growth	19.94	9.03	33.85	(12.89)
NPE growth	12.58	-	48.00	(18.27)
GPE/ Tangible net worth	116.05	158.29	207.89	113.99
NPE/Tangible net worth	31.55	40.41	58.29	29.99
Claim/Loss Ratio (Net Claims Incurred/ NPE)	37	134	95	53
Commissions Ratio (Comm/ NPE)	81	(81)	(83)	(94)
Expense Ratio (Net Exp / NPE)	125	102	64	84
Combined Ratio	242.8	155.1	76.4	43.2
Net Earnings ratio	14.89	-	-	86.07
Investment Yield	3.55	4.07	2.57	15.31
RONW	5.13	-	-	31.71
ROTA	5.13	-	-	10.10

Industry Risk

Factoring is a means by which companies, businesses and SMEs, after selling goods & services on credit terms and invoicing the purchaser, will assign the invoice to a Factor and receive payment of up to 80% -90% of the invoice immediately. The Factor will then recover the outstanding invoice amount from the purchaser in exchange for a fee from the seller. This arrangement allows the sellers to generate instant liquidity to fund the company's operations without any disruptions.

Factoring providers in Mauritius are licensed by the Financial Services Commission

In Mauritius, there are 3 Factoring Companies in operation as at end-July 2021, involved in credit financing, 2 of the factoring Companies are subsidiaries/related companies of banking institutions. Factoring provides solutions to SMEs and big corporates to increase working capital, to effectively manage receivables or simply better manage their cash flow and funding requirements. Total factoring volume to GDP (%) in Mauritius was reported at 1.78 % in 2018, according to the World Bank collection of development indicators.

In the wake of the Covid-19 crisis, factoring faces many challenges but also provides a wide array of opportunities. In Mauritius, the authorities took bold and timely economic and financial measures to support companies and industries at large to protect them against the financial impact of COVID-19. Although it is difficult to give a full and final assessment of the impact of this sanitary crisis on the business landscape. It is in this context that some of the factoring companies in Mauritius launched the Special Factoring Scheme in collaboration with The Investment Support Programme. This financial tool turned out to be very effective for many Small and Medium Enterprises (SMEs), regardless of the sector in which they operate, and help in providing liquidity cushion.

The three main Factoring companies in Mauritius are SBM Factors Ltd. MCB Factors and CIM Financial Services Ltd.

Summary of financial performance of SBM Fators

Year ended/ as at 31 December	FY18	FY19	FY20	FY21
	MUR million			
Factoring fees	3	21	9	9
Factoring Interest income	2	52	78	77
Other operating income	-	2	27	12
Total Income	5	75	114	98
Operating expense	7	12	22	36
Interest	1	21	31	30
Provisions	-	-	10	11
PBT	(8)	35	51	21
PAT	(8)	32	45	19
Gross cash accruals	(8)	32	46	20
Dividend			40	10
Factoring receivables	139	1,221	1,255	1,290
Cash & Cash Equivalents	0.2	0.2	0.2	0.2
Total assets	140	1,247	1,258	1,294
Trade payables	14	121	112	142
Total debt	117	1,020	1,032	1,023
Equity share capital	20	80	80	80
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 Income/ Int. earning assets (%)	7.15	5.91	6.28	6.03
Interest expense/ Avg. Borrowed Funds (%)	1.71	2.01	2.97	2.94
Interest spread (%)	5.45	3.90	3.31	3.09
Operating Expenses / Avg. total assets (%)	15.01	2.65	1.76	2.85
RONW (%)	-	61.73	44.94	17.90
ROCE (%)	-	8.98	7.20	4.47
Cost of Capital (%)	1.52	3.30	6.26	3.54
Net Spread (%)	-	5.68	0.95	0.93
Return on total assets (ROTA) (%)	-	2.58	3.67	1.50
Overall gearing (Times)	20.22	10.35	9.98	9.30
Interest Coverage (Times)	-	2.74	2.67	1.70

Details of Rated Instruments

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

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Contact us

Contact
Name : Mr. Saurav Chatterjee
Title : Chief Executive Officer
Phone : + 230 5862 6551
E-mail : saurav.chatterjee@careratingsafrica.com

Analytical contact
Name : Mr. Vidhyasagar Lingesan
Title : Chief Rating Officer
Phone : +230 5273 1406
E-mail : vidhya.sagar@careratingsafrica.com

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