Brief Rating Rationale
CRAF reaffirms CARE MAU A2+ rating to the Bank Facility of Mur 1,500 million of SBM Factors Ltd.

Ratings

Facility/ Instrument	Amount (MUR Million)	Rating	Rating Action
Bank Facility	1,500 (One Thousand Five Hundred Million)	**CARE MAU A2+ [A Two Plus]**	**Reaffirmed**

Rating Rationale

The rating that has been assigned to the bank facilities of Mur 1,500 Million of SBM Factors Ltd ("SBMF"), derives strength from the long & satisfactory track record of its resourceful promoters – SBM group, support from the banking team of SBM to structure deals, moderate financial position & collection efficiency, capital requirement well above the Regulatory norm, moderate asset-liability maturity profile and around 70% of the factoring of invoices being backed by Insurance from Credit Guarantee Insurance Co. Ltd ("CGI") as on June 30, 2021.

The rating is, however, constrained by stagnant asset under management (receivables from the factoring of invoices) in FY20 (Jan-Dec 2020) vis-à-vis FY19, reschedule in collection from debtors of client operating in textile sector, uncertainty related to the collection efficiency in view of the negative impact of the COVID-19 pandemic, risk associated with respect to the delay/non-payment of insurance claims by CGI, high overall gearing, and exposure to the regulatory risk.

Rating Sensitivities:

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

- Ability to maintain asset quality and profitability while increasing asset size.
- Improving asset liability maturity profile.

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

- Deterioration in credit quality of the group and/or reduction in expected support from the group.
- Increase in overall gearing.
- Increase in non-recourse factoring
- Delay in reduction of existing exposure to the debtors of client operating in textile sector
- Non-payment of Insurance 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 the 100% subsidiary of SBM Holdings Ltd (a public limited company that is listed on the Stock Exchange of Mauritius). SBM Holdings Ltd is the holding company of SBM Bank (Mauritius) Ltd.

SBMF has 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 Financial Services Commission of Mauritius as a factoring service provider. SBMF operates a factoring business to provide factoring services to SBM's current and future customers, contributing to the development of the Holding Company as a Financial Institution in providing comprehensive financial services. Since 2019, SBMF is a member of the Factors Chain International (FCI), a global network of factoring firms.

Activities of SBM Factors Ltd

Since 2017, SBMF provides factoring solutions to its customers. It purchases invoices from clients (@ 90% of the Invoice value) and avails of credit insurance for such Invoices from Credit Guarantee Insurance Co. Ltd ("CGI"), which is the only credit insurance provider in Mauritius. There are two main types of factoring – recourse factoring and non-recourse factoring.

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 means the factoring company bears the entire risk of non-payment by the customers.

SBMF offers mainly non-recourse factoring solutions to its clients.

As on June 30, 2021, the total outstanding receivables from the factoring business was Mur 1,395 million comprising mainly of clients operating in the sugar sector, construction sector, textile sector and retail sector. The three main clients operating in the sugar sector, construction sector and textile sector account for around 82% of the total factoring done by SBMF as on that date.

SBMF has factored the bills raised by the clients operating in the aforementioned sectors to their respective debtors (domestic and international) and on due date the debtors will pay the amount to SBMF.

The debtors of the clients operating in the sugar sector, textile sector and retail sector are covered by credit insurance from CGI, which means that in case of default by the debtors, CGI will make good for the loss. The debtors of the client operating in the construction sector are not covered by the credit insurance from CGI.

SBMF's total revenue has increased from Mur 72.2 million in FY19 to Mur 86 million in FY20, due to higher interest income FY20. In line with the increase in income, PAT and GCA have also increased in FY20. Interest coverage was 2.67 for FY20 (2.74 for FY19). NIM was hovering around 3.76%. ROTA was also at 3.63%.

SBMF's factoring portfolio was MUR 1,257 million as at December 31, 2020 vis-à-vis MUR 1,248 million as at December 31, 2019.

During the last 3 years of operations the company has been successful in the collection of claims well within the stipulated time and has never launched any claim with CGI.

As on Dec 31, 2020, SBMF has maintained a capital of MUR 105 million against the statutory requirement of higher of MUR 5 million or 5% of total liabilities (5% of Mur 1,153 million as on 31.12.2020 – Mur 58 million). The capital structure consists of stated capital (Mur 80 million) and retained earnings (Mur 25 million). Overall gearing ratio was at 9.98 times as on Dec 31, 2020 (10.35 times as on Dec 31, 2019).

As on Dec 31, 2020, Gross NPA is Nil. The company has recognized an allowance for expected credit losses of Mur 10.3 million for FY20. SBMF considers a financial asset in default when contractual payments are 90 days past due.

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.

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE MAU A1 to CARE MAU A4. The modifiers reflect the comparative standing within the category.