Brief Rating Rationale

CRAF assigns 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]**	**Assigned**

Rating Rationale

The ratings that has been assigned to the bank facility of Mur 1,500 Million of SBM Factors Ltd ("SBMF"), derive its strength from the long & satisfactory track record of its resourceful promoters – the SBM group, support from the banking team of SBM to structure deals, steady growth in the disbursement and the asset under management (receivables from the factoring of invoices) during the last 2 financial years, satisfactory financial position with a high collection efficiency, maintaining the capital requirement well above the Regulatory norm, comfortable asset-liability maturity profile & liquidity profile, satisfactory client portfolio and more than 60% of the factoring of invoices being backed by Insurance from Credit Guarantee Insurance Co. Ltd ("CGI") as on July 1, 2020.

The ratings are, however, constrained by the risks that are associated with the increasing competition in the factoring business, high overall gearing, moderate Return on Total Assets (ROTA), exposure to the regulatory risk, risk associated with volatility in the interest rates, uncertainty related to the collection efficiency of the company on the invoices factored in view of the negative impact of the lockdown on the international economy and risk that is associated with respect to the delay/non-payment of insurance claims by CGI.

The ability of SBMF to shore up its capital in view of expected increase in its factoring portfolio, maintain the asset quality and the profitability while expanding the client portfolio, reduction in the expected support from the group, the asset liability maturity profile, increase in the non-recourse factoring and increase in the overall gearing are the key rating sensitivities.

CRAF will continuously monitor the collection efficiency and the new client portfolio of SBMF on a quarterly basis and any significant deviation may trigger a rating downgrade.

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 also avails 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 and means that 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 July 1, 2020, the total outstanding receivables from the factoring business was Mur 1,430 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 88% 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.

In FY19, SBMF's total revenue has increased manifold from Mur 5 Million in FY18 to Mur 72.2 Million in FY19 due to higher interest income triggered by higher disbursements in FY19. In line with increase in total revenue, PAT and GCA has increased significantly in FY19. Interest coverage was 2.74 for FY19 (-6.67 for FY18). NIM was hovering around 2.5%. Total Asset under Management has increased manifold from Mur 139 Million in FY18 to Mur 1,221 Million in FY19.

As on June 30, 2020, Gross NPA is Nil. The company has not done any provisioning also. During the last 3 years of operations the company has been successful in collection of claims well within the stipulated time and has never launched any claim with CGI.

In FY19, CGI's Net Premium Written has increased to Mur 15 Million (Mur 14 Million for FY18). The company reported a Loss of Mur 8.6 Million in FY19 (Profit of Mur 2.3 Million in FY 18). This was mainly due higher claims received in FY19. CGI has received claims worth MUR 46 million in FY19 (MUR 33 million in FY18). In FY19 itself CGI has settled claims worth MUR 29 million (received MUR 21 million from reinsurance companies). As on Dec 31, 2019, the company had outstanding claims of MUR 18 million.

During discussion, the management has stated that the loss in CGI in FY19, was due to higher net claims incurred (considering provision for MUR 18 million of unpaid claims as at December 31, 2019). The claims were outstanding due to pending Reports from valuers and documents from the insurers. In case, CGI would have settled the entire claim it would have received amounts from reinsurers, in which case the maximum liability would have been around MUR 6 million (based on reinsurance and excess of loss treaty with reinsurers).

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.