Surjit Hire Purchase Private Limited

March 08, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	35.00	CARE BB; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the long-term bank facilities of Surjit Hire Purchase Private Limited (SHPPL) is constrained on account of the small scale of operations, evolving risk management systems and geographically concentrated portfolio. The rating is further constrained due to the concentrated resource profile, moderate asset quality and profitability profile, though improving.

The rating, however, derives strength from the regular support received from the promoters in the form of equity and loans as reflected in the company's comfortable capital position.

Rating sensitivities: Factors likely to lead to rating actions

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

- Significant growth in the operations, while maintaining asset quality.
- Diversification in the resource profile.

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

- Significant deterioration in the profitability profile.
- Weakening of capital position.

Analytical approach: Standalone

Outlook: Stable

With the small scale of operations and evolving risk management systems, SHPPL is expected to grow at a consistent pace with some impact expected on the asset quality, leading to the Stable outlook.

Key weaknesses

Small scale of operations with gradual growth in the loan book

SHPPL has small size of loan book with ₹34 crore, growing at a three-year compounded annual growth rate (CAGR) of 17%. The loan book further rose to ₹48 crore as on December 31, 2022. With product diversification, CARE Ratings Limited (CARE Ratings) expects the loan book to record a steady growth, going forward.

Geographically concentrated operation

SHPPL has been operating in three states, Uttar Pradesh, Rajasthan and Madhya Pradesh, with majority operations in Uttar Pradesh. The company has been reducing its exposure in Uttar Pradesh with 89% of loan book as on March 31, 2022 from 93% of loan book as on March 31, 2020, although the majority proportion continues to remain with Uttar Pradesh. Branch wise also, the company has concentrated operations in Lucknow with 70% of the loan book as on December 31, 2022, and other five branches having less than 10% exposure in each of them.

Evolving risk management system

SHPPL is in the process to build a sound MIS. Due to this, there is certain discrepancy between days due past (dpd) and non-performing assets (NPA). The company is migrating its data to a better MIS for adhering to accounting policies.

Moderate asset quality

SHPPL's reported asset quality metrics remained under control with gross NPA (GNPA) % and net NPA (NNPA%) of 0.94% and 0%, respectively, as on March 31, 2022. The company recognises NPA in 180+ dpd and had not written-off any loan asset till FY21. It has also not restructured any portion of its loan book. However, CARE Ratings notes that dpd-wise analysis shows SHPPL has high softer as well as harder delinquencies with 18% 180+ dpd as on March 31, 2022, and December 31, 2022.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

With the company developing the MIS, CARE Ratings expects the GNPA% to rise; however, it notes that, the company has enough headroom in the net worth to provide for additional NPAs. Furthermore, the company expects profits of around ₹5 crore and capital infusion of ₹8 crore by FY23-end, and thus CARE Ratings expects limited impact on the company's financial flexibility position.

Moderate profitability profile

The profitability profile of SHPPL is moderate with profit after tax (PAT) of ₹3 crore in FY22. With small scale of operations and catering to retail segment, the company is yet to achieve economies of scale, leading to high operating expenses (opex) on average total assets % of 27% in FY22, rising from 21% in FY21 and further rose to 30%. The company had previously made no provisions against standard or NPAs, leading to low credit costs on average total assets with 1% in FY22, though increased from 0.3% in FY21. However, the credit costs rose in H1FY23 to 7%. Consequently, return on total assets (RoTA) remains high with 7.5% in FY22 and moderated to 6.7% in H1FY23, increased from 5% in FY21.

With the company developing the MIS, CARE Ratings expects the profitability profile to be impacted, though to remain net profitable.

Concentrated resource profile

SHPPL has a concentrated resource profile majority borrowed from the directors till FY19. From FY20, the company started borrowing from the banks. As on March 31, 2022, 88% of borrowings were from the promoters and remaining from the banks.

Key strengths

Regular support received from the promoters

Shyam Dhar Singh, Jai Shankar Singh, and Sheshdhar Singh are the promoters of SHPPL. The promoters have been supporting the company in the form of equity infusion and loans. The company had received last round of infusion in FY21 of ₹3 crore. The promoters plan to further infuse ₹8 crore in Q4FY23 and ₹5-7 crore in FY24. Also, the promoters have provided loans to the company at lower interest rates.

Comfortable capital position

The capitalisation level of SHPPL has remained comfortable and well above regulatory benchmark owing to small size of loan book. Although with rise in the loan book, the overall capital adequacy ratio (CAR)% has been coming down to 85% as on December 31, 2022, from 114% as on March 31, 2019. With the capital infusions received, the gearing levels have improved to 1.7x as on March 31, 2022 from 2.2x as on March 31, 2021.

Various, though, concentrated product segments

SHPPL had been doing business with only one product, Business Loans, till FY22. In 9MFY23, the company started lending medium, small and micro enterprise (MSME) SARAL Loans, gold loans and commercial vehicle (CV) loans, which together made 21% of loan book, thereby, the product concentration remains for the company towards business loans. Though the company has other loan products in its ambit, its ability to diversify into other loan products will be key monitorable aspect.

The loans offered by SHPPL were 100% unsecured till FY22, as business loans provided are unsecured in nature, thereby, exposing it to higher credit risks. As on December 31, 2022, the company has 12% of loan book in secured book, with the company engaging in CV loans and gold loans.

Liquidity: Adequate

As per the asset liability maturity (ALM) statement as on September 30, 2022, there are no negative cumulative mismatches for any time bucket. The company had a cash balance of ₹2 crore as on September 30, 2022.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non Banking Financial Companies

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non-Banking Financial Company (NBFC)

SHPPL, incorporated on April 12, 1993, was acquired by its current promoters in 2016 and started its operations in 2017 as a non-systemically important and non-deposit taking NBFC, provides finance to small business owners and shopkeepers. The company was acquired by Shyam Dhar Singh, Jai Shankar Singh, Sheshdhar Singh who are in Board of Directors of the company as Chairman, Vice-Chairman, Chief Executive Officer, respectively, and joined by their next generation with Alok Singh and Adarsh Kumar Singh as Vice-President- Business Development and Director – Information Technology Head, respectively.

SHPPL has wide range of products to offer, namely, business loans, personal loans, gold loans and CV loans. The business loan is provided at a rate of interest of around 30% for a ticket size of ₹10 lakh, MSME loan at 36% for a ticket size of ₹1 lakh, CV loans at 18-24% and gold loan at 11-18%.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (P)
Total operating income	10.84	17.19	10.43
PAT	1.48	2.81	1.50
Interest coverage (times)	1.93	2.64	9.12
Total Assets	35.79	39.37	50.08
Net NPA (%)	0.72	0.00	0.72
ROTA (%)	4.64	7.48	6.71

A: Audited P: Provisional
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	02-01-2024	35.00	CARE BB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	35.00	CARE BB; Stable				

*Long term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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