January 08, 2021

BTI Payments Private Limited: Rated amount enhanced

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based facilities – Short Term	508.00	575.00	[ICRA]A1; assigned to enhanced limits and outstanding on existing limits
Term loans	-	75.00	[ICRA]BBB (Stable); assigned
Term loans	75.00	75.00	[ICRA]BBB (Stable); reaffirmed and withdrawn
Total	**583.00**	**725.00**	

**Instrument details are provided in Annexure-1*

Rationale

Transaction structure for short-term fund-based facilities

BTI Payments Private Limited (BTI) draws funds from the overdraft (OD) account for replenishment of cash in its White Label ATMs (WLAs). The lending banks have charge on the cash lying in the ATMs, NPCI (National Payments Corporation of India) receivables (cash dispensed plus the interchange fee) and cash in transit. BTI also opens an OD/current account with each of its sponsor banks. These OD/current accounts are directly credited by sponsor bank which receives the NPCI settlement for the set of BTI WLAs earmarked to it. The amount received is the aggregate of funds disbursed to customers through BTI WLAs sponsored by the bank plus the interchange fee. The settlement happens on the same or following day, i.e. T or T+1 cycle (RTGS settlement day). BTI again draws funds from the OD account for replenishment of cash in its WLAs. ICRA takes comfort from the fact that the entire transaction flow completes within a short span of one working day from the date of withdrawal with no intervention required from BTI.

Rating rationale

The short-term rating reflects the inherent strength of the working capital (WC) facility being rated, and the short fund flow cycle of the company, wherein the funds drawn under the WC facility get repaid to the bank pursuant to the settlement proceeds received from the daily settlement from NPCI. The rating for the WC facility is however constrained by the fact that, there continues to be reliance on the company's operating cash flow for servicing the interest on the facility.

The ratings continue to consider the longstanding experience of the promoter group (The Banktech Group, Australia) in the White Label ATM (WLA) industry, improving market share of the company in the Indian WLA market (>40% in H1 FY2021) benefiting from its increasing penetration in rural areas and strong geographical diversification with presence in 13 states across the country. While the company's operating margins have been improving over the last few years, the increasing WLA footprint and strong revival in average transactions in H1 FY2021 post the initial hiccups during lockdown has resulted in the company reporting net profits from August 2020. Despite the pandemic impact, the company reported operating margins of 11.6% and cash profits of Rs. 17 crore in H1 FY2021 (as against 12.7% and Rs. 27.1 crore respectively in FY2020). In addition to healthy cash profits, incremental equity infusion of Rs. 45 crore (committed for Q4 FY2021) from the existing promoters/shareholders is expected to support the company capital structure, expansion plans and liquidity position going forward.

The company's revenues and profitability being highly sensitive to the volume of transactions which could be affected by factors such as the second wave of the pandemic, economic slowdown or other macroeconomic factors. Going forward, the average transactions per WLA would be a key monitorable for BTI. The ratings also consider the company's highly capital-intensive nature of business and financial profile characterized by net losses (during FY2020 and H1 FY2021), low ROCE levels and weak coverage indicators on account of high dependence on debt for its working capital and capital expenditure requirements. Further, ICRA also notes that BTI is exposed to regulatory risks such as regulator-controlled interchange, requirement for minimum net worth criteria and incremental cost to be incurred for incorporating the new security measures at ATMs as proposed by the regulator etc. Over the next 4-5 years, BTI is expected to expand its WLA network across the country by incurring capex of ~Rs. 550-600 crore (towards new WLA rollouts and replacement capex). While the increasing WLA footprint is expected to result in better scale of operations, timely breakeven of the newer WLAs will be a key rating monitorable for the company.

Key rating drivers and their description

Credit strengths

Transaction structure for the WC facility – The funds drawn under the WC facility get repaid to the bank pursuant to the settlement proceeds received from the daily settlement from NPCI.

Improving market share and healthy geographic diversification – BTI's business prospects are supported by improving WLA transaction share of >40% in H1 FY2021 as against 35-38% in FY2020. The company has been able to roll out new WLAs despite the pandemic impacting operations. Going forward, improving penetration in rural areas and strong geographical diversification (presence in 14 states across the country) will continue to support the company's prospects.

Steady improvement in margins – Supported by increasing scale and higher average transactions per WLA, BTI has witnessed steady improvement in operating margins over the last few years. RBI, in its circular dated March 7, 2019, had notified that WLA entities can source cash directly from RBI chests across the country. This has resulted in higher availability of cash in all denominations, reduction in transportation and operational costs for the company which in turn supported the company's margins. Further, relatively quicker turnaround for the newer set of WLAs rolled out by the company and increasing scale of operations have resulted in the company consistently achieving PAT profits over the last few months.

Strong promoter Group and continuous equity infusion from existing investors – The ratings consider longstanding experience of the promoter group (The Banktech Group, Australia) in the WLA industry in addition to financial flexibility (in the form of continuous equity infusions over the past few years) enjoyed by the company. ICRA expects the company to receive incremental equity infusion of Rs. 45 crore from the promoters (Banktech Group) in Q4 FY2021. Funds from the same are expected to be utilized for the ongoing WLA expansion of the company.

Credit challenges

Revenues and profitability remain highly sensitive to volume of transactions wherein lower volumes will impact the financial viability of the business. While the company has been generating cash profits since October 2018, the same was impacted due to Covid-19 related lockdown and operational challenges during April and May 2020. While the profitability levels have improved since then, going forward, the financial metrics will remain sensitive to events which may affect the volume of transactions.

Highly capital-intensive nature of business – The company is expected to incur substantial capital expenditure of Rs.550-600 crore over the next 4-5 years towards new WLA rollouts and replacement capex. While majority of the same is likely to be funded through internal accruals, ICRA understands that the company will not breach the long-term debt/TNW level of 1.2x during the planned capex over the next four years.

Financial profile characterized by modest ROCE levels and debt metrics: While improving, the company's debt metrics continue to remain modest with gearing of 3.6x and Net Debt/OPBDITA of 2.3x as on September 30, 2020. Further, the company's ROCE levels continue to remain muted. That said, ICRA notes that the company has achieved PAT breakeven in the recent months. Going forward, margins will be contingent on the quick turnaround of the 7,500-8,000 WLAs to be set up by the company in the next four years (as compared to its current footprint of 7,141 WLAs).

Exposure to regulatory risks given the nature of the industry such as regulator-controlled interchange, requirement for minimum net worth criteria and incremental cost to be incurred for incorporating the new features at ATMs as proposed by the regulator. The WLA industry has been advocating for a hike in interchange fee for the last few years to increase the viability of its operations. In view of the industry representations, RBI had set up a committee to review the ATM interchange and the committee had submitted its recommendation through its report to the RBI. However, the implementation of recommendation of the committee is still awaited from RBI.

Liquidity Position: Adequate

The company's liquidity position remains adequate with free cash and liquid investments of Rs. 12.8 crore as on September 30, 2020 as against repayments of Rs. 3.6 crore in H2 FY2021. The company recently availed a new term loan of Rs. 75 crore from IndusInd Bank, of which 50% is disbursed and the balance is expected to be drawn down as and when required. The company has also repaid its existing high-cost term loan during this period.

ICRA also expects the company to receive Rs. 45 crore equity infusion in Q4 FY2021 which would support its liquidity to a certain extent. In terms of debt repayment beyond FY2021, the company has repayments of ~Rs. 10.8 crore each fiscal and the same is expected to be comfortably serviced from the company's internal accruals.

The average utilization of the company's sanctioned working capital limits in the 12-month period ending November 2020 has been ~68%. However, the company's peak utilization of its working capital limits is expected to be full during 1-10 of every month, wherein the company witnesses relatively higher quantum of withdrawals at its WLAs on the back of salary disbursements. Going forward, scale up of revenues will necessitate increase in working capital limits.

Further, the company also has plans to incur significant capex of Rs. 550-600 crore over the next four years. With majority of the same to be funded through internal accruals and debt, continued healthy performance of the company's existing WLAs and successful ramp up of the new WLAs through the planned expansion will be a key credit monitorable for the company.

Rating sensitivities

Positive triggers – The company's long-term rating could be upgraded if the company's average transactions increase steadily resulting in sustained increase in profitability.

Negative triggers – Negative pressure on BTI's ratings could emerge if there is significant drop in the company's margins in the wake of the ongoing pandemic in the country or expansion of its WLA network or any unforeseen/regulatory changes which in turn lead to deterioration in the company's debt metrics – specifically, long-term Debt/TNW being greater than 1.2x might lead to a downgrade in the ratings. Further, any change or non-adherence to the transaction structure could also lead to a downgrade in the ratings.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on standalone financial statements of the company

About the company:

Incorporated in 2006, BTI was established as a wholly owned subsidiary of Banktech Group based out of Sydney in Australia. With its headquarters in Bangalore, BTI commenced its operations by managing Point of Sale (POS) terminals before diversifying into brown label ATM deployment. In the year 2013, BTI received in-principle approval from the RBI to deploy WLAs across India. During FY2014, IDBI Trusteeship Services Limited (fund managed by ICICI Venture Capital Management Company Limited) invested in BTI and acquired a shareholding of 48.95% while balance is currently held by the Banktech Group.

Under the WLA business, the company launched its first ATM under the brand 'India1' in Gubbi - a town in Tumkur District in the state of Karnataka on April 9, 2014 after receiving final approval from RBI during February 2014. BTI has expanded its WLA fleet from 3,416 in March 2016 to 7,141 as on November 30, 2020. The company is also involved in operating POS terminals supporting a South India-based bank.

Key financial indicators

	FY2019	FY2020
Operating Income (Rs. crore)	229.3	256.1
PAT (Rs. crore)	-23.7	-7.0
OPBDIT/ OI (%)*	4.9%	12.7%
RoCE (%)	-3.2%	0.5%
Total Debt/ TNW (times)	8.9	3.1
Total Debt/ OPBDIT (times)*	43.3	14.6
Net Debt/OPBDIT (times)*	15.1	-0.3
Interest coverage (times)	1.0	2.4

*Source: the company; *interest on WC facility calculated as part of operational costs*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount O/S as on Oct 31, 2020 (Rs Crore)	Current Rating	Date & Rating FY2021	Date & Rating FY2020		Date & Rating FY2019		Date & Rating in FY2018
					08-Jan-2021	17-Jul-2020	30-Dec-2019	16-Apr-2019	16-Oct-2018	3-Oct-2018	6-Oct-2017
1	Fund based facilities	Short Term	575.0	576.4	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1 (SO)	[ICRA]A1 (SO)	[ICRA]A1 (SO)	[ICRA]A1 (SO)
2.	Term Loan	Long Term	75.0	33.5	[ICRA]BBB (Stable)	-	-	-	-	-	-
3.	Term Loan	Long Term	75.0	-	[ICRA]BBB (Stable); withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (SO) (Stable)	[ICRA]BBB (SO) (Stable)	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working capital facility	2019/2020	NA	NA	575.00	[ICRA]A1; assigned to enhanced limits
NA	Term loan facility	2020	9%	FY2027	75.00	[ICRA]BBB (Stable); assigned
NA	Term loan facility	2017	10.8%	Fully repaid in FY2021	75.00	[ICRA]BBB (Stable); withdrawn

Source: the company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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