July 11, 2023

Sub-k Impact Solutions Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based cash credit facility^	5.00	14.00	[ICRA]BB (Stable); reaffirmed
Non-fund based bank guarantee^	9.00	-	-
Total	**14.00**	**14.00**	

**Instrument details are provided in Annexure I; ^change of limits*

Rationale

The rating action takes into consideration Sub-k Impact Solutions Limited's (SKISL) established track record of operations in the microfinance industry. Moreover, its diverse product profile, namely the credit and the non-credit business, supports its revenue and earnings profile. Although SKISL had witnessed healthy growth in its portfolio in the past, the Covid-19 pandemic impacted its operations. This, along with the discontinuation of lending in the micro, small and medium enterprise (MSME) segment, led to a decline in the portfolio. Nevertheless, it has increased its disbursements in the microfinance segment over the last few months and its assets under management (AUM) reached Rs. 493 crore as on March 31, 2023 (Rs. 388 crore as on December 31, 2022; Rs. 749 crore as on March 31, 2022).

The portfolio is under a risk-sharing arrangement as SKISL operates as a business correspondent (BC), which limits its loss to the first loss default guarantee (FLDG) and the predefined disincentive with the BC partner banks. ICRA also takes note of the improvement in the company's asset quality indicators with 0+ and 90+ days past due (dpd) of 3.43% and 2.42%, respectively, as on March 31, 2023 compared to 28.9% and 17.3%, respectively, as on March 31, 2022. This was driven by the write-offs undertaken by partner banks and higher recoveries.

The rating is, however, constrained by the losses reported by the company on account of the closing of operations in the MSME segment and the non-risk bearing credit segment. The credit cost was also considerable in FY2023 with the company settling net FLDG amounting to Rs. 8.03 crore with the BC partners due to significant delinquencies. SKISL reported a net loss of Rs. 26.9 crore in FY2023 (Rs. 29.6 crore in FY2022), translating into a return on average managed assets (RoMA) of -3.6% and a return on average net worth (RoNW) of -23.3% compared to -2.7% and -20.6%, respectively, in FY2022. Consequently, its net worth declined to Rs. 102.6 crore as on March 31, 2023 from Rs. 129.0 crore as on March 31, 2022. SKISL's net worth, in relation to its risk-bearing portfolio, decreased to ~21% as on March 31, 2023 from ~24% as on March 31, 2022.

Though the company has presence across 13 states, Uttar Pradesh formed nearly 33% of the managed portfolio as on March 31, 2023 (increase from 25% as on March 31, 2022) and Maharashtra formed nearly 21% of the managed portfolio as on March 31, 2023 (decrease from 28% as on March 31, 2022), exposing the company to geographical concentration risk. The rating is also constrained by SKISL's focus on unsecured lending, the marginal borrower profile, and the political and operational risks associated with microlending.

Key rating drivers and their description

Credit strengths

Established track record of operations in microfinance sector – Incorporated in 2010, the company has an established track record in the financing business. Its objective is to provide easy access to credit in rural areas and financial inclusion with the help of its agent network. SKISL, which lends through the BC route, is managed by professionals with experience in the microfinance industry. The promoters and senior management are adequately experienced in the microlending and banking, financial services, and insurance (BFSI) domain.

Diverse product mix – SKISL has a diverse product mix under its managed book. It manages two types of portfolios – credit and non-credit. In the credit portfolio, the company lends under the joint liability group (JLG) model for its BC partners and has two revenue models for the same. One is the FLDG-backed model, which formed nearly 29% of the managed portfolio as on March 31, 2023 (71% as on March 31, 2022). The other model has a base commission rate and an incentive/disincentive structure, basis the collection efficiency of the pool disbursed. SKISL started disbursing under the second model in FY2023, which constituted ~71% of the managed portfolio as on March 31, 2023. The company previously had a reference model (non-risk bearing), whereby it was responsible only for originations and collections. This portfolio was run down in FY2023 (19% as on March 31, 2022). Under the non-credit portfolio, SKISL offers basic banking services such as account opening, deposits, withdrawals, money transfer and balance enquiry with the help of its agent network and earns a fixed commission for the same.

Credit challenges

Moderate scale and weak profitability – SKISL reported a gross AUM of Rs. 493 crore as on March 31, 2023 compared to Rs. 749 crore as on March 31, 2022, registering an annualised decline of ~34%. The decline was on account of the closing of the MSME operations and the rundown of the non-risk bearing portfolio. Further, the slowdown in disbursements in the microfinance portfolio in 9M FY2023 impacted the AUM. Though the AUM started increasing from Q4 FY2023, the scale remains moderate. The profitability indicators remain subdued with SKISL reporting a net loss of ~Rs. 27 crore in FY2023, translating into a return of -3.6% on average managed assets (AMA) and -23.3% on average net worth (loss of ~Rs. 30 crore, -2.7% and -20.6%, respectively, in FY2022). Going forward, the company's ability to improve its operating efficiency while controlling the credit costs will be important for enhancing its earnings profile.

High geographical concentration – SKISL's operations remain geographically concentrated with the share of its portfolio in the top 3 states increasing to 64% as on March 31, 2023 from 62% as on March 31, 2022 (62% as on March 31, 2021). Nevertheless, ICRA notes that the company is present across 13 states and it intends to reduce geographic concentration going forward. SKISL's ability to diversify its operations geographically will remain important from a credit perspective.

Political and communal risks and marginal borrower profile – Microfinance remains susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operation. Further, political, and operational risks associated with microfinance may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political, climatic, and operational risks, which could negatively impact its operations. SKISL's ability to onboard borrowers with a good credit history, recruit and retain employees as well as improve the geographical diversity of its operations would be the key rating sensitivity.

Liquidity position: Adequate

SKISL had an unencumbered cash balance of Rs. 37.09 crore as on March 31, 2023 along with encumbered cash of Rs. 11.30 crore. It has no repayment obligations as it does not have any debt on its book, given that it operates as a BC partner. The collections are for the BC partner and SKISL earns income on such loans. Its liquidity is sufficient to cover its operating expenses and FLDG invocation.

Rating sensitivities

Positive factors – ICRA could upgrade SKISL's rating if it is able to profitably scale up its operations while keeping its asset quality under control.

Negative factors – Pressure on the rating could arise if the company witnesses further decline in its scale and/or continuous operating losses. A stretched liquidity position could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Sub-k Impact Solutions Limited (previously known as Basix Sub-K iTransactions Ltd) was incorporated in August 2010. It was promoted by Hyderabad-based Bhartiya Samruddhi Investments and Consulting Services Ltd (BASICS). SKISL was set up to enable financial inclusion by providing affordable and accessible digitised services with a mobile-technology-based transactional platform. These include banking services, savings and other government payments, money transfer, and utility payments through a network of basic convenience outlets operated by company agents.

SKISL also acts as a BC for banks and facilitates them by originating microcredit loans. It provides BC operations to Ratnakar Bank Ltd (RBL), which were initially undertaken by Indian Grameen Services (IGS), another company promoted by BASICS. IGS started operating as a BC for RBL in 2013 and the portfolio was transferred to SKISL in July 2015.

Currently, SKISL is an authorised BC for RBL, Axis Bank and The Catholic Syrian Bank (CSB) for lending under the JLG model. As on March 31, 2023, it had a total managed portfolio of Rs. 493 crore (Rs. 749 crore as on March 31, 2022).

Key financial indicators (audited)

	FY2021	FY2022	FY2023
Accounting as per	**IGAAP**	**IGAAP**	**IGAAP**
Total income	126.8	100.1	78.3
Operating expenses	101.9	112.5	96.5
Credit costs	23.8	16.9	8.7
Profit after tax	1.0	(29.6)	(26.9)
Net worth	158.4	129.0	102.6
Managed portfolio	1,151.0	749.0	493.2
Risk-bearing portfolio	731.1	539.7	493.2
Net interest margin/ AMA	7.0%	6.8%	7.8%
Operating expenses/ AMA	7.3%	10.1%	12.9%
Credit costs/ AMA	1.7%	1.5%	1.2%
Return on managed assets (%)	0.1%	-2.7%	-3.6%
Return on average net worth (%)	0.6%	-20.6%	-23.3%
Net worth/ Risk-bearing portfolio	21.7%	23.9%	20.8%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Jun 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Jul 11, 2023	May 26, 2022	-	Feb 18, 2021	Feb 01, 2021
1	**Fund-based cash credit facility**	Long term	14.0	-	**[ICRA]BB (Stable)**	[ICRA]BB (Stable)	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	**Non-fund based bank guarantee facility**	Long term	-	-	-	[ICRA]BB (Stable)	-	[ICRA]BB (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based cash credit facility	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based cash credit facility**	Feb 07, 2023	9.5%	Feb 06, 2024	8.00	[ICRA]BB (Stable)
NA	**Fund-based cash credit facility-Unallocated**	NA	NA	NA	6.00	[ICRA]BB (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sachin Sachdeva
+91 124 4545 307
sachin.sachdeva@icraindia.com

Arti Verma
+91 124 4545 313
arti.verma@icraindia.com

Arpit Agarwal
+91 124 4545 873
arpit.agarwal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches